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March 24, 2022

Shri Amitesh Kumar Sinha, IRAS
Joint Secretary (Additional charge)
Ministry of Electronics & Information Technology
Government of India

Subject: Request for consideration of issues related to RoDTEP for Electronics Sector

Respected Sir,

Greetings from MAIT, the apex body representing the IT, Electronics & Telecom Hardware manufacturing Sector in India!

The Industry is working wholeheartedly to achieve the GoI target of \$300 Bn manufacturing by 2026. In this context, I would like to draw your attention to a long-standing Industry demand regarding RoDTEP. As you are aware, three schemes were announced in March 2020 to implement the NPE 2019 policy vision and objectives. These include Production Linked Incentive (PLI) Scheme for Large Scale Electronic Manufacturing, Scheme for Promotion of manufacturing of Electronics Components and Semiconductors (SPECS) and Electronic Manufacturing Cluster 2.0 (EMC 2.0) Scheme. RoDTEP is a scheme that aims to reimburse the exporters all Central and State taxes/duties/levies which are not currently refunded under any of the existing schemes but are incurred at the manufacturing and distribution process. The key objective of the scheme is “zero-rating” of Indian exports and making Indian products cost-competitive in the global market. Due to certain factors, this objective has not been achieved.

Impact of MEIS Scheme & its withdrawal: Though MEIS was introduced in 2015 to provide export subsidy to 372 tariff lines pertaining to electronic goods that are covered under Chapter 84, 85 and 89 of HS Classification Code, India’s Electronics exports remained stagnant in the period from 2015-16 (USD 5.7 Bn) to 2017-18 (USD 6.4 Bn). This was essentially due to the fact that industry rate of 2% was made applicable to all such tariff lines in a uniform manner without considering the underlying disability in production of such goods and their export potential. **In response to Industry request, an additional 2% MEIS was notified for 121 tariff lines in December 2017. The impact of this increase in rate of export subsidy was immediately visible as export of electronic goods increased from USD 6.4 Bn in 2017-18 to USD 11.22 Bn in 2019-20, exhibiting a growth of 85%.** Electronics product exports are covered under 372 HS Codes. While Electronics overall displayed exponential growth in response to increased incentives, the key products that registered high growth in exports over the last few years were Smart phones, Feature phones, Battery chargers and PCBAs.

Dynamics of RoDTEP Scheme: RoDTEP scheme aims to reimburse the indirect taxes and duties incurred by exporters such as local taxes, coal cess, mandi tax, electricity duties and fuel used for transportation, which are not getting exempted or refunded for exports under any other existing scheme like Duty Drawback, GST refunds, central/state government exemptions, etc. The indirect taxes remitted under RoDTEP would be provided as a percentage of the Freight on Board (FOB) value of exports. For remission of duties, the major heads are indirect taxes on transport and power, and embedded taxes on inputs. While transport and power are the traditional items in indirect tax refunds, several countries also consider other service taxes as input taxes for refund for businesses. These taxes can be prorated for exports but are unlikely to be very high.

Non-availability of RoDTEP for SEZs, EOUs, Advance Authorisation Bond, MOOWR Scheme beneficiaries: It is pertinent to highlight that RoDTEP Scheme is not presently available to exporters availing benefits of MOOWR Scheme. The MOOWR scheme exempts customs duty only on raw materials and not on other taxes and duties embedded in manufacturing of export goods like electricity, fuel and tax component in other inputs and services. On one hand, the Government is promoting MOOWR scheme as a step towards MII and to ease compliance burden of importers and exporters while on the other hand the ineligibility of RoDTEP scheme for exporters operating out of MOOWR is a big deterrent for them to opt for this scheme.

Further, as you may be aware most of the electronics manufacturers that also exported electronics that had operated under DTAs and EoUs have migrated to a MOOWR dispensation. Hence, it can also be said, that most electronics exporters do not have the facility of claiming RoDTEP even though the focus is on increasing electronics exports to make India a part of the Global Value Chain.

Remission of embedded taxes for fuel and power used in manufacturing: The most important unremitted indirect taxes in the production process are levied on electricity and transport of inputs and exported products. It is also pertinent to mention here that the indirect taxes as a percentage of per unit cost of transport and that of per unit cost of electricity would remain the same, irrespective of the product and where it is manufactured. An analysis of fuel costs in Delhi shows that the total indirect taxes on diesel are approximately 60% of the cost of diesel. Whereas, the total embedded indirect tax per unit of transport in 2020 was 42.26% [5% (GST) + 36% (Fuel) + 1.26% (Tires, tubes etc.)]. The said figure was attained when the price Diesel was at Rs.72.42 per litre in 2020. In 2022, the Diesel price has now reached at Rs.86.67 per litre, which would have further increased the total embedded indirect tax per unit of transport.

Similarly, the embedded taxes on power consumed by the electronic manufacturing companies are approximately 68% and total embedded indirect tax on captive power per unit is 51% [3% (Diesel genset air pollution tax) + 48% (Fuel)]. Presently, these are not being reimbursed to exporters.

Capping of RoDTEP rates: RoDTEP rates were notified for a total of 8,555 items, however three items viz. (i) Mobile - Smart Phones (ii) Charging Adapters and (iii) PCBA have been notified with very low rates of INR 24.5, INR 3.50 and INR 2.30 respectively. These rates are much lesser than those that the exporters got under MEIS scheme. The rates under MEIS were (i) Mobile (Smart Phones) - 4% (ii) Charging Adapters - 4% and (iii) PCBA - 2%. The low incentivisation is having a detrimental effect on manufacture of costlier phones, PCBs and chargers which have a higher share in India's overall electronics export basket.

Industry Ask: In order to maintain the high export growth momentum achieved over the last two years (primarily due to the MEIS scheme which has been discontinued), it is essential that the following measures be taken:

- (a) The embedded taxes for power and transport (fuel) be reimbursed as part of RoDTEP.
- (b) Extend RoDTEP benefits to all electronics manufacturers operating in SEZ / EOU.
- (c) Allow exporters in the electronics industry with Advance Authorization and Manufacturers under MOOWR (PWB) to be eligible to claim available RoDTEP benefit with immediate effect since their cost of production is no different than that of DTAs with respect to local embedded taxes.
- (d) Last but not the least, an overall cap on funds as per the said notification is a major concern for exporters. This overall cap creates complete uncertainty for

manufacturers in negotiation of exportable products. As you may be aware, all export contracts are rate negotiated in advance and the prices are determined basis costs and incentives including reimbursement of taxes. In case, an exporter's claim for RoDTEP becomes ineligible due to a breach of overall cap to RoDTEP funds, it will be a gross loss and a complete discouragement to export again. None of the exporters would ever have any visibility on when the overall cap to the RoDTEP fund will be breached. This uncertainty would be the foundational step in decelerating exports and electronics manufacturing in India. We would request that no such overall cap to RoDTEP funds be notified and all RoDTEP claims may kindly be refunded. **All indirect taxes which are not reimbursed actually render exportable products costlier in the global market and therefore, as a principle should be reimbursed, if they have been incurred on products exported from India.**

The recommendations, if accepted, would be in line with similar measures adopted by other manufacturing nations and have the potential to provide a fillip to manufacturing by reasonably compensating disabilities that exist presently for the electronics sector. We would further request you to give us a suitable opportunity to present to you the issue in detail so that an informed decision can be taken on the issue.

Looking forward to hearing from you on a positive note.

With regards,

A handwritten signature in black ink, appearing to read "George Paul", written in a cursive style.

George Paul
Chief Executive Officer

Cc: Ms Asha Nangia; Sr Director, Ministry of Electronics and Information Technology