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Govt mulls duty-free import of capital goods to skirt WTO

Jobs-linked scheme may replace export incentives that are in breach of trade rules

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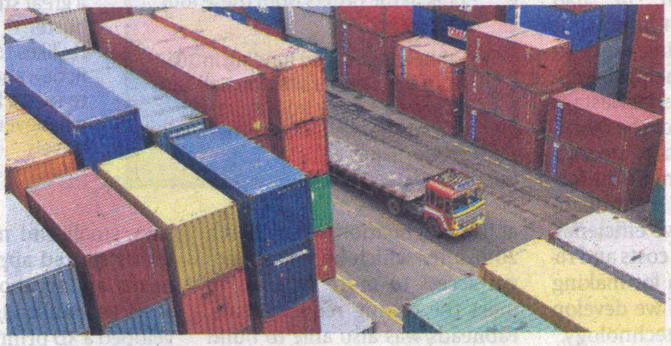
The government is working on a scheme to allow duty-free import of capital goods by the domestic industry, a measure that may be linked to employment generation.

The initiative could be an alternative to some of the export incentive schemes that will now have to be phased out or withdrawn because of their incompatibility with global trade rules, a government official told *BusinessLine*.

"At present, exporters can import capital goods duty free under the Export Promotion Capital Goods (EPCG) scheme and also under initiatives for EOUs (export oriented units) and SEZ (Special Economic Zone) units. However, these schemes are no longer compatible with World Trade Organisation (WTO) norms and have to be phased out or withdrawn. The new scheme is being designed to offer similar benefits to manufacturers within the boundaries of WTO norms," the official said.



A team led by the Directorate-General of Foreign Trade (DGFT) and including trade experts and industry representatives is fine-tuning the scheme, which will finally be included in a Cabinet note on alternative incentive schemes for the domestic industry and exporters.

Since India's per capita Gross National Income (GNI) exceeded the threshold of $1,000 for three years in a row in 2015, it can no longer extend export subsidies, under WTO rules.

With India still continuing with many of its export sops, the US dragged the country to WTO's dispute settlement body earlier this year, complaining that its export subsidies were harming American companies. It identified five popular export promotion schemes, including the merchandise export from India scheme (MEIS), the EPCG scheme, and some incentives available to EOUs and SEZ units, as being in violation of the WTO Agreement on Subsidies and Countervailing Measures.

"The idea now is to replace these schemes with ones that are not directly linked to exports. The duty-free import of capital goods scheme being designed will be available to all domestic producers and would be linked to criteria other than exports — such as employment. This will ensure that exporters will continue to get duty-free benefits along with other domestic producers," the official said.

The average level of import duty on capital goods is around 7.5 per cent. Bringing it down to zero for the domestic industry that meets certain criteria like employment generation will provide relief for manufacturers, especially those who have newly set up their plants.

The catch

There are, however, a couple of glitches in the execution of the scheme. A scheme to incentivise capital goods import could go against the interests of the domestic capital goods industry. "The government is clear that the ultimate objective is to give a fillip to 'Make in India'. This can be done by giving the industry more benefits if they procure domestically," the official said.

The Finance Ministry would also suffer a revenue loss if a duty-free import scheme is implemented as capital goods are a source of generation of income from Customs duty, the official added.

"All these factors have to be taken into account before finalising the scheme. Hopefully the scheme will be given a final shape soon," the official said.