Interactive Session with Shri Rajeev Kher, Union Commerce Secretary
March 21, 2014 at 11.00 am

Welcome Address by Shri Anupam Shah, Chairman, EEPC India

Shri Rajeev Kher, Union Commerce Secretary,
Joint Secretary Shri Capoor
Dr Singhal, Addl DGFT
Former Chairmen of EEPC India,
Fellow Exporters,
Members of the media,
And Friends,

It is, indeed, a privilege and honour to welcome this morning, India's new Commerce Secretary, Shri Rajeev Kher. This is his first visit to Kolkata after taking over as India's Commerce Secretary. We are immensely grateful to you, Sir, for giving us the privilege of hosting you this morning.

Shri Rajeev Kher is an experienced hand in the Commerce Ministry. Before taking over as the Commerce Secretary, he was India's Special Representative at the WTO and the lead negotiator at Bali Ministerial Meet. The successful culmination of the WTO Ministerial Meet at Bali in December 2013 is a testimony to his and his team's negotiating capability. At Bali, India was able to get through its proposal of an "interim arrangement" with regards to "food-stock holding" till a permanent arrangement can be found. Further, a trade facilitation agreement was also agreedupon and this will need to be implemented by India as well as the other members of the WTO.

Shri Rajeev Kher was also the Joint Secretary EP (Engg) not many years ago and EEPC India was under his tutelage. He is, therefore, well versed with the problems of the engineering sector and appreciates the concerns of our members. As Joint Secretary, EP (Engg), Shri Kher was instrumental in giving a new direction to the activities of EEPC India and naturally we are delighted to have him as our Commerce Secretary.

Sir, you take over as the Commerce Secretary at a most challenging time. A new Foreign Trade Policy will be unveiled once the next Government assumes office; the global economic situation continues to show variable fortunes that needs close watch and often quick policy responses; protectionism is on the rise *pari passu* with potential regional trade deals such as the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP), which are being dubbed as the "Gold Standard of Trade Agreements"; while post-Bali, it is possible that negotiations may hot up in areas that have been dormant for some time now, such as, Non-Agricultural Market Access (NAMA); intellectual property issues and the remaining Singapore issues.

In today's interactive session we will discuss the need for a sustainable export strategy for the future with particular reference to the engineering sector. The engineering sector, as per the latest Annual Survey of Industries, 2011-12, accounts for 25% of India's total factories in the organized sector; around 35% of total output in the country; 30.42% of total employment and 40.47% of Net Valued Added (Total Output-Total Input-Depreciation). On the exports front, engineering exports has revived in the second half of the current fiscal and recorded a growth of 10.18% during April-February 2014. It should be noted that despite the increase in exports the industrial growth has been negative to barely positive in the current fiscal. Furthermore, the import of machine tools has declined signifying decrease in rate of capacity building. This is a cause of immense concern as it is hoped that when the new Government assumes office, the much needed infrastructure projects will be undertaken boosting up the domestic demand, leaving reduced spare capacity for exports of engineering goods. So, even if we have a favourable exchange rate, our companies may not be able to take advantage as capacity will be a constraint.

It is in this context, Sir, permit me to raise some issues for your kind consideration. I will touch upon only **five broad policy issues** and leave the specifics of Foreign Trade Policy that our members will raise in the interactive session.

1) EEPC India comprises primarily of members belonging to the MSME sector, with 60% of its constituents coming for this sector. The MSME segment contributes anything between 35%-40% of India's total engineering exports. So it is critical to formulate enabling policies to boost exports from the MSME sector. Last year, the Government constituted an Intra-Ministerial Committee for Boosting Exports from MSME Sector under the then Finance Secretary, Shri R S Gujral. This Committee

made some major recommendations, such as, increasing the capital investment limits in the definition of MSME; enhancement of technical upgradation schemes with both capital subsidy and interest subvention; lowering the cost of credit, just to name a few. Sir, here I will like to elaborate that technological upgradation will entail investment in plant and machinery which may take a company out of MSME limits and deprive it of interest subvention and make it non-competitive unless the MSME Capital Investment limits are enhanced. Similarly, the RBI's Padmanabhan Techinical Committee on services for exporters made similar recommendations. We do hope that these recommendations are implemented in a holistic manner by the Government and RBI and are the milestones on the roadmap of the new FTP 2014-19.

2) As engineering exporters we are aware of the improvements that the Government has made over the years to help India's exports. We are also aware of the impediments that have held us up to realize our potential or at least move towards realizing our potential. Sir, you are aware that exports no longer figure on the priority sector. A major historical problem is the conflict between the position taken by the Commerce Ministry and Revenue Department, resulting in acute harassment for the exporters. Policies are formulated but Notifications are made ambiguous. I wonder how the Government gains by making the Notifications ambiguous and then not providing clarifications when asked for by the stakeholders. Sir, let me give just one example. For nearly four years, we are seeking a clarification on whether TDS on Foreign Agency Commission is applicable or not. In 2012, during a Board of Trade Meeting chaired by Hon'ble Commerce & Industry Minister, the then Finance Secretary had stated that a clarification will be issued. We are still waiting for that clarification. In the meanwhile all exporters are held hostage to the whims of their respective assessment officers resulting in increased litigation and transaction cost. There is absolutely no reason why such transaction costs cannot be reduced as it has no implications on the exchequer of either the central or state Governments. Sir, we need your help to streamline this process. I suggest that a Committee be formed under you which includes, among others, Senior Revenue Department Officials and the stakeholders particularly, the Export Promotion Councils, whose members are primarily the exporters, so that such issues can be sorted out in a time bound fashion.

3) There is also a perception amongst our members that there is contradiction between the Government's **Manufacturing Policy** and its **Trade Policy**. In fact, while on the one hand, the Government's Free Trade Agreements are lowering import duties even

with countries that export medium to high technology products, the provisions to provide even a level playing field for domestic units for international projects within the country through the “Deemed Exports” provision is being diluted and often changed midway, as a consequence of which certain decisions taken prior to the change get adversely affected. Also, as mentioned earlier, Technology Upgradation Scheme is therefore an indispensable pre-requisite to keep our MSME competitive, help them move up the value chain and give a boost to our manufacturing in this liberalised environment. We have already provided a detailed scheme for this purpose and the Prime Minister’s Task Force for the growth of the MSME Sector has already recommended such measures.

4) The Trans-Atlantic Trade and Investment Partnership between the EU and the US (TTIP)and Trans-Pacific Partnership (TPP) are likely to be concludedsoon. Both TPP and TTIPare likely to produce market access restrictions and discrimination for Indian exporters even where India has already signed FTAs with TPP members such as Japan. Further, they will hasten the momentumtowards the multilateralisation of regionalism, which is increasingly seen as the only way outof the contradictions between the surge in preferential trade agreements and the WTO.We would like to hear your thoughts on how we are planning to face this challenge and as engineering exporters, what we need to do.

5) A recent feature has been the increasing use of countervailing measures by both developing and developed countries against Indian goods particularly engineering exports. **For instance, in the month of February 2014, our exports of Iron and Steel products to Thailand fell by 88.44% to a mere USD 13.35 million from USD 115.44 million in February 2013 due to the imposition of safeguard duty on Indian exports of HR Coils.**As such there is a need for India’s export promotion schemes and export subsidies to conform to multilateral trade laws. The WTO Agreement on Subsidies and Countervailing Measures (ASCM), allows India to provide export subsidies as its per capita gross domestic product on nominal terms (on 1990 prices), is still within $1,000. **While the Chapter 3 benefits should continue for 2014-15,**we may in the near future cross this limit and hence our new Foreign Trade Policy must show direction of how we can graduate to structure our incentives which are WTO compliant. Sir, we seek your thoughts on this as it will have a bearing on how we are to price our goods abroad in the near future.

Let me conclude by saying that engineering exports has the potential to double in the next five years. EEPC India has commissioned KPMG to come out with a Strategy paper for the next five years which we will present to the your good office and the new Government.

With these words, may I once again welcome, Shri Rajeev Kher in our midst this morning.

Thank you.

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