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Newsletter

News Letter

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CARDAMOM GAINS AROMA ON TIGHT SUPPLIES

Small cardamom prices gained last week on shrinkage in supply at auctions held in Kerala and Tamil Nadu. The squeeze in arrivals is attributed to the Christmas and the New Year holidays. Supply scenario is expected to improve this week. But, the main problem persistently affecting the trade is that only a third of the participants is still active at the auctions and in the open market trading, PC Pun noose, General Manager, CPMC, told *Business Line.* He said harvesting in 85-90 per cent of the estates is over and whatever is left in 10-15 per cent of the area would be completed by mid-this month.If the harvesting trend is any indication, the total output during the current season might come to around 40 per cent of the previous crop. According to Ranganathan, a dealer in Bodinayakannur, the main trading hub for the commodity in the country, the market has improved last week by Rs. 50-60 a kg following a decline in arrivals. Thus, there has emerged a mismatch in demand and supply pushing the prices up, he said.

B/L-02/01/2017

INDIA, MERCOSUR STEP UP EFFORTS TO EXPAND TRADE PACT

India and the Mercosur bloc, comprising Brazil, Argentina, Uruguay and Paraguay, have stepped up efforts to expand their preferential trade agreement (PTA) to make greater inroads into the other's market. The two sides, in a recent meeting, exchanged lists of items where each wants greater market access. "We are at present going through the Mercosur's list of demand. The group wants lower duties in both industrial and agricultural products. We have to weigh our options carefully," a government official told Business Line .A PTA is a limited free trade agreement where partner countries reduce import duties on a few identified products for the other. While the PTA between India and Mercosur is presently limited to just 450 products, the two sides have raised their ambitions manifold and are now aiming at providing preferential access to about 3,000 items."Going in for an expanded PTA with the Mercosur is in line with India's objective of trading more with Latin America and diversifying its trade beyond the EU and the US," the official said. India's exports to the bloc in 2015-16 were $3.4 billion, while imports were $6.6 billion. This was just a fraction of the country's bilateral trade with the US valued at $68.6 billion and the EU at $115 billion in the same year. **B/L-03/01/2017**

LOWER COFFEE CROP MAY SPELL TROUBLE FOR EXPORTERS

Though the shipments grew 17 per cent in volumes over previous year, the growth in dollar term realizations was a little less than 3 per cent on account of volatile prices. In rupee terms, the exports were up eight per cent. While officials at the State-run Coffee Board are hopeful of sustaining the growth in shipments in the year-ahead, exporters are not too optimistic on account of lower domestic output in the current 2016-17 season and a weak demand from Europe, the main destination for Indian green beans.The Board has forecast a nine per cent drop in output at 3.16 lt over previous year's 3.48 lt due to poor rains in Karnataka, the largest producing State.However, the trade feels that the crop could be lower than the Board's estimates. While the harvest of Arabicas has commenced, the export order books are thin as both exporters and buyers have adopted a wait-and-watch stance. **B/L-04/01/2017**

SPICES EXPORTS UP 5% IN H1 OF 2016-17 FISCAL

Boosted by large shipments of nutmeg, mace, cumin and garlic, spices exports from India grew 5 per cent in volume in the first half of FY 2016-17 and rose to Rs. 8,415.97 crore during the period, registering a 7 per cent increase in value. The total value of exports was Rs. 7,892.65 crore during the corresponding period last fiscal year. Shipments rose to 4, 37,360 tones during April-September 2016, compared to 4, 14,780 tones in the first half of FY 2015-16.

CHILLI, THE TOPPER

Chilli became the most exported spice for the April-September 2016 period with the shipment of 1,65,000 tones, fetching Rs. 2,307.75 crore. Garlic exports contributed substantially to the overall growth during the period, after rising 132 per cent in value terms and55 per cent in quantity. The exports of nutmeg and mace grew by 81 per cent in quantity as compared to last year and saw a 69 per cent increase in value. Cumin exports rose by 49 per cent to 68,600 tonnes, as compared to 45,894 tonnes during the same period in the previous year. Turmeric, apart from fennel and celery, also contributed significantly to the total spices exports during April-September

2016. The export of value-added products such as curry powders and pastes as well as spice oils and oleoresins also posted an increase during the period. **B/L-05/01/2017**

2016 WEATHER WOES TO HIT SPICES' PROSPECTS THIS

The impact of deficient monsoon rains in 2016 in Kerala is going to be severe as far as the spices such as small cardamom and pepper are concerned. The severity of its effect on the crop, supply and demand would be felt in 2017.Small cardamom output during the current season (August-June) is going to be 40 per per cent of the previous crop. It is estimated to be somewhere between 12,000 and 15,000 tones as against over 30,000 tones in 2015-16 season As a result, there is going to be a mismatch between demand and supply with the former outstripping the latter pushing up the prices in 2017. Change in food habits coupled with the improvement in standard of living of the people have raised the per capita consumption of this aromatic spice. Consequently, there has been a steady growth in demand estimated at 3-5 per cent per annum, trade sources said.At the same time, export demand also stays somewhere between 3,000 and 5,000 tones per year. Good size and color and better aroma has given the Indian cardamom superiority over its competitors in the world market, they claimed. Apprehension about a poor crop has built up a bullish sentiment in the markets and as a result the prices started picking up from mid-April to cross Rs. 800/kg in June. Subsequently, the prices touched Rs. 1,300 in early November. However, following the demonetization the prices dipped to below Rs. 1,200 which was momentary and has witnessed a reversal later in December. **B/L-06/01/2017**

INDIA HEADING FOR RECORD TEA OUTPUT IN 2016

India's cumulative tea production in calendar 2016 which trailed behind 2015 till August, managed to equal the level of September end and marginally increased by October end. November was a relatively better month for production in both North and South. By November end, production had increased by 2.17 per cent instilling hopes among producers that when the December data is released, the country would have created yet another record in production in 2016."The Tea Board has just released November production

data which shows an impressive gain of 14.73 per cent with North posting an increase of 14.60 per cent and South 15.48 per cent," Rajesh Gupta, compiler, Global Tea Digest
2016

B/L-07/01/2017

CAMPCO SAYS CAP ON PURCHASES HELPS STABILISE PRICES OF ARECANUT

The Central Areca nut and Cocoa Marketing and Processing Cooperative (Campco) Ltd, which had fixed a cap on the purchase of areca nut following the demonetization of high-value notes on November 8, has relaxed the limits. From January 9 onwards, Campco members can sell five quintals of areca nut to the co-operative per month. Post-demonetization, the cooperative had restricted the purchase from a member to a maximum limit of Rs. 24,000 per week. Suresh Bhandary, Managing Director of Campco, told Business Line that the cap on the purchase of areca nut helped stabilise the market. **B/L-07/01/2017**

December export grows 5.7% to 21-month high

Merchandise export grew in December for a fourth straight month and was at a 21-month high in absolute terms. Led by a spike in oil prices and improved competitiveness from a weaker rupee, amid muted global demand.

Import growth moderated to a four-month low, owing to sharp decline in that of gold.

Export grew 5.7% in December and import by 0.5%, compared to the year-ago period, leaving a trade deficit of $10.3 billion, showed data issued by the ministry of commerce and industry on Friday. Outbound shipment was $23.8 billion, the highest in close to two years; it was $20 bn in November. Petroleum, engineering, gems & jewellery and pharmaceuticals were the top contributors.

Incidentally, industrial production in November, showed data issued by the Central Statistics Office on Thursday, grew at a 13-month high of 5.7%, however, this was explained more by a low base effect than actual improvement in manufacturing activity.

DEMONETISATION, PROTECTIONISM CAUSE WORRY TO INDIAN EXPORTERS

The main concerns of India's exporters, as they brace themselves for yet another tumultuous year in international trade, are the problems locally due to the demonetization triggered cash crunch, as well as the rising support for protectionism in Europe and the U.S. owing to the backlash against globalization. Goods exports to the U.S. and the European Union nations — that are India's traditional and main markets for its shipments — had accounted for 16 per cent and 17 per cent respectively of India's total goods exports of $263 billion in 2015-16. However, in what could hurt India's exports, the incoming administration in the U.S. is widely expected to announce protectionist policies given President-elect Donald Trump's statements that America's manufacturing sector has been severely hit by their policies and trade agreements promoting free-trade. In Europe, the Netherlands, France and Germany are going in for general / presidential elections in 2017, and parties and politicians backing policies that are protectionist and antiimmigration are gaining mileage. Then, there is the negotiation of the terms and conditions of Britain's exit from the European Union to watch out for. "The outcome of Brexit negotiations and polls in EU countries, especially Germany, will have a bearing on the overall sentiments on global trade. If the EU disintegrates, it will add to the uncertainties in global trade, impacting India's trade as well," said Director General & CEO, Federation of Indian Export Organizations' (FIEO) – the apex body for Indian exporters. Also, if there are more rate hikes by the U.S. Federal Reserve in 2017, it will lead to a flight of capital from emerging market economies (other than India) and weaken their currencies, in turn hitting the competitiveness of India's exports, FIEO added. Plagued by the lingering feeble external demand, India's goods exports had contracted from December 2014 to May 2016, but then registered positive growth for the first time in 18 months with a 1.97 per cent yearon-year growth in June. However, it immediately fell back into negative growth territory in July and August before recovering to post positive growth from September onwards. The 2.29 per cent growth in November was, however, less than 8.22 per cent growth in October. Japanese financial major Nomura, in a recent report, had said demonetisation has hit export volumes much more than imports, and that the cash crunch induced by demonetisation has hurt cash-intensive export sectors such as gems & jewellery and textiles. Chairman, Apparel Export Promotion Council, said: "While demonetisation is a step in the right direction, exporters (in the textiles sector that employs many workers on a temporary or seasonal basis) are a troubled lot as of now with several workers finding it difficult to open bank accounts (to get their wages on a noncash basis)." Pointing out that many migrant workers in Delhi, Tirupur (Tamil Nadu) and Karnataka are returning to their villages, Council hoped the government would take measures soon to provide relief. Small and medium firms, including those catering to overseas markets, are facing difficulties in raising working capital with the cash crunch hitting their informal sources of finance. Turning to the scheduled commercial banks for working capital would not only be a difficult proposition given their small size, but would also increase their cost of funds when compared to cheaper funds from informal sources. While the demonetisation became effective November 9, trade data for the month showed that exports grew at a much slower pace than imports (2.29 per cent growth versus 10.44 per cent) leading to a trade deficit of $13 billion, the highest since $13.08 billion in July 2015. The Centre is slated to hold a meeting with the state governments early January on measures to boost exports and then follow it up soon with a meeting of the Board of Trade (the government-industry body for providing suggestions on trade policy measures). The impact of demonetisation, especially on the labour-intensive export sectors, is likely to top the agenda. The government will also seek a response on whether the $900 billion goods and services export target set to be achieved by 2019-20 will be feasible given the slowdown in global trade, and if the target should be lowered to a more realistic level.

FIEO NEWS

COMMERCE MINISTRY RIDES OUT IN SUPPORT OF STRUGGLING EXPORTERS

As exporters struggle in a stagnant world market, the Commerce Ministry is signalling help in the form of more incentives in the next fiscal year. Aimed especially at labourintensive sectors such as engineering products, leather, textiles and chemicals, the sops will, however, depend on the Commerce Ministry's request for more funds being accepted in Budget 2017-18. The Ministry has already petitioned the Finance Ministry, and its list of demand includes enhanced annual allocations that could be pumped into the merchandise export incentive scheme (MEIS). The MEIS, under which exports of specific products and to identified markets are eligible for direct sops in the form of duty-free scrips, started off in April 2015, with an annual budget of ₹18,000 crore. This was subsequently increased in tranches to ₹23,000 crore. The scheme's coverage was also increased to 7,103 items from the initial 5,012. "Ministry has asked for a substantial increase in allocation, but don't know how much the Finance Ministry can spare. Once the allocation is made in the Budget, Ministry can work on expanding the scheme," a Commerce Ministry official said. Demonetisation effect "Despite the small increase in shipments in recent months, exporters are continuing to struggle. Demonetisation has led to instability in many sectors, especially the labourintensive ones. There is definitely a need for more incentives, and this can be given through MEIS," the official said. The duty-free scrips equivalent to 2 per cent, 3 per cent or 5 per cent of the value of exports can be used for duty-free import of inputs. The scrips can also be sold to other importers if the exporter earning them does not intend to import. With India's exports having had a bad run all through 2015-16 and for moch the current fiscal year, exporters are looking for a booster shot in the Budget. In 2015-16, exports declined 15.85 per cent to $261 billion and stayed flat in the AprilNovember 2016-17 period at $174.92 billion. World trade, which grew 1.7 per cent in 2016, will expand between 1.8 per cent and 3.1 per cent in 2017 as against earlier predictions of a 3.6 per cent growth, according to the latest WTO projections. Apart from higher incentives, exporters also want the government to refrain from taxing the assistance provided under the schemes. The Engineering Exports Promotion Council, in its pre-Budget memorandum, said that since the incentives are taxed at the normal rate and exporters are getting benefits discounted 67 per cent, the purpose of giving incentives is not being fully met.

FIEO NEWS

INDIA LIKELY TO HOST KEY RCEP MEETING IN JULY

India is expected to host in July next year the negotiations for mega trade deal RCEP which aims at liberalising norms for trade in goods and services and boost investment among 16- member countries. “This will be a crucial meeting of the Regional Comprehensive Economic Partnership (RCEP),” an official said. Currently, the member countries are deliberating upon the single-tier system of duty relaxation under the proposed pact. Under this system, the members have to finalise the maximum number of goods on which duties will either be eliminated or reduced significantly. The agreement aims to cover goods, services, investments, economic and technical cooperation, competition and intellectual property rights. As the domestic industry has apprehensions over a deluge in imports from countries such as China after the duty cut under the agreement, India wants certain deviations for such countries. Under deviations, India may propose a longer duration for either reduction or elimination of import duties for such countries. The talks for the pact started in Phnom Penh in November 2012. The 16 countries account for over a quarter of the world’s economy, estimated to be more than USD 75 trillion. The 16—member bloc RCEP comprises 10 ASEAN members (Brunei, Cambodia, Indonesia, Malaysia, Myanmar, Singapore, Thailand, the Philippines, Laos and Vietnam) and their six FTA partners — India, China, Japan, South Korea, Australia and New Zealand. **FIEO NEWS**

INDIA-EFTA TRADE DEAL TALKS TO BE HELD IN JANUARY

With India and the European Free Trade Association (EFTA) members resuming talks for the long-stalled proposed free trade agreement last month, senior officials of the four-nation bloc will visit India in January to iron out differences related with the pact. The four members of EFTA are - Switzerland, Iceland, Norway and Liechtenstein. "The EFTA officials will visit in mid-January. The agreement is important as it will give market access to several sectors from India such as textiles and chemicals," an official said. In October, Indian officials visited Geneva for the deliberations. Negotiators of both the sides would discuss issues such as intellectual property rights (IPR), number of goods on which duties will either be eliminated or reduced significantly. EFTA wants India to commit more in IPR in the agreement, which is officially dubbed as Trade and Economic Partnership Agreement (TEPA). They were also demanding for data exclusivity, which India is completely opposed to. Both sides had earlier expressed willingness to jointly address the major outstanding issues and agreeing to an early resumption of negotiations and concluding a balanced agreement in a time-bound manner. The trade pact talks had started in October 2008. So far, 14 rounds of negotiations have been held at the level of chief negotiators. The proposed pact covers trade in goods and services, market access for investments, protection of intellectual property and public procurement. The two way trade between the regions stood at USD 21.5 billion in 2015-16 as against USD 24.5 billion in the previous fiscal. The trade gap is highly in favour of the EFTA group.

FIEO NEWS

INDIA TO RESUME CURRY LEAF EXPORTS TO EU

After a hiatus of three years, India will resume export of curry leaves to the European Union. The exports will now entail quality checks including lab tests and Agmark certification, as mandated by the EU. In 2013, the EU had banned importing curry leaves from India, citing concerns related to high pesticide residue. It had later stipulated that exports must be accompanied by results of sampling and analysis and by a health certificate verified by authorised representatives. "A quality check system was needed for curry leaves exports. Exports will begin soon but they would be preceded by good agricultural practices and lab tests before getting shipped to the EU," said an official privy to the details. The official added that the agriculture ministry is in the process of notifying the standards, which will also endorse the leaves with the Agmark certification. The standards have been made for appearance, cleanliness and damage caused by pests, among other criteria. India exports almost 1.2 lakh kg of curry leaves to the EU. The EU Rapid Alert System for Food and Feed had issued warnings on food contamination to India, claiming that the curry leave consignments had multiple pesticide residue.

FIEO NEWS

STRATEGY SHIFT HELPS ENGG EXPORTS

Engineering exports grew 11.44 per cent in November on the back of a shift in strategy to focus on Southeast Asia, Northeast Asia and CIS countries rather than the traditional US and EU markets.

According to analysts, a spike in crude and global commodity prices along with a weak rupee are likely to help the sector, which constitutes about a quarter of overall exports. Data for the month of November hint at a turnaround with shipments to the EU witnessing a growth of 30.3 per cent, Asean 59 per cent, Northeast Asia 25.4 per cent and the CIS countries 27.2 per cent. In value terms, engineering exports grew to $4.81 billion in November from $4.32 billion a year ago. During April-November, exports to CIS countries grew 37.5 per cent, 18.8 per cent in the Asean region and 15.6 per cent in the EU. "The upsurge in Indian engineering exports is likely to continue in the rest of the fiscal as the hardening of crude oil prices in the international market is not expected to see any reversal of trend at least in the near term. Other commodity prices have also been rising," analysts said. "Moreover, developed regions have escaped economic slowdown and are expected to see a weak but steady growth that will increase the demand from overseas. Forecast of a weak rupee on the back of interest rate tightening in the US may also encourage exports from India," they said. Cumulative engineering exports grew a meagre 0.58 per cent to $39.91 billion in the first eight months of this fiscal from $39.68 billion in the year-ago period. The share of engineering exports in total merchandise exports stood at around 24.1 per cent in November against 21.7 per cent in October. The slide in engineering exports was arrested in May after eight months of contraction. Out of the 224 destinations for engineering goods, the top 25 countries accounted for 73.2 per cent of shipments during AprilNovember. Data showed that iron and steel exports rose more than 67 per cent in November. Among the seven non-ferrous metals and products made from them, two witnessed contraction. Exports of nickel and products fell 79 per cent and tin and products by 51 per cent. However, lead and products grew 84 per cent, followed by zinc and products at 42 per cent and aluminium and products at 31.5 per cent. Electrical machinery and equipment panel grew 28 per cent in November and 22.3 per cent during the first eight months of the financial year. Industrial machinery panel, pumps and valves registered the highest growth of 27 per cent.

FIEO NEWS

INDIA'S IRON EXPORTS UNDER SCRUTINY BY EU, S. KOREA

India's exports of certain iron items to the European Union (EU) and shipments of ferro alloys to South Korea have come under the scanner of local authorities in those jurisdictions. The European Commission (EC) has initiated an investigation into certain items of grey iron and ductile cast iron from India on allegations that they were being 'dumped' (or sold below the price charged in the home market or below production cost) into the EU region. This, the EC probe suggests, is adversely affecting local industry as these articles are used to cover and, or give access to ground or sub-surface systems. Seven EU producers of the item including Saint-Gobain, together representing more than a quarter of the total EU production of certain cast iron items, lodged a complaint with the EC on October 31 that imports of such articles from India and China are being dumped causing material injury to them. The complainants also provided 'evidence' of increase in imports (to the EU) of these items in absolute terms and in terms of their market share in the EU. The EC had earlier imposed countervailing (anti-subsidy) duty and anti-dumping duty on imports of tubes and pipes of ductile cast iron from India. Iron, steel and their related articles have been among India's main exports to Europe. However, shipments of iron, steel and their related items to Europe had fallen from \$3.86 billion in FY15 to \$3.07 billion in FY16. In the period between April and September this fiscal, exports of these products were worth \$1.82 billion. Meanwhile, South Korean authorities have decided to initiate investigation into dumping of ferro-silico-managese (used in the steel industry) from India, Vietnam and Ukraine into South Korea, thereby allegedly causing injury to their domestic industry. This was based on an application by local producers on November 18, 2016. The investigation period on dumping is from July 1, 2015 to June 30, 2016, while the investigation period on injury to the domestic industry is from January 1, 2013 to June 30, 2016. India's exports of ferro-silico-manganese to South Korea had fallen from \$46 million in FY13 to \$34.1 million in FY14 and further to \$32.3 million in FY15 and then down to \$19.5 million in FY16, according to data from the Indian commerce ministr.

FIEO NEWS

APPAREL EXPORTS TO CROSS $30 BILLION MARK IN NEXT 3 YEARS

The Rs 6,000-crore special package announced by the government in June for the textiles sector will help push apparel exports to over $30 billion in the next three years, AEPC said. Apparel Export Promotion Council (AEPC) Chairman said the initiatives announced by the government along with good quality products aided by innovative design prowess will drive the change for the industry. Currently, the country's apparel exports stood at around $17 billion annually. Council said India has an immense pool of talent and this industry can harness this resource maximum On demonetisation, AEPC said: "Temporally, exporters are facing a lot of pain as our workers are having difficulties opening bank accounts and migrant workers from our principal centres from Delhi, Tirupur and Karnataka are going back to their villages. **FIEO NEWS**

"WEAK EXPORTS, HIGH COTTON PRICES MAY HIT SPINNERS' PROFITABILITY ICRA

expects the weak export demand and high cotton prices to hurt the profitability of domestic cotton spinners. While the commencement of the cotton harvest season has been accompanied by a softening of the domestic price, however, it remains 17% higher year-on-year, says an ICRA report. According to the agency, the firmness in cotton prices is driven by a hangover of cotton shortage in India earlier in the year, slower cotton arrivals amid the demonetisation drive and uncertainty related to the extent of improvement in domestic crop-size against a backdrop of superior yields but lower sown area. Besides, weakness in export demand poses challenges for the domestic spinning industry. Cotton yarn exports have been under pressure due to lower demand from China amid improved local mill usage, the report states. According Senior VP and Group Head, ICRA, as the domestic spinning industry remains highly dependent upon exports, with a third of India's cotton yarn having been exported during the past four years, the fall in export demand is a major challenge for the industry." The cotton yarn export quantity was

23% lower year-on-year during the seven months to FY17. The improved domestic mill consumption in China has reduced its dependence upon imports, adversely impacting yarn exports from India. China's yarn import quantity declined by 20% (year-on-year basis) during the seven months to FY17 with a steeper decline in imports from India, which have fallen by 54% year-onyear," it said. "While the impact of the steep fall in exports has been cushioned by an estimated recovery in domestic consumption from a four-year low growth in FY16, a sustained revival remains to be seen and will be challenging due to the adverse impact of the demonetisation on disposable incomes and hence consumer spending ", ICRA added.
FIEO NEWS

FOREX RESERVES FALL BY $935.2 MN TO $359.671 BN : RBI

India's foreign exchange reserves declined by USD 935.2 million to USD 359.671 billion in the week to December 23 on account of fall in foreign currency assets, the Reserve Bank said. In the previous week, the reserves had fallen by USD 2.380 billion to USD 360.606 billion. They had touched a life-time high of USD 371.99 billion in the week to September 30, 2016. Gold reserves remained steady at USD 19.982 billion in the reporting week, the RBI said. The special drawing rights with the International Monetary Fund decreased by USD 0.9 million to USD 1.427 billion, while India's reserve position with the Fund too declined by USD 1.1 million to USD 2.290 billion, the data showed.
FIEO NEWS

Economy

PRIME MINISTER SURVEYS ECONOMIC LANDSCAPE AHEAD OF BUDGET

Ahead of government's third Union Budget, Prime Minister met with 13 economists and experts at NITI Aayog to review the economic situation and recommend measures for the year ahead. "There was no discussion on demonetisation separately. But its impact on various sectors and consequently on growth did come up," said a source. Terming the meeting an experiment, NITI Aayog Vice-Chairman said the farm sector, jobs and skill education and other issues related to Union Budget 2017-18 were discussed. The economists and experts, who met the Prime Minister, were divided into three groups and later briefed him on their deliberations," Niti Aayog said, adding that the government received a number of suggestions. The Prime Minister, who is Chairman of NITI Aayog, said the advancement of the Budget to early February would ensure that expenditure is authorised by the time the new financial year begins. "In current budget calendar, the authorisation of expenditure coincides with the onset of the monsoon," PM noted. The meeting on 'Economic Policy: The Road Ahead' was also attended by Finance Minister and Secretary-level officials. "Participants shared their views on various economic themes such as agriculture, skill development and job creation, taxation and tariff related matters, education, digital technology, housing, tourism, banking, governance reform, data-driven policy, and future steps for growth," said an official release. Niti Aayog said suggestions included proposals on how to make digital payments to farmers and double farm income by 2022. "Greater market support and price support mechanisms in agriculture were also discussed,"it said. On job creation and skill development, experts recommended apprenticeship development and discussions with industry. The need to move workers from the informal to the formal sector also came up. Economists raised the issue of inverted duty structure for manufacturing, and sought harmonisation of customs tariff at 7 per cent. Calling for a number of reforms in the budgetary process, economists sought simplification in corporate and personal income tax. They also called for strategic disinvestment, and listing of state-owned firms as well as the increased use of direct benefit transfers to rationalise subsidy expenditure. **FIEO NEWS**

Article

Dubai import duty hike may hit jewellery exports

India's gold and diamond-studded jewellery business is likely to take a hit, at least in the short term, following the hike in import duty from 0.36 per cent to 5 per cent, starting January, on all jewellery products exported to Dubai. Exporters may also stop using Dubai as a hub and start exporting directly to destination countries. In any case in last two months, huge exports already taken place for stocking there.

As much as 32 per cent of Gems and jewellery exported from India are headed to the UAE.

Sanjeev Agrawal, CEO of Gitanjali Exports Corporation said, "The jewellery business has in any case been facing an unfriendly business atmosphere in India since 2013, with the imposition of an increasing number restrictions that haven't spared even units in e-port zones. And now, the 5 per cent duty in Dubai, which has been a major market, will render Indian exports unviable."

Agrawal sees some export units shifting to Dubai and even new investment being made there in order to avoid the duty, unless the Indian government enters in a treaty with that country for a barter-like arrangement under which jewellery is exported against the import of crude oil.

Dubai is a hub for jewellery exports and several units are exporting ornaments from there with higher mark-ups to developed countries. Besides, many tourists prefer to buy their jewellery in Dubai, instead of their home countries, where prices in many cased are invariably much higher. Even the Indian tourist would rather buy jewellery in Dubai, as would the one from the US. In India, 10 per cent import duty, VAT and excise duty make it lucrative for tourists to buy jewellery from them.

Dubai is one of the few locations in the world where one can buy jewellery at a very low mark-up. For instance, plain jewellery. which is sold at a mark-up of 15-20 per cent in Dubai, is sold in some western countries at well over 100 per cent (in fact, nine-carat gold, which contains only 37.5 per cent of the precious metal, can command up to 400 per cent in some markets). What's more, in many cases such purchases also suffer local VAT.

According to Sudheesh Nambiath, lead analyst for India and South Asia, GFMS Thomson Reuters, "This differential is significant for a hub like Dubai, where last year the number of visitors increased seven per cent year-on-year to 14.2 million, as against a world average of 4 per cent growth".

Nambiath added, "Our view is that the duty hike could logistically disturb the business in the short term, but for the longer term, the trade has already positioned itself to be a strong manufacturing hub with the required resources as likely to weather the storm."

India, while remaining the largest supplier of gems and jewellery, has seen a sharp fall in exports to the UAE, which dropped from 62 per cent in 2011 to just 34 per cent in 2016. India could also see a challenge to its leadership in items like diamond- and precious stone-set handmade jewellery. This is because the skill sets required to make such ornaments are likely to move to Dubai, following the recent surge in job losses in this sector in India. Besides, tax-free income in Dubai, efficient functioning of the workforce in the UAE, and low-cost capital are other factors that might provide impetus to the handmade jewellery fabrication business in that region.

Rajesh Mehta, CMD of Rajesh Exports said, "While our 60 per cent of exports are to Dubai, we will not affected much as we use Dubai as a hub to re-export the same jewellery. Duty has not been increased for such re-export."

Dubai has emerged as a hub for gem and jewellery exports due to the kind of facilities and flexibility extended to exporters that are not available in India. Some of these include a goods-return policy and lower credit cost.

South India-based jewellers are likely to take the biggest hit as they have all export heavily to Dubai.

There is a shopping festival going on in Dubai currently, and the timing of duty just ahead of this event will test its impact.

Business line

BSE Oil & Gas index hit 9-year high; Indian Oil touches new high

Shares of refinery companies continued their upward move with the S&P BSE Oil & Gas index hitting nine year high on the BSE in intra-day trade on Thursday.

At 02:44 pm; the S&P BSE Oil & Gas index was up 1.6% at 12,592 as compared to 0.87% rise in the S&P BSE Sensex at 26,866.

The oil & gas index hit an intra-day high of 12,601, its highest level since January 18, 2008, on back of strong rally in stocks like Oil & Natural Gas Corporation (ONGC), Oil India and Indian Oil Corporation (IOC).

IOC hit a new high of Rs 354, up 3%, while Oil India touched a fresh 52-week high of Rs 469, up 3% on the BSE. ONGC, Castrol India, Bharat Petroleum Corporation (BPCL) and Hindustan Petroleum Corporation (HPCL) from the index were up in the range of 2% to 3%.

Oil edged higher on Wednesday on expectations that US crude oil inventories are falling and on signs that oil producers are willing to stick to agreed output cuts that came into effect this week, the Reuters report suggests. CLICK HERE TO READ FULL REPORT.

Crude oil prices have seen a jump from average of US$ 45.82/bbl in Q2FY17 to average of US$ 50.08/bbl in Q2FY17. On an end to end basis, crude prices have rallied from US$ 49.17/bbl to US$ 55.96/bbl currently.

“In rising crude oil environment, with refiners having 15 days to 1 month stock, they register inventory gains. These gains coupled with strong trend in crack spreads will result in higher gross refining margins (GRMs) for oil marketing companies (OMCs) during Q3FY17,” analyst at IIFL Wealth Asset Management said in a report.

H1FY17 performance of OMCs was hit by inventory losses and weakness in GRMs. However, during H2FY17, GRMs have moved up and companies are likely to report inventory gains. Furthermore, marketing volumes have seen an increase. These factors will result in substantial improvement in profitability of OMCs, added report.

COMPANY	LATEST	1-WK BEFORE	GAIN(%)
C P C L	317.00	274.15	15.63
M R P L	110.10	98.10	12.23
H P C L	468.40	429.25	9.12
MAHANAGAR GAS	850.00	780.35	8.93
I O C L	349.90	321.90	8.70
ABAN OFFSHORE	246.50	229.75	7.29
OIL INDIA	469.50	444.35	5.66
B P C L	666.05	639.65	4.13
O N G C	199.35	191.55	4.07
GAIL (INDIA)	441.80	424.90	3.98
INDRAPRASTHA GAS	930.40	896.95	3.73
PETRONET LNG	378.05	365.45	3.45
RELIANCE INDS.	1078.00	1064.95	1.23
S&P Oil & Gas	***12591.86***	***12031.35***	***4.66***
S&P BSE Sensex	***26865.98***	***26366.15***	***1.90***

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