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February 08, 2022

Shri Santosh Kumar Sarangi
Director General
Directorate General of Foreign Trade

Subject: Exclusion of categories of exporters for claims & Price caps imposed on 3 HSN Codes for Electronics Industry under the RoDTEP Scheme

Reference: Department of Commerce's Notification No. 19/2015-2020 dated 17.08.2021, titled Scheme Guidelines for Remission of Duties and Taxes on Exported Products (RoDTEP) and Appendix 4R of the Foreign Trade Policy 2015-2020

Respected Sir,

Greetings from MAIT!

This has reference to the captioned Department of Commerce & Industry, Government of India notification wherein the rates are notified under the Scheme Guidelines for Remission of Duties and Taxes on Exported Products [RoDTEP].

We respectfully write to express our concern on the rates notified for mobile phones and its components and also, on the contours of RoDTEP guidelines as follows:

1. The RoDTEP rates have not been extended to Special Economic Zones [SEZs], or Export Oriented Units [EOUs].
2. The entities registered under the Advance Authorization Scheme, or to Private Bonded Warehouses under S. 65 of the Customs Act/private bonded warehouses have been left out of the Scheme completely.
3. The meagre RoDTEP rates were notified for mobile phones and its components, which are very low compared with Merchandise Exports from India Scheme (MEIS) rates, indicate that the exports of electronics would be adversely impacted.

No RoDTEP benefit to SEZ/ EOU

It is important to note that RoDTEP rates do not include reimbursement of import duties, it provides for a reimbursement of embedded local taxes. However, the RoDTEP rates have not been extended to Special Economic Zones [SEZs], or Export Oriented Units [EOUs]. We understand that the Committee has already been appointed, and so its terms of reference may be modified suitably so that the entire universe of non-DTA is well covered.

It may be noted that even in the case of Electronics Manufacturers in SEZs, only enjoy some marginal benefits for tax / power duty on electricity bills, however, the total cost of electricity which already has embedded indirect taxes are built into the electricity tariffs which are not reimbursed to the companies operating in SEZs.

EOUs are same or similar in terms of treatment. Therefore, it is essential to include SEZs/EOU in the ambit of RoDTEP scheme.

No RoDTEP benefit to Advance Authorisation / MOOWR - Private Bonded Warehouses (PBWs)

All electronics manufacturers operating under an Advance Authorisation or under Manufacture and other operations in relation to goods in a warehouse (MOOWR) as Private Bonded Warehouses suffer the all indirect embedded taxes, which are not reimbursed to them for the products manufactured and exported. Hence, the cost disability compared with the other global manufacturing countries is widened even further for this class of exporters. It is important to note that under RoDTEP no import duties are refunded whereas it provides reimbursement of local taxes which are not reimbursed under any mechanism. Incidentally, the cost of manufacturing electronic products under a Domestic Tariff Area is the same as under MOOWR or Advance Authorisation as far as local indirect embedded taxes are concerned.

Hence, the exports of the electronics industry will be negatively impacted. This will not only lead to a complete decline in exports but also have cascading effect on the scale and capacity of production. Moreover, the investment climate for capacity expansion will turn completely negative.

We feel it is extremely important to hold some consultation with the industry, through industry bodies such as MAIT, to take prior inputs of the industry before such fundamentally defining policy steps are undertaken.

It is noteworthy that while authorities in customs have constructively advised the electronics industry operating under DTAs to move towards MOOWR – PBW, actively bringing this issue in every dialogue with the industry throughout the years 2019 and 2020. It is therefore even more surprising that Directorate General of Foreign Trade has felt compelled to exclude exporters under Advance Authorisation and MOOWR category of Manufacturers / Exporters to be excluded completely from claiming RoDTEP.

Both these dispensations are from the point of view of ease of doing business, there is no fiscal benefit at all. All the taxes under RoDTEP are being paid by these units, at the same price as any DTA unit which are incidentally eligible for RoDTEP. It is reiterated that RoDTEP rates are a reimbursement of embedded local taxes only.

RoDTEP rates are low compared to MEIS

The electronics industry was eagerly looking forward to the RoDTEP rates as the WTO-compliant successor to the erstwhile MEIS. However, the notified rates are very low or negligible from the expectations of the electronics industry which has demonstrated high potential for its ability to steadily grow its export performance. The notified rates will not add any value to the growth of the industry and are not even consistent in approach when compared to other segments of the Electronic Industry. The RoDTEP rates notified for line items of 8,555, the only three line 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. The RoDTEP rate is much less than MEIS rate which were (i) Mobile (Smart Phones) - 4%¹; (ii) Charging Adapters - 4%²; and (iii) PCBA - 2%.

¹ Rate changed to 4% w.e.f. 05.12.2017, reverted to 2% 01.04.2020.

² Rate changed to 4% w.e.f. 05.12.2017, reverted to 2% w.e.f. 01.01.2020.

The mobile phone industry has kept on enhancing its stake in globally very competitive space to get its due share of Global Value Chain (GVC). However, these abysmally low RoDTEP rates is a major blow to the growth trajectory of mobile phone industry. This is when the Hon'ble Prime Minister (PM) has acknowledged the growth story of mobile phone manufacturing in India and also, the industry has positively contributed toward the PM's vision of "Make in India, make for the world".

We wish to draw your attention to the Hon'ble Prime Minister's (PM) address on 06 August 2021 during his interaction with heads of Indian missions abroad and stakeholders of the trade and commerce sector, wherein the Hon'ble PM has acknowledged the Mobile phone industry for its outstanding performance in exports. The relevant part of the address is as follows:

"...The country will get new global champions in manufacturing and exports. We are experiencing its impact in the mobile phone sector. Seven years ago, we used to import mobile phones worth about \$8 billion, which has come down to \$2 billion. Seven years ago, India used to export mobile phones worth only \$ 0.3 billion, now it has increased to more than 3 billion dollars."

The notified RoDTEP rates which are very low in comparison to MEIS rates would dent the growth trajectory of electronics exports. Further, it would have far-reaching effect on the industry and might pose roadblocks in achieving the targets set out in the visionary National Policy on Electronics, 2019 [NPE, 2019].

Request:

We understand that in order to address the prevailing cost disability, the RoDTEP scheme is rolled out to refund the duties and taxes on exported products which are currently un-refunded. The rate at which the scheme is rolled-out is mission critical for the success of scheme. As insufficient or lower rates would not serve any purpose and will not be able to spur any growth in the sector.

In view of the above, our request is as follows:

- 3 items out of 8,555 lines have been allocated RoDTEP rates as a percentage of the FOB Value. For most electronics HS Codes/Items the RoDTEP rate allocated is 1%. On similar line, we request you to consider allocating a default rate to 1% of FOB value of Mobile handsets, PCBAs and 2% for Chargers. It is worthwhile providing 2% default rate for Chargers as this market provides FE positive opportunity. Also, chargers' production is a labor-intensive process and can generate a lot of jobs for the country. This will also ensure that players manufacturing phones at all price points will not be disadvantaged."
- 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.
- Extend RoDTEP benefits to all electronics manufacturers operating in SEZ / EOU as soon as marginal adjustment to the RoDTEP rates, to the extent of the reduced electricity taxes only. All other embedded local taxes are the same as other manufacturers.
- **No Overall Cap to RoDTEP Funds:** - 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.

We trust our request merits your kind consideration.

With regards,

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

George Paul
Chief Executive Officer