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# Weekly E-Bulletin

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# August 1st week Newsletter

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## GUJARAT FARMERS MAY TURN TO PULSES, CASTOR

Hit by devastating floods in the key growing regions — Saurashtra and North Gujarat — cotton growers in Gujarat may turn to pulses and castor as the crucial period of the kharif sowing season have witnessed a heavy downpour since beginning of July.Gujarat is the largest cotton-producing state, with the area under the fibre crop hovering at 25.85 lakh hectares for the current kharif sowing season (June-September).According to Gujarat Agriculture Minister Chimanbhai Shapariya, about 7,26,856 hectares of farmland has been affected due to floods in Gujarat. "Across Gujarat, 2,789 villages have been affected and we are waiting for water to recede to assess the exact damage to the kharif crop. The affected crops are cotton, groundnut, millet, fodder, sesame-seed, pulses, among others," said Shapariya.

"Affected farmers who have taken insurance under the Pradhan Mantri Fasal Bima Yojana (PMFBY) can claim up to 25 per cent of the damage under the scheme.

This will be known only after the survey assessment," he added.The minister maintained that the worst-affected areas include Jodiya taluka of Jamnagar district, Tankara taluka of Morbi district, Chotila of Surendranagar and the districts of Banaskantha and Patan. **B/L-01/08/2017**

## BASE IMPORT PRICE OF GOLD, SILVER UP; EDIBLE OILS' DOWN

The Central government on Monday increased the base import price of gold by $15 to $411 per 10 gm and that of silver by $20 to $538 a kg, according to a notice from the Central Board of Excise and Customs.

The base import prices were last revised on July 14.Typically revised every fortnight, base import prices are used to calculate duty on gold and silver brought into the country by individuals, who often do not carry purchase invoices.On the riseSince July 14, prices of gold and silver in global markets have increased 3.4 per cent and 5.8 per cent, respectively.Currently, India levies 10 per cent import duty on gold.On Monday, the government also cut the base import price of all edible oils, barring that of soyoil. B/L-02/08/2017

## TEA PRICES SEEN RISING THIS YEAR

According to DP Maheshwari, MD, Jay Shree Tea, the average price of tea, which had gone down by 3 per cent in 2016, has risen in the first quarter this year. The dip in price was steeper for quality tea, he said. "We saw an almost 15 per cent dip in prices of quality tea last year as buyers were not picking it up. But this year we expect prices to go up. The first quarter has been better," he told newspersons after the company's annual general meeting here on Monday.Jay Shree Tea witnessed Rs. 30-40 a kg drop in average price of its quality Assam tea at the auctions last year. "Our tea would usually fetch Rs. 205-210 a kg. But prices dropped to Rs. 170 a kg last year. This year our sale average has been better so far and we expect prices to firm up by Rs. 15-20 a kg," he said. For the year ended March 31, 2017, the company posted a 22 per cent decline in total revenue to Rs. 541 crore.

**B/L-03/08/2017**

## 2017-18 COTTON PRODUCTION SEEN RISING 10-15% ON HIGHER ACREAGE

Notwithstanding crop damage due to floods in Gujarat, the largest cotton producing state, India's cotton output in the forthcoming 2017-18 season starting October is seen increasing by 10-15 per cent on rise in acreage across the country. Besides, a favourable monsoon in most parts of key growing states such as Maharashtra and Andhra Pradesh, and in North India, is aiding the output.The cotton trade estimates the output to be higher, by 10-15 per cent, for 2017-18 over last year's output of 337.25 lakh bales of 170 kg each.Per the Union Ministry of Agriculture, cotton had been sown on 111.55 lakh hectares till July 28, as against 92.33 lakh hectares witnessed for the same time last year, thereby indicating an increase

of close to 21 per cent in the acreage.Maharashtra has registered kharif cotton sowing of over 38.47 lakh hectares, while in Gujarat the area stood at 25.84 lakh hectares.However, with the recent flooding in the key growing regions of Gujarat, the authorities expect a damage of about 30 per cent to the crop in the State. **B/L-04/08/2017**

## ON JULY 31, BITCOIN EXCHANGES IN INDIA SUSPENDED OPERATIONS FOR 36 HOURS

The bitcoin exchanges in India had suspended their operations for 36 hours from July 31, to monitor a 'hard fork' situation that divided the virtual currency's online community.A hard fork situation arose after bitcoin's blockchain forked, creating another separate cryptocurrency called bitcoin cash (BCH).The first bitcoin cash was mined on August 1, which then started gaining traction. Last week, miners and developers of bitcoins also agreed to adopt a new way of operating the cryptocurrency, with changes being made to the technology and underlying code.The exchanges were shut down between 10 pm on Monday and 10 am on Wednesday as most of India's top bitcoin exchanges did not want to support bitcoin cash or were undecided on the new cryptocurrency. Generally, a bitcoin exchange works round-the-clock."We had suspended withdrawal and deposits of bitcoins during this period to monitor the hard fork situation. This was done for the security of our customers," Mahin Gupta, Chief Technology Officer at bitcoin exchange Zebpay, told.
**B/L-05/08/2017**

## TEA PRICES MAY SEE SOME BUOYANCY ON FLAT OUTPUT, RISING EXPORT DEMAND

India's tea production is likely to remain flat or witness a marginal dip in calendar year 2017 as compared to last year. The country produced 1,267.36 million kg (mkg) of tea in 2016, according to data available with the Tea Board of India.All India production in June came down by nearly 3 per cent to 143.02 mkg. The drop was mainly on account of a lower crop in North India, which was down by nearly 5 per cent at 116.4 mkg.Overall tea production in the January-June period of the current calendar year, however, increased by 4.51 per cent to 443.15 mkg over 2016 period.According to industry experts, while it was a bumper crop

in April and May, the flood in North India brought down production in June.While crop production in July and August this year could be similar to last year, it could come down in September and November, the peak producing months for the crop. Nearly 65 per cent of the country's tea is produced between July and November.The production usually goes up or drops between September and November. This year Puja sets in earlier in September, which could herald an early winter. If that happens then the crop could be marginally lower than last year," said Azam Monem, Chairman, Indian Tea Association.According to CS Bedi, the flood in Assam has affected the crop. The Tea Board data suggests a 10 per cent drop in crop in the region for June. "Tea leaves require normal sunshine for growth. If this continues then pest attacks could drag down production to some extent," he said. **B/L-07/08/2017**

## OILMEAL EXPORTS SURGE 54% AS SOYMEAL SHIPMENTS RISE

Triggered by a sharp surge in soymeal exports, India's overall oilmeal exports reported an increase of 54 per cent for the April-July period at 638,468 tonnes, against 413,341 tonnes reported in the same period last year.Data compiled by the Soybean Processors Association of India (SOPA) show that India's soybean meal exports for the four-month period stood at 4.69 lakh tonnes as compared to 1.19 lakh tonnes in the same period of the previous year, showing a surge of 292 per cent on a year-on-year basis.Overall oilmeal exports registered a growth of 54 per cent for the period under review. "In last three months, the export of oilmeals improved compared to the previous year, thanks to good monsoon, better oilseeds production and price parity," said the Solvent Extractors' Association of India (SEA)."In percentage terms, exports are showing an improvement, but are still lower compared to earlier years," the association added.It may also be noted that India faced droughts in 2014-15 and 2015-16, which led to lower production of oilseeds, bringing exports to a low level.However, the good monsoon last year saw exports revive to some extent, the SEA added. **B/L-08/08/2017**

## COMMERCE MINISTER HOLDS TALKS ON GROWING TRADE DEFICIT WITH CHINA

Commerce Minister has held “candid” talks with her Chinese counterpart (Chinese Commerce Minister) over India’s ballooning trade deficit with China which has crossed over $52 billion and sought a level playing field for Indian IT and agro products. India’s trade deficit with China in 2015-16 swelled to $52.68 billion, which Indian officials say has become unsustainable. Besides pressing for access to IT and pharma products, the main stay of India’s global exports, India has been insisting that China should compensate by stepping up investments. “The two Ministers exchanged views, in a candid manner, on further development of a strong, balanced and sustainable trade and investment partnership between India and China,” the Indian Consulate in Shanghai said in a statement. “In particular, Indian Commerce Minister sought the assistance of Chinese Ministry of Commerce in reducing the trade deficit, facilitating greater market access and for providing a level playing field for Indian IT, pharmaceuticals and agro products in China,” it said. The meeting between Indian Commerce Minister and Chinese Commerce Minister was the second after their meeting on the sidelines of the Regional Comprehensive Economic Partnership (RCEP) Ministerial meeting in Hanoi in May. The ministers also agreed to further intensify India-China cooperation in the multilateral frameworks such as WTO, BRICS and Shanghai Cooperation Organisation (SCO), the statement said. They decided to hold the 11th Joint Economic Group (JEG) in New Delhi at the earliest. A host of BRICS ministerial and officials meeting on various fields were being held in China ahead of the five- nation grouping’s summit to be held in September this year in the Chinese city of Xiamen.

## CENTRE SEEKS INPUTS ON TRADE, INDUSTRIAL POLICIES, SERVICES

Commerce Minister sought inputs from the academia on three topics — Foreign Trade Policy (FTP)

review, the proposed revamp of manufacturing and industrial policies and India's proposal at the World Trade Organisation (WTO) on services sector liberalisation. Delivering the convocation address at the Indian Institute of Foreign Trade (IIFT), Commerce Minister said Ministry would like to receive inputs from the students and faculty as soon as possible on the FTP 2015-20 so that a comprehensively reviewed FTP can be released by September. In the backdrop of the Centre working on a new manufacturing and industrial policy to increase the contribution of the manufacturing sector in the country's GDP to 25% by 2020 from the current level of about 16%, the Minister said as the (global) Industrial Revolution 4.0 is happening, the country needs more research on this emerging area showing how Artificial Intelligence (AI), robotics and Internet of Things (IoT) will impact India's manufacturing and services. It is learnt that India's new manufacturing and industrial policies will bring manufacturing and services closer to ensure an increase in the contribution of services to manufacturing. Since India is already a part of many 'global value chains', the two new policies will aim to make India a global manufacturing hub in items including textile, pharmaceuticals and electronics. The Centre is working on these new policies to align the current manufacturing policy (of 2011) and the industrial policy (of 2009) with the Fourth Industrial Revolution that includes AI, robotics and IoT. TFS pact Referring to India's proposal at the WTO on a Trade Facilitation in Services (TFS) Agreement for easing norms, including on movement of foreign professionals and skilled workers across borders for short-term work, Minister said during a recent visit to the WTO headquarters, Minister was informed that the TFS proposal was gaining traction. Minister said, therefore, the Centre for WTO Studies at the IIFT and others from the academia should contribute on what more can India do in the area of global services trade. In the address, Commerce Secretary said, "India needs to generate good quality manpower in large numbers at all stages of the knowledge pyramid if it has to become globally competitive in the manufacturing sector." Secretary said many policy-level challenges have retarded growth in the manufacturing sector in India. These include, among others, difficult business environment, infrastructural constraints, including peak power deficit, labour market limitations including a surfeit of labour legislation(s) and trade unionism as

well as the difficulty in availing commercial bank credit particularly for small firms. Earlier, Minister said a new campus of IIFT will be opened soon in Kakinada (Andhra Pradesh).

## PAKISTAN YET TO TRANSITION FULLY TO MOST FAVOURED NATION STATUS FOR INDIA: COMMERCE MINISTER

Pakistan is yet to award the most favoured nation (MFN) status to India and it maintains a negative list of 1,209 items which are not permitted to be imported from India, Parliament was informed . Commerce and Industry Minister said in a written reply that the government has not taken any decision to review the MFN status accorded to Pakistan, so far. As per a World Trade Organisation (WTO) rule, every member of WTO requires to accord this status to other member countries. India has already granted this status to all WTO members including Pakistan. Under MFN, a WTO member country is obliged to treat other trading nation in a non-discriminatory manner, especially with regard to customs duty and other levies. "However, Pakistan is yet to transition fully to MFN status for India," Minister said. The neighbouring country allows only 137 products to be exported from India through Wagah/Attari border land route, she added. The bilateral trade between the countries stood at USD 2.28 billion in 2016-17. India mainly exports cotton, dyes, chemicals, vegetables and iron and steel wehile it imports fruits, cement, leather, chemicals and spices.

## RCEP TALKS: INDIA STANDS FIRM ON MARKET ACCESS IN GOVT CONTRACTS, REJECTS BINDING COMMITMENTS

Backed by the 10-member ASEAN group, India managed to restrict the scope of talks on government procurement to exchange of information and transparency amongst members and exclude commitments on market access at the recent round of Regional Comprehensive Economic Partnership (RCEP) negotiations in Hyderabad. In the area of goods, though, pressure remained high on India to go beyond its present offer of eliminating tariffs on 80 per cent items. "With the ASEAN strongly backing India, the negotiating team managed to ensure that market access commitments are not part of the government procurement agreement being negotiated. At Hyderabad, the discussions were

only on transparency and exchange of information which India is comfortable with," a source privy to negotiations said. told The next Ministerial round of the 16-member RCEP — which includes the 10 ASEAN countries, India, China, Japan, Korea, Australia and New Zealand — scheduled next month in the Philippines will give a more concrete shape to the official level discussions that took place in Hyderabad. While New Zealand, South Korea and Japan were trying to push for negotiations on market access commitments in government procurement, China did not take any stand, the official added. Although India allows foreign players to participate in government procurement bids, roughly valued at $300 billion annually, it is free to make its own rules and give preferences to local players. It will lose the freedom once it gives binding commitments in market access to other countries, which New Delhi is not ready for. "India gives preferences in government procurement to a number of categories within the country such as the small-scale sector and women entrepreneurs. If it gives market access commitments to other RCEP members, it may stand to lose the freedom to give preferences to domestic interest groups," the official said. India has not given market access commitments in government procurement to any of its free trade agreement partners including ASEAN, Japan and South Korea precisely because it wanted to protect its policy making space. Neither is the country a signatory of the government procurement agreement of the WTO. "Although India did agree to include a chapter on government procurement in the RCEP due to pressure from some members, it does not mean that it has to agree to open up government procurement," the official added. "The Indian negotiators are fully aware of the negative fall-outs of agreeing to discuss new rules before they are implemented. The country will see to it that such a provision does not get incorporated into the agreement," official added. The support of ASEAN in keeping out market access commitments from the government procurement pact is proving to be very useful to India. "In fact, at the negotiations in Hyderabad, it appeared that the ASEAN was more averse to any commitments on market access than India. It suited India fine," it said. On market access in goods, the official said that the RCEP members remained unhappy with India's offer of eliminating duties on 80 per cent of traded goods and pressure was on for higher commitments. Most RCEP members want that tariffs should be reduced to zero on

92 per cent items. The RCEP, once implemented, could be one of the largest free trade bloc in the world with a GDP of over $22 trillion (about 40 per cent of world trade) and a population of 3 billion (45 per cent of world population).

## BUSINESS IS 'BREAD AND BUTTER' OF INDO-US TIES, SAYS FOREIGN SECRETARY

Business and investment linkages form the backbone of the India-US bilateral ties and one should not "think small" in taking forward these linkages towards the next level, said Foreign Secretary during the launch of USIndia Strategic Partnership Forum (USISPF). Foreign Secretary, who was India's Ambassador to the US from 2013-15, also said that on issues such as counter-terrorism, maritime security and energy, both countries have to work with each other and no one country can work in these areas in silos. The Foreign Secretary also said that both countries have vowed to take their ties to the next level and this was reaffirmed during the visit of Prime Minister to the US in June. Meanwhile, the USISPF Chairman who is also now the Executive Chairman of Cisco Systems, lauded the demonetisation drive of the Indian government stating this will further boost 'Digital India' programme of the government. USISPF Chairman also said that the Goods and Services Tax (GST), which came into effect from July 1, will boost businesses. The USISPF was officially launched with a view to boost bilateral business and strategic ties between both countries.

## INDIA, EGYPT TO EXPAND TRADE TIES

India and Egypt discussed opportunities to expand cooperation in key areas such as trade and reaffirmed that bilateral relations were "very strong" and wide in scope having great potential for expansion. "Last year, India and Egypt had concluded a G to G (government to government) agreement for supply of rice to Egypt at a friendship price," India's Ambassador to Egypt said. India's Ambassador met the Egyptian Minister for Supply and Internal Trade Supply to discuss opportunities for expansion of bilateral cooperation.

## BAR-CODING FOR EXPORTS: SMALLSCALE PHARMA PRODUCERS GET RELIEF

The Centre has decided not to take any immediate action against small-scale manufacturers of

pharmaceuticals who have not fully implemented the track-and-trace barcoding requirements for exports by the stipulated deadline of March 31, 2017. Instead, the Commerce and Pharmaceuticals Departments are discussing ways to help the small manufacturers finance the machinery and infrastructure needed to implement the "parent-child relation'' system for exports, a government official has said. "There are some very small pharmaceutical companies who are finding it hard to come up with the resources to install the required machinery, including scanners. They have sought help from the government in the form of subsidies. We are examining in what form we could give them the required financial support," the official said. The Centre had put in place procedures relating to tracking and tracing of export consignment of pharmaceuticals and drugs using bar code technology in 2014 to prevent substandard or fake medicines manufactured illegally in other countries (including China) entering international markets with a 'made in India' tag. While most large and medium exporters have the system in place, the small manufacturers are lagging. The Commerce Department has asked to the Pharmaceuticals Department to examine if there is any way of including subsidies for barcoding infrastructure for the SSI sector under any of their existing schemes on quality upgradation. "Once the new pharmaceutical policy, under deliberation, comes through, some provisions could be made on this. Till then, the Centre is not likely to take any action against small drug producers who haven't the required barcoding systems in place," the official added. The track and trace systems is unique with identifying printed code on each product in various stage of packaging and it allows traceability throughout the supply chain and helps in facilitating the manufactures' identifications. While bar code labelling at primary level (the material that first envelops the product) is voluntary, it is mandatory on secondary level packaging (boxes, cartons etc) and tertiary level (bulk handling & shipping in barrels etc).

## CENTRE LOOKS TO TRIM DRUG INPUT IMPORTS FROM CHINA

In the wake of heightened tensions in IndoChina relations, the Centre is working to reduce the Indian pharmaceutical industry's dependence on Chinese raw material imports. "All government agencies are keen on this. On the directions of the Ministry of

Commerce, Pharmexcil and the CSIR-Indian Institute of Chemical Technology (IICT) are working on a Detailed Project Report," Director-General, Pharmexcil said. The Ministry of Commerce recently conducted a meeting and roped in research laboratories and other stakeholders to work on a roadmap to realise this strategic objective. Indian drug exports to China are insignificant in value terms, but Indian drug manufactures import raw materials worth $6 billion, according to the Pharmaceuticals Export Promotion Council (Pharmexcil). China is the main supplier of raw materials for Active Pharmaceutical Ingredients and key standing materials. "In some case, including in the life-saving drugs category, the dependence on Chinese imports is as much as 90 per cent. We have identified about 50- 60 drugs for import substitution," Council said.

## CHINESE GOODS CHEAPER IN INDIA DUE TO OPAQUE SUBSIDY REGIME OF CHINA: GOVERNMENT

Chinese products are cheaper than Indian goods because of the opaque subsidy regime prevailing in China, the government said t in Parliament. "The products manufactured in China are reportedly of lower price mainly because of their opaque subsidy regime and distorted factor prices," Minister of State for MSME, said in a written reply in the Lok Sabha. Minister was replying to a question which sought to know the reasons behind the higher prices of domestic products in comparison to the products manufactured in China. The minister said that the survival and growth of micro, small and medium enterprises (MSMEs) depends on a number of factors like availability of timely credit, upgradation of technology, infrastructure, access to market, quality of products, etc. "Competition from internal and external sources including competition from multinational companies is also one of the factors," Minister said in a reply to another question on whether Indian MSMEs are reportedly lagging behind due to availability of the products of multinational companies.

# ***BANK & TAXATION***

## GST COUNCIL APPROVES RULES FOR EWAY BILLS, RELIEF FOR GARMENT INDUSTRY

The Goods and Services Tax (GST) Council approved the rules related to e-way bills, which are meant to track movement of goods, and resolved to implement the mechanism soon. The Council also got ready to invoke the anti-profiteering clause in the GST laws, as several states thought that businesses largely remained reluctant to pass on the benefit of lower tax liability to consumers. Acceding to demands from the industry, the Council decided to reduce the GST rate on all job works related to the textile and apparel sector to 5% from 18%. In case of some sectors like yarns and fabrics, the tax on job works was earlier slashed to 5%, but with Saturday's decision, the benefit of lower tax will be available to all job works in the sector. In a move that would cut the cost of project Execution in the government sector, the GST on work contracts in the state-sector has been reduced 18% to 12% with full input tax credit. Briefing the media after the Council's 20th meeting here, finance minister said although the Council has decided to implement e-way bills from a date to be notified soon, the government would prefer the transportation of goods to be technology-driven with minimal intervention by tax inspectors. While the states' commercial tax check posts have been dismantled post-GST, the e-way Bill mechanism for consignments with value above Rs 50,000 could practically lead to harassment of taxpayers and result in randomised checks by "flying squads" and even proliferation of check posts, tax experts said. "E-way Bill is a retrograde step and doesn't fit into the GST's one-nation-one-tax principle. Screening committees under anti-profiteering clause would be set up at state and central levels in 15 days. Finance

Minister reiterated that though the state-level screening committees will refer cases of profiteering by the industry to the central standing committee and the anti-profiteering mechanism will start working, the idea will be to use it only as a deterrent. However, analysts were still sceptical of the taxman dictating how the industry should pass on input tax credit and/or lower GST rate to consumers.

## CALLS FOR RATE REVIEWS FOR 150 ITEMS WITH GST COUNCIL

Nearly 150 proposals for reduction of tax rates on items ranging from clay idols and dhoop battis, dosa and idli batters, macaroni pasta to granite raw blocks and scientific instruments have been examined by the Fitment Committee of officials under the Goods and Services Tax Council since the first month of the roll out of the levy. Significantly, it is understood to have ruled out any reduction in the rate on hybrid cars where the industry had wanted the compensation to be lowered by three per cent. For many food items, such as sharbats with synthetic flavouring, treatment of dried methi patta as spices or dried vegetables, sweets and milk products served in restaurants and considering chikki and kheer as sweets for a lower tax rate, the Committee has suggested clarifications to remove any doubts. The GST Council in its meeting revised the rates of items such as job works in textiles to five per cent, some tractor parts to 18 per cent and rent-a-cab service and goods transport agency services to 12 per cent with full input tax credit. Many of the remaining proposals will be taken up by the Council in its next meeting on September 9 in Hyderabad, Finance Minister has said.

## MONETARY POLICY: RBI CUTS REPO RATE BY 25 BPS

The RBI has cut the repo rate by 25 bps to 6%. This was on expected lines as market consensus predicted a 25 bps cut. Reverse repo rate has also been cut by 0.25 per cent to 5.75 per cent. The cut in rates comes against the backdrop of slowing credit growth, very low inflation and low economic growth. Retail inflation has fallen to a five year low of 1.5 per cent in June and

expected to remain soft for a while longer. Bank credit is growing at just a little over 6 per cent year on year. The economy has slowed down through the past five quarters from a high of 9.1% registered in the fourth quarter of fiscal 2016 to a level of 6.1% in the fourth quarter of fiscal 2017. Factory activity contracted to a 8-year low with the purchasing managers' index at just 47.9 points in July. The RBI noted in its statement that actual headline inflation for Q1 has tracked projections of being in the range of 2 to3.5 per cent in the first half of the year. Looking ahead, as base effects fade, the evolving momentum of inflation would be determined by (a) the impact on the CPI of the implementation of house rent allowances (HRA) under the 7th central pay commission (CPC); (b) the impact of the price revisions withheld ahead of the GST; and (c) the disentangling of the structural and transitory factors shaping food inflation. It noted that there are several factors contributing to uncertainty around this baseline inflation trajectory. It flagged its concern that implementation of farm loan waivers by States may result in possible fiscal slippages and undermine the quality of public spending, entailing inflationary spillovers. It said that the timing of the States' implementation of the salary and allowances award is critical - it is not factored into the baseline projection in view of lack of information on their plans. If States choose to implement salary and allowance increases similar to the Centre in the current financial year, headline inflation could rise by an additional estimated 100 basis points above the baseline over 18-24 months, the statement noted.

# ECONOMY

## CORE SECTOR GROWTH DIPS TO 0.4% IN JUNE

The index of eight core industries grew at its slowest pace since February at a meagre 0.4 per cent in June this year as against a robust 7 per cent expansion in June 2016. It grew by 4.1per cent in May. The data, released showed that the worst performers were coal mining and cement production that contracted by 6.7 per cent and 5.8 per cent respectively in the month. Fertiliser production also declined by 3.6 per cent in June. Production of natural gas registered a growth of 6.4 per cent in June as against a year ago, while steel production grew by 5.8 per cent. "The cumulative growth of the eight industries during April to June, 2017-18 was 2.4 per cent," said an official release. The Eight Core Industries comprise 40.27 per cent of the weight of items included in the Index of Industrial Production (IIP).

## GST IMPACT: MANUFACTURING PMI CONTRACTS IN JULY

Amidst calls for a rate cut to boost investment and demand, manufacturing production contracted for the first time this year in July, according to a private survey. The Nikkei India Manufacturing Purchasing Managers Index was at its lowest mark since February 2009 at 47.9 in July. It was much higher at 50.9 in June. A reading above 50 on the index indicates expansion and one less than 50 denotes contraction. "This highlighted the first deterioration in business conditions in 2017 so far. The downturn was widespread across the three broad areas of manufacturing, with intermediate goods producers the worst affected," said Nikkei in a statement. In the second bi-monthly monetary policy review on June 6 and 7, the committee had left lending rates unchanged at 6.25 per cent while reducing the statutory liquidity ratio by 0.5 per cent. But with retail inflation at a record low

the government and industry is hoping for at least a 25 basis point cut in the repo rate. “The weakening trend for demand, relatively muted cost inflationary pressures and discounted factory gate charges provide powerful tools for monetary policy easing, which has the potential to revive economic growth,” said Principal Economist at IHS Markit and author of the report. The survey revealed that incoming new work dropped for the first time in the year-to-date and at the steepest pace since early-2009, although new export orders continued to rise. “Anecdotal evidence indicated that the Goods and Services Tax (GST) launch hampered demand,” it said. Panellists were also not clear on tax rates under the GST, which caused confusion among suppliers and manufacturers themselves. But the 12-month outlook for output remained positive in July, with companies expecting more clarity about GST to support growth. Discouraged by the downturn in factory orders, companies lowered production in July. Higher tax rates also sparked greater cost burden in July. However, the pace at which input costs rose was moderate.

## SERVICES SECTOR CONTRACTS BY MOST IN 4 YEARS ON GST WOES: PMI

Services sector plunged into contraction mode in July with the sharpest fall in about four years as confusion caused by the GST rollout triggered a dip in new business orders, a monthly survey showed . The data follows a similar downtrend seen in the manufacturing sector, which also contracted in July following the implementation of Goods and Services Tax (GST) resulting into significant drop in new orders and output. The Nikkei India Services Purchasing Managers’ Index (PMI), a measure of services sector output on a monthly basis, plunged to 45.9 in July, the lowest since September 2013, from June’s eight-month high of 53.1. A reading above 50 indicates expansion, while a score below this mark means contraction. This is the first time in six months that the services index has slipped into contraction territory. The July services PMI also signalled the first downturn in output since the start of this year. “PMI data for July highlight a reversal in fortunes across India, with the economy

going into the reverse mode after seeing a pick-up in growth momentum during June," said Principal Economist at IHS Markit, and author of the monthly report. The launch of GST was cited by services firms covered in the survey as having caused contraction in new work orders, leading to lower activity. The seasonally adjusted Nikkei India Composite PMI Output Index — which maps both manufacturing and services — fell sharply in July to 46.0 — the lowest since March 2009. The index read 52.7 in June this year. "Private sector activity dipped for the first time since the demonetisation shock and to the greatest extent since early 2009, mirroring the sales trend," it added. Indian service providers, however, remain optimistic about the 12-month outlook. "Whereas many will question how deep an impact the GST will have on the economy in the near and long term, firms seem convinced that prospects will brighten as the new tax regime becomes clearer," Principal Economist said. The PMI data for manufacturing and services sector will also bolster calls for further rate cuts by the Reserve Bank, which yesterday lowered its key lending rate by 0.25 per cent, a move which is likely to translate into lower interest rates for home, auto and other loans as also boost economic activity. Commenting on the PMI data, global financial services major Nomura said the decline in the services index was entirely due to the GST introduction. Noting that the services firms expressed "a lack of knowledge regarding the GST and expect more clarity in the near term to lead to activity growth", Nomura said the drop in activity in July is expected to be transitory. On the price front, the input price index eased marginally to 51.7 in July from 52.3 in June, but the output price index rose sharply to the highest since early-2013 to 54.6 from 51, as firms cited a higher tax burden on account of the GST. "This is in contrast to the manufacturing sector, where firms offered discounts to capture greater market share. This divergence reflects the fact that post GST, in general, tax rates are higher for the services sector and lower for the manufacturing sector," Nomura said. The transition to GST has resulted in the second dip in

activity levels after the demonetisation shock, but the increase in the future activity index – both in manufacturing and services – suggests that firms see this as transitory, it added.

## FISCAL DEFICIT SOARS TO 81% OF FY'18 TARGET IN APRIL-JUNE

The Centre's fiscal deficit in April-June 2017 soared to nearly 81% of the Rs 5.46 lakh crore estimated for 2017-18, largely due to a steep 47% increase in spending on the explicit subsidies even as tax revenue receipts remained subdued. The fiscal deficit in the first three months of 2016-17 was 61.1% of the annual estimate; in the corresponding period of 2015-16, it was 51.6% of the relevant target. While Rs 1.37 lakh crore was released as food, fertiliser and fuel subsidies in the first three months of this year, only `93,500 crore had been spent on this front a year ago. Nonetheless, the front-loading of the subsidy amount, enabled by the early presentation of the Budget, will ease the liquidity problems for the intermediaries like Food Corporation of India and fertiliser firms. Subsidies apart, April-June also saw a 39% year-on-year rise in capex to Rs 68,328 crore, nearly half of which was defence-related. Other departments which benefited from the front-loading of expenditure included roads, agriculture, urban development, housing and railways, all priority areas of the government.Thanks to the early passage of Budget for 2017-18, the Centre's expenditure in the first three months of this fiscal stood at Rs 6.51 lakh crore, 27%% more than Rs 5.12 lakh crore a year ago as departments were given flexibility to front-load spending depending on requirement. However, tax revenues did not keep pace with spending momentum. The Centre's net tax revenue, after transfer of states' share, was Rs 1.77 lakh crore, or 14.5% of the 2017-18 target; a year ago, it stood at 14.9% of the fullyear target. Gross tax revenues grew only by 15% year-on-year to `3.23 lakh crore in the first quarter of 2017-18. Excise duties grew by only 7% y-o-y during the period. Analysts predict that the overall indirect tax revenue growth could plummet in Q2FY18, after the GST was rolled out from

July 1, primarily due to transitional issues. Primary deficit (PD), fiscal deficit minus interest payments that reflects government's efforts at bridging the fiscal gap during a financial year, has soured in Q1 of this year. The PD surged to Rs 3.08 lakh crore or 1,314% of the 2017-18 target compared to 527% a year ago. The revenue deficit, the gap between the revenue expenditure and current revenue receipts, also rose sharply to 119.1% of the full-year target compared to 79.6% a year ago. In April-June this year, the Centre released a food subsidy of about Rs 92,900 crore, which was 54% higher than Rs 60,200 crore incurred a year ago. The food subsidy spend in the first three months were 64% of the allocation of Rs 1.45 lakh crore for 2017-18. Fuel subsidy was Rs 16,000 crore compared to Rs 5,100 crore a year ago while fertiliser subsidy pay-out was at Rs 28,000 crore in April-June this year, nearly at the level of the year-ago period.

{From 6th Page to 20th page news were taken by FIEO news}

***ARTICLES***

## GST SLABS: THE CLEAR PICTURE ON TEXTILES AND APPAREL INDUSTRY

The Goods and Services Tax (GST) Council on Saturday cleared the pending rules for the rollout of the new indirect tax regime from July 1.Finance Minister Arun Jaitley chaired the 15th meeting of the GST Council, where the rates of tax and cess on gold, biscuits, footwear and textiles were decided:

Highlights of GST for various sectors of textiles, apparel and footwear:

• GST council has levied tax on textiles such as yarn and fabric cotton at the lower slab of 5%

• GST of 12 per cent will be levied on readymade garments. However, apparel under Rs 1,000 will attract a 5 per cent levy.

• Manmade fibre will be taxed at 5 per cent, while synthetic fibre will attract an 18 per cent GST.

• Jute and Silk have been exempted from GST.

• The GST Council has fixed the tax rate on footwear worth up to Rs 500 at the lowest tax slab of 5% under the new GST regime, The GST tax rate on footwear costing more than Rs 500 is fixed at the higher 18%

• Other than this, it levied cess over and above the 28% tax on certain luxury goods and sin goods. A section of industry is saying that differential treatment for cotton and synthetic fibre on GST rate is an opportunity lost for a uniform rate for textile sector.

The government has fixed a 5 per cent GST rate on cotton fibre, yarn and fabric against the current prevailing rate of “nil”. This means, cotton yarn and fabric would now attract 5 per cent duty, which would make all products proportionately costlier. Some states, however, had levied value added tax on cotton yarn and fabric at 2-4 per cent. Overall, 5 per cent GST levy is higher than the existing levies on cotton yarn and fabric. Silk and jute have been kept under “nil” category under the GST. Man-made or synthetic fibre yarn will attract 18 per cent GST.

While all apparels would attract 12 per cent GST once the tax is rolled out, against the current levy of 6-7 per cent, apparels below worth Rs 1,000 would levy 5 per cent GST.

“We are happy with the government’s decision to keep fabric under 5 per cent and apparel under 12 per cent,” said R K Dalmia, President, Century Textiles.

While announcing these rates, the Finance Minister Arun Jaitley,

however, clarified that textiles manufacturer would not given credit outflow. This means, an input credit above the prescribed limit would not be granted to textiles manufactures, said Jaitley.

He said this in the context of 18 per cent GST for man-made yarn, while fabric made from that will attract 5 per cent and hence full input credit will not be utilised.

S C Kapur, chairman of association of synthetic fibre industry said, "The government should have appiled a uniform rate to the textile industry which has been the global practice. Man-made fibre tax at cotton yarn level would have helped higher investment in the sector. Additional demand for fabric can be fulfilled by synthetic makers as there will always be an upper limit to produce more cotton."

Synthetic yarn and cotton yarn blended fabric constitutes 70-80 per cent of total fabric and hence mis-declaring synthetic fibre as cotton in blended fabric is not ruled out, say industry captains.

With this, readymade garments would become costlier proportionately. Had input credit been granted, garments manufacturers would get a breather in terms of taxes on raw materials.

“The 5 per cent GST levy on cotton yarn and fabric would make interstate movement of goods smoother and business would become transparent. A small increase in the product rate would become immaterial once business goes with uniform tax rates across the country. Meanwhile, the rate of 12 per cent for textiles is progressive and will lead to the growth and development of the entire value chain,” said Ujwal Lahoti, Chairman of The Cotton Textiles Export Promotion Council (Texprocil).

The GST rate for textiles will eliminate the cascading effect of duty/taxes which will reduce the costs and improve the competitiveness of the textiles exports.

“Five per cent GST on cotton yarn and fabrics would help producers with compliance and encourage farmers to grow more cotton, Lahoti added.

With this low rate, Indian producers would become competitive in the world which will help India’s textiles exports grow in coming years, a senior industry official said.

"A credit transfer document will be issued to the manufacturer. If the tax on the item is below 18 percent, 40 percent of the Central or State GST payable will be given as credit. For items with tax above 18 percent, 60 percent will be available as credit," said Revenue Secretary Dr. Hasmukh Adhia during the press briefing.

Southern India Mills Association (SIMA) today hailed the Goods and Services Tax (GST) rates announced for the textile industry. As the textile industry has been under the optional route since 2004 and the fabrics have been under zero VAT rate, the 5 per cent GST rate would bring substantial revenue apart from widely broadbasing the tax net across the textile value chain and ensuring compliance, SIMA chairman M Senthilkumar said.

The 5 per cent GST on readymade garments below Rs. 1000 would greatly benefit the common man across the country, being a mass consumption item.

SIMA chief has stated that 5 per cent GST rate on cotton fibre would sustain the competitiveness of over 20 million cotton farmers as this rate across the value chain would enable the cotton textile industry to remain globally competitive, achieve substantial growth rate and increase cotton fibre consumption and thereby increase the earnings of the farmers.

He expressed hope that the textile job work would be exempted from service tax which is essential to benefit the industry, especially the powerloom sector, knitting, processing and garmenting sectors.

Senthilkumar said that 18 per cent GST rate levied on man-made fibre and synthetic yarn would have inverted duty structure problem as the fabric would attract only 5 per cent GST rate.

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