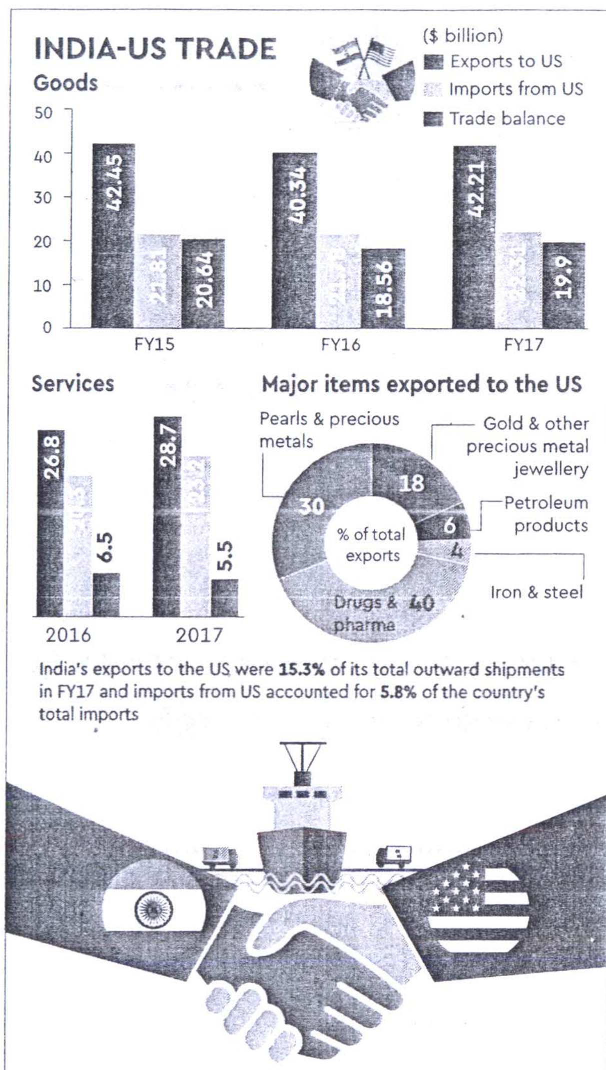
FINANCIAL EXPRESS
FRIDAY, MARCH 16, 2018

USTR threat to move WTO: Quicker rejig of schemes likely

OTHERS, HOWEVER, say the real and immediate threat is to direct subsidies while export promotion schemes are defensible; production subsidies indirectly benefiting exports exists even in the developed world, they noted.

The exporter community is more or less reconciled to the imminent removal of the sops but are anxious to know whether the subsidies would go suddenly or be phased out over a period. "It is difficult to maintain many schemes. The industry will have to adjust (to the scrapping of the subsidies). We should actively engage with the US for a phase-out schedule," said Ajay Sahai, director general and CEO, Federation of Indian Exports Organisation.

According to the special and differential provisions in the ASCM, when a WTO member's per capita GNI exceeds $1,000 per annum (at the 1990 exchange rate) for a third straight year, it has to phase out its export subsidies. There is, however, no clarity over the time-frame of ending such subsidies. Government sources here say countries like Indonesia and Sri Lanka had breached the GNI threshold before India did and are yet to stop such subsidies. "At the time of the (ASCM) came into force, the developing countries above $1,000 (per capita GNI) were give a period of eight years in order to bring down their export subsidies. We have clearly assumed that the same period of eight years is available to these countries as and when they reach the threshold of $1,000. India submitted a paper in 2011 and has been raising it in the committee," Teaotia said.



The schemes that could face the heat include Merchandise Exports from India Scheme (MEIS), Export Promotion Capital Goods (EPCG) scheme and interest equalisation scheme for the textiles sector. Zero-rating of exports (indirect tax neutralisation on inputs consumed in export production) is WTO compatible; India's advance licence scheme falls under this category.

Since capital goods are not inputs consumed, the EPCG scheme is vulnerable. As for special export zones, the problem lies with the direct tax concessions (tax-exempt profits can be used to have price advantage in export markets) and similar is the case with export-oriented units and software technology park schemes.

However, some analysts take a contrarian view. "SEZs, industry and IT parks are a global norm. Even India's MEIS scheme is not a direct subsidy but a promotional scheme. The US keeps subsidies to industry indirectly and there are instances of it violating Agreement on Trade-Related Investment Measures. We have have to rejig some of our schemes and launch new ones to support productivity for patent WTO compatibility," said Ram Upendra Das, head of the Centre for Regional Trade under the ministry of commerce and industry.

On Wednesday, US trade representative Robert Lighthizer in a media statement challenged India's "export subsidy programmes" and threatened to request a dispute settlement panel at the WTO, saying, these schemes extended financial benefits that artificially boosted their price-competitiveness in the US market, harming the American workers. The scheme challenged by the USTR include MEIS, EOU and sector-specific schemes, Electronics Hardware Technology Parks Scheme, SEZs, EPCG and duty-free imports for exporters programme.

Under MEIS, a key export incentive in India, the government provides exporters duty credit scrip at 2%, 3% or 5% of their export turnover, depending upon products and shipment destinations. While potential revenue forgone by the government on account of the scheme was estimated at Rs 22,000-23,500 crore a year, in the December review of foreign trade policy a 34% annual rise in the benefits was announced. A similar scheme — SEIS — exists for services exporters.