BCC&I
THE BENGAL CHAMBER

Proposals Related to Foreign Trade Policy, Customs, Ease of Doing Business & Policy Matters

A Foreign Trade Policy

1. **Sector Specific Suggestions**
2. **Export Incentives**
3. **Import related**

B Customs

C "Ease of Doing Business" - Simplification and Technological Solutions

D Policy Issues

Regd Office The Bengal Chamber of Commerce and Industry Royal Exchange 6 Netaji Subhas Road Kolkata 700 001
P +91 33 2230 8396 | 3711 | 3733 | 3746 **F** +91 33 2230 1289 **E** bencham@bengalchamber.com www.bengalchamber.com

A.1 FOREIGN TRADE POLICY (FTP) – Sector Specific

AGRI-BUSINESS

Inputs on Strategies for road map of exports of Product and Services from India

Policy recommendations

- Agricultural exports have been one of the top 10 items exported from India. There has been an emphasis on increasing farmer income and increasing share of Indian agricultural exports. India has been traditionally exporting Coffee, Spices, Aqua products, Cotton and Cereals.

  It is suggested that the policy to extend focused support towards exports from agricultural sector in order to consolidate and further promote exports of these products.

- Agriculture sector plays a very important role in both economic development and Nation building. India is globally in the forefront of development of agriculture. However, more than 86% of farmers in the country are small and marginal. There is a need to facilitate our farmers with access to improved technology, credit, better input and more markets to incentivize them to produce better quality commodity. For this, Aggregation of small, marginal and landless farmers into FPOs will help enhance economic strength & market linkages of farmers for enhancing their income. Keeping this in mind, Government of India has launched a new Central Sector Scheme titled "Formation and Promotion of 10,000 Farmer Produce Organizations (FPOs).

  Accordingly, it is suggested that the policy to provide for budgetary support for promotion of Exports of Agricultural Produce Sourced from FPOs.

- **Policy Stability for Export of Agricultural Products**

  - Government of India has been aggressively promoting development of Agri Value chain including export of agri commodities with the aim of increasing farmers' income, increasing infrastructure for processing and storage of agri-commodities and achieving quantum jump in export of agri-products. Private sector value chain players have been enthusiastically participating in this initiative of Government and have been contributing towards achieving the results.

  - However, driven by extraneous factors like food security, inflation etc., sudden and frequent changes in policy like prohibition on exports, imposition of stock limits, ban on trading in futures of certain commodities etc. are being affected causing severe disruptions in the value chain and imposing financial losses and hardships on the value chain players.
    It may be noted that the export of these commodities happens in bulk and are carried out over a period of time upon contracting. The shipments are subject to availability of Vessels and arrangement for loading of bulk cargo.

  Clause 1.05 of FTP provides that

  1. In case of change of policy from 'free' to 'restricted/prohibited/state trading' or 'otherwise regulated', the export already made before the date of such regulation/restriction will not be affected.
  2. Export on or after the date of such regulation/restriction will be allowed for importer/ exporter who has a commitment through Irrevocable Commercial Letter of Credit (ICLC) before the date of imposition of such restriction/ regulation and shall be limited to the balance quantity, value and period available in the ICLC.
  3. For operational listing of such ICLC, the applicant shall have to register the ICLC with jurisdictional Regional Authority (RA) against computerized receipt within 15 days of imposition of any such restriction/regulation.

4. Whenever, Government brings out a policy change of a particular item, the change will be applicable prospectively (from the date of Notification) unless otherwise provided for.

Recently, various restrictions have been imposed on export of agricultural products like wheat and rice, which have not adhered to the transitional provisions envisaged in the FTP. For example,

- Notification No. 20/2023 dated 20th July-2023 issued by Director General of Foreign Trade amended the Export Policy for Non-Basmati White Rice (ITC HS Code 1006 30 90) from “Free” to “Prohibited” category. The notification exclusively states that the transitional provision under clause 1.05 of FTP shall not be applicable, key being non-inclusion of aspects pertaining to ICLC based export commitments
- Similarly, Notification No. 31 dated 08.09.2022 amended the export of "Broken Rice" providing prohibition. In the notification, the provisions under the FTP regarding transitional arrangement was not made applicable

Further the such measures were taken without appropriate consultation with the industry. Such sudden measures have disrupted business relationships and entailed hardship on Exporters of these products. This has further resulted in financial losses to the Exporters due to non-performance of the contracts already executed along with demurrage charges incurred towards adherence of additional customs procedures.

It may be further noted that a key condition for allowing the export consignment is the arrival of the cargo into the customs station. As the cargo exported is bulk commodities often ranging from 25000 MT to 70000 MT, the port does not allow for entry of the goods into the customs station until the arrival of the vessel at anchorage. Cargo registration and examination is done only at the barge loading point, after the vessel arrival and commencement of the loading. Therefore, the goods are considered to have entered Customs Station only at the time of barge loading. However, in order to enable the shipment of these consignments, the material would often be stored at warehouses nearer to the port awaiting the arrival of the Vessel to the port. Such consignments being stored nearer to the port warehouses are not being considered as arrival at Customs Station.

In view of the above, it is requested to,

1. **Provide for a stable policy on export of Agricultural products, more specifically cereals and avoid arbitrary measures that impact trade. Appropriate consultation with industry to be held before any changes in the prevailing regulations related to export of commodities.**
2. **Licenses be issued to regulate the quantity of exports in line with para 1.05 of FTP to allow for shipments covered under Letters of credit before the date of imposing prohibition.**
3. **Provide for compensation in the form of Transport Assistance towards demurrages incurred on account of delays in providing clarifications in relation to prohibitions imposed**
4. **Suitable clarification be issued that goods which have arrived at warehouses nearer to the Port for the purpose of export and earmarked for export under valid contract and LCs as deemed to have arrived at the Customs Station and eligible for export.**
5. **Appropriate framework to be incorporated in the policy such as Quotas based on factors such as past performance, Export House Status holding, and allow for export of Cereals whilst ensuring Food Security and ensuring remunerative income to farmers.**
6. **A specific clarification be issued clarifying availability of RoDTEP benefit on all exports being made as per the transition provision of FTP and/or the notifications being issued by the Government moving such commodities from “Free” to “Prohibited” category.**

- **Trade with Russia.** The European council has adopted ten packages of sanctions against Russia and Belarus. The sanctions aim at weakening Russia’s ability to finance the war and specifically target the political, military and economic elite responsible for the invasion. The restrictive measures do not target Russian society. Areas such as food, agriculture, health and pharmaceuticals are excluded from the restrictive measures imposed. Sanctions by countries allied to the US and Europe have a restricting impact on availability of goods to the Russian Economy.

As a result, trade with India, is bound to increase in the areas of Agriculture, Health and Pharma. However, sanctions are impacting availability of banking channel, marine insurance cover and Export Credit Guarantee

cover, resulting in restricting impact on trade with Russia. Though RBI has allowed Rupee for settlement of Export trade the same is yet to pick up due to absence of settlement mechanism between banks of both the countries.

It is suggested that the policy to support for a framework of settlement mechanism to enable the trade between both the countries.

A.2 FOREIGN TRADE POLICY (FTP) – Export Incentives

1. Export of Tobacco and Tobacco Products

a) Budgetary Support for Export Incentives for Tobacco and Tobacco Products under the FTP

Issue and Justification / Rationale

Tobacco and Tobacco Products were eligible for export incentives under export promotion schemes like Focused Product Scheme (FPS), Focused Market Scheme (FMS) and Agri Infrastructure Incentive Scrip (AIIS) under the Foreign Trade Policy, 2009-14.

The benefit of export incentives under the Merchandise Exports from India Scheme (MEIS), announced in the Foreign Trade Policy, 2015-20, was not however, extended to Tobacco and Tobacco Products nor has the same been included in the Remission of Duties and Taxes on Export Products (RoDTEP) which has replaced the MEIS Scheme.

There are very compelling reasons, as stated below, that justify extension of export incentives to the tobacco sector and accordingly, it is strongly recommended that appropriate budgetary support be considered for reinstatement of benefits under the FTP for Tobacco and Tobacco Products (covered under Chapter 24 of the Customs Tariff) by way of inclusion under RoDTEP.

- As acknowledged in the 'Report on Tobacco Control in India' published by the Ministry of Health and Family Welfare, GoI, *"Tobacco occupies a prime place in the Indian economy on account of its considerable contribution to the agricultural, industrial and export sectors. India is the second largest producer of tobacco in the world."*
- Exports from the tobacco sector, comprising primarily of value-added products like Flue Cured Virginia (FCV) Tobacco (about 68%) and Indian brands of cigarettes, contribute foreign exchange of about Rs. 6,500 crores (approximately USD 876 million) annually to the exchequer.
- India produces cigarette tobaccos of different grades and types for various end users, thus providing a one-stop shop for different styles, qualities and price ranges. The diversity of the product has enabled the country to export this commodity to over 100 countries across the globe. **India is, thus, well positioned to become a major player in the global tobacco market if it can harness the emerging opportunities through price effectiveness.** However, steep increases in cost of cultivation, transportation and logistics has adversely impacted the price competitiveness of Indian tobacco.
- The global competitiveness of the Indian tobacco industry has also been severely affected due to factors like (i) subsidies provided to tobacco in countries like Zimbabwe, Tanzania, EU, and the USA (ii) a duty free regime in the EU for imports from least developed countries such as Bangladesh, Nepal, Malawi and so on, (iii) the prevalence of a Tariff Rate Quota in USA whereby the US market is accessible at a concessional import duty rate by countries like Argentina, Brazil, Thailand, etc. while non-quota imports from countries like India are taxed at an ad-valorem rate of 350%. Consequently, the Indian tobacco sector is denied a level-playing field when competing globally with some of the major tobacco growing countries like USA, Argentina, Mozambique and Zimbabwe.
- Tobacco provides livelihood, directly and indirectly to about 47 million people of whom around 75% are in the agricultural sector, with millions of farmers and farm workers directly engaged in tobacco farming. Tobacco sector exports have contributed directly to an increasingly remunerative return for the Indian tobacco farmer.
- Studies conducted by the Central Tobacco Research Institute (CTRI) in the past have concluded that Flue Cured Virginia Tobacco is the most remunerative crop for tobacco farmers since there is no comparatively remunerative crop to substitute tobacco in the tobacco growing regions of the country, which are mostly semi-arid rain fed areas. **The tobacco crop is, thus, a lifeline for a sizeable population, particularly rural women, tribals and other weaker sections of the society who have few alternative means of income opportunities.**

- The industry is facing challenging times with lower crop production due to vagaries of weather and agricultural infrastructure bottlenecks, superior quality of produce in competing countries coupled with higher devaluation of currency as compared to rupee devaluation, has significantly eroded the competitiveness of the Indian crop in the international market. This has directly impacted the farm realization prices and impacted farmer profitability.
- The stated objective of the Foreign Trade Policy in general, include enhancement of India's export competitiveness by offsetting infrastructural inefficiencies and associated costs involved in export of goods and products, which are produced / manufactured in India, especially those having high export intensity and employment potential.
- **Substantial portion of Tobacco value chain is in unorganized sector i.e. farming wherein farmers are invariably unregistered dealers and do not avail the tax credits on the inputs procured by them. The Threshing & Re-drying processing of tobacco are highly labour, Fuel & power intensive. Accordingly, the duties/cess/levies embedded on these inputs such as Tobacco Cess, Excise duty/ VAT on Fuel, Electricity tax, ESI, Property taxes etc. should be refunded appropriately**

Suggestion / Recommendation:

Accordingly, it is strongly recommended that appropriate budgetary support be provided for reinstatement of benefits for the tobacco sector under the RoDTEP of the Foreign Trade Policy.

b) Non-Tariff Barriers for Export of Unmanufactured Tobacco (FCV) - Discriminatory tariff Quota affecting India's tobacco exports to USA

Issue and Justification / Rationale

The Tariff Rate Quota (TRQ) on Tobacco in the USA came into existence on 13th September, 1995 with 1986-88 as the base year for Quota Allocation. During the finalization of TRQ, India was categorized under 'Others' group of countries and no individual quota was allotted to it, compared to specific countries like Brazil that have an individual quota of 80 M. Kg. Similarly, countries like Zimbabwe, Argentina, Chile and Thailand have individual Quotas of around 25 M.kg combined. It may be noted that import tariff under quota is significantly low (specified duty per kg) as compared to imports of goods without quota which is at 350% of specified duty.

In spite of a complete transformation in the global tobacco trade, which saw the rise of India emerge as the second largest tobacco exporting nation, there has not been any change of the US TRQ towards the supplying nations in general and India in particular. The quota fixed in the base year 1986-88 continues to guide US imports of cigarette type tobaccos. No other country with TRQ restrictions on tobacco uses a method that is discriminatory towards suppliers as that of the US TRQ.

Further, growth of unmanufactured tobacco exports is also adversely impacted due to favourable import duties for competing countries products.

Suggestion / Recommendation:

Government is requested to negotiate with US on such unfair trade practice and provide level playing field for Indian Unmanufactured Tobacco exports.

2. Lower RoDTEP rates than MEIS on Exports of Agri, Paper & Packaging Industry and requires re-instatement

Issue and Justification / Rationale

Till December 2020, exporters were being provided relief from non-creditable duties, levies and taxes via the MEIS. The Remission of Duties and Taxes on Exported Products (RoDTEP) scheme was announced by

Government of India (GOI) with a similar aim to make exports from India competitive by allowing refund of currently non-creditable duties duties/ taxes/ levies, at the Central, State & local level, embedded in the exported product.
Ministry of Commerce and Industry vide Notification No. 19/2015-20 dated 17th August 2021 had notified the rate and guidelines for Scheme for RoDTEP scheme effective from 01st January 2021.

However, the rates as notified under RoDTEP towards compensating these embedded taxes, are significantly lower than earlier MEIS rates and also substantially lower than the embedded taxes, as indicated below:

Product	Industry	CTH	RoDTEP Rate	MEIS Rate	Embedded Taxes as % of FOB (Based on Estimates of Industry FOB)
Coffee	Agri Industry	090111	1.00%	3.00%	10.00%
Aqua		03061720/ 90	3.10%	5.00%	9.00%
Spices		090/091	1.00%	3% to5%	5% to 12%
Exercise Book or Notebooks	Education and Stationery Products	48	1.10%	3.00%	3.40%
Paperboard products	Paper and Paperboard	48	1.10%	3.00%	3.40%

The lower RoDTEP rates adversely impacts the competitiveness of these products, i.e., agri-products, paperboard, etc., vis–vis global players in international markets since the non-refundable taxes are embedded in the cost of these products.

Keeping in view the objective of the scheme and to ensure that the exports from India are competitive, Government support is requested to extend the RoDTEP benefit to the levels of embedded taxes, or to the least match with MEIS rates which was prevailing thus far.

Suggestion / Recommendation

To give a boost to exports of Agri based products and promote "Make in India" initiative for Paper Industry, Agri Products, it is recommended that the RoDTEP rates be revised, so as to refund the embedded duties and taxes and if not, at least brought to the levels of erstwhile MEIS rates (as per table given above).

3. Restoration of Service Export Incentive of 10% of Net Foreign Exchange Earnings (NFE)

Issue and Justification / Rationale

The Hotel industry utilises duty scrips for import/procurement of operating supplies, alcoholic and non-alcoholic beverages and capital goods for replacement in existing hotels and for construction of new hotels. Further, Capital goods are required to be replaced in frequent intervals in hotels to conform to international standards. Moreover, the value of capital goods used in construction of new hotels is very high with corresponding duty incidence.

On the basis of persistent representation by the Hotel industry for restoration of incentive, the incentive under SEIS for hotels was increased in November 2017 from 3% to 5% of Net Foreign Exchange Earnings (NFE). However, for FY 2019-20, the entitlement was once again reduced from 5% to 3% with a capping of Rs. 5 Crore per IEC holder vide Notification No. 29/2015-2020 dated 23rd September 2021. The validity of scrips issued was also reduced to 12 months against earlier timelines of 24 months. The incentive scrips are substantially used for procurement of capital goods for construction of new hotels and modernisation of existing hotels which normally takes 3 to 4 years. Validity period of 12 months is inadequate with part of the entitlement getting lapsed.

Government has not announced or notified the SEIS scheme or any other Export incentives for Service Exports since April 2020. It may be noted that the Hotel Industry is still recovering from the setbacks of pandemic, and withdrawal of incentive by Government has further aggravated the challenges for the sector.

Suggestion / Recommendation

In view of the above, the following recommendations on incentives for Service Exports may please be considered favourably:

Immediate restoration of SEIS or other suitable services export incentive scheme at 10% of NFE effective April 2020 with validity period of scrips to be 36 months. While re-storing of scheme, following to be considered:

a. **Remittances received by Hotels from tour operators/travel agents in Indian Rupees out of foreign exchange earned by them from foreign tourists be considered for calculating entitlement of duty credit scrip under scheme.** A sizable amount of earnings of hotels from foreign tourists, is received in foreign exchange by the tour operator/travel agents who make payment to the hotels out of such receipts in Indian Rupees after retaining their profits.
b. **Expansion of base of foreign exchange by including applicable taxes for computing quantum of entitlement of duty credit scrip under Scheme.** The computation of the entitlement under SEIS was made exclusive of taxes collected in foreign exchange basis the FTP policy of 2015-2020, thereby further shrinking the quantum of incentive. Since foreign exchange is earned by the country even though received towards taxes on the services rendered, the eligible base for computing the entitlement deserves to be expanded by including taxes applicable on the transaction, as permitted under the earlier FTP.

4. Exports Status for Tourism Earnings

Issues and Justification / Rationale

In "Chapter XXI - miscellaneous, Section 147 of GST Laws", it is mentioned that the Government may, on the recommendations of the Council, notify certain supplies of goods as "deemed exports", where goods supplied do not leave India, and payment for such supplies is received either in Indian rupees or in convertible foreign exchange, if such goods are manufactured in India".

"Export of goods" is goods going out of the country in return of foreign exchange. Tourism export can be treated as experience that a foreign traveler takes back to his home country after he has paid for the availed services, e.g. accommodation, food & beverage and spa. In other words, as a destination, we export/ trade experience of our country and receive consideration in convertible foreign exchange. Tourism Exports should be treated at par with other exports and services and such transactions may be zero rated for GST without stopping the flow of input credits.

Suggestion / Recommendation

Accordingly, it is suggested that tourism services provided to Foreign Tourists in India on receipt of foreign exchange should be treated as "Deemed Export" and exemption of GST should be made available.

5. Expedite issuance of guidelines for Rupee denominated export transactions

FTP 2023 provides for rupee-denominated export transactions with identified countries through the special designated rupee vostro accounts. Though the banks in India have been identified for this purpose, there are no corresponding vostro accounts opened by the Foreign banks.

For the purpose of realising the rupee denominated exports as envisaged by RBI, it is pertinent to develop and build the required trade setup and enablers which will bolster the initiative and increase the transactions. The identified scheduled banks are currently having no clarity on the manner of operation.

Suggestion / Recommendation:

Accordingly, it is recommended that RBI shall issue necessary guidelines for the AD banks to identify and invite such identified foreign banks to have rupee vostro accounts with Indian Banks. The overall process needs to be expedited including the guidelines issued for eligibility of export incentives, qualification of such transaction for export obligation fulfilment.

6. Extend Export Incentive Benefits for Exports to Nepal/Bhutan with INR Realisation

Issue and Justification / Rationale

As per recently introduced para 4.21 of Foreign Trade Policy, export incentives such as RoDTEP would be on realised FOB value of exports in freely convertible currency or in Indian Rupees as per para 2.53 of FTP (which provides for incentives against exports to Iran as of date and export proceeds realized in INR as per para 2.52 wherein guidelines are pending to be issued) . Thus, the newly introduced FTP continues to not provide for benefits against exports to Nepal and Bhutan with INR realisation.

Further, in order to encourage the Rupee trade, RBI has issued circular no. 10/RBI/22-23/90 dated July 11th ,2022 for international trade settlement in Indian Rupees. DGFT Notified vide Notification No. 33/2015-2020 dated 16/09/2022 by inserting the Para 2.52(d), to permit Invoicing, payment and settlement of exports and imports in INR in sync with RBI's A.P. (DIR Series) Circular No. 10 dated 11th July, 2022. DGFT vide Notification No. 43/2015-2020-DGFT dated 09/11/2022 made Amendments under FTP in this regard.

Suggestion / Recommendation

It is recommended that export to Nepal and Bhutan with INR realisation be treated at par with exports to other countries since efforts put in by an exporter to secure orders from Nepal and fulfilling the said orders are equally complex as procuring orders from other countries. Also, pursuant to revised Treaty of Trade between Govt. of India and Govt. of Nepal, exports to Nepal have been put at par with exports to other countries (except Bhutan) as per Circular no 958/1/2012-CX dated January 13, 2012.

Further, exports to Nepal should be considered for the purpose of computing fulfilment of Export Obligation (EO) under various schemes including Export Promotion Capital Goods (EPCG).

7. Extension of Transportation Marketing Assistance Scheme (TMA)

Issue and Justification / Rationale

Maritime Transport is a critical infrastructure for the economic development of a country. It influences the pace, structure and pattern of development. India has 12 Major ports and about 200 non-major ports. Indian Shipping Industry has over the years played a crucial role in the transport sector of India's economy. Approximately 95% of the country's trade by volume and 68% by value is moved through Maritime Transport. India has a long coastline of about 7517 km, spread on the western and eastern shelves of the mainland and also along the islands.

Since the onset of COVID pandemic, there have been multiple challenges for exports from India in terms of slowing down of clearances of containers from major container terminals in the world and exponential increase in freight rates. Freight rates for both 20 Ft and 40 Ft containers have gone up multifold if we compare the current rates to that of the pre-pandemic days.

Department of Commerce of the Ministry of Commerce & Industry had notified in March 2019 a scheme for "Transport and Marketing Assistance (TMA)" for specified agriculture products with an aim to provide assistance for the international component of freight in order to mitigate disadvantage of higher cost of transportation of export of specified agriculture products in the specified overseas markets. However, the TMA scheme was not extended to export of other food products like snacks and noodles. The amount of assistance under the TMA scheme being provided is as below:

Region	Rs per TEU (Normal Container)
West Africa	11,200
EU	9,800
Gulf	8,400
North America	21,000
ASEAN	5,600
Russia & CIS	12,600
Far East	8,400
Oceana	16,800
South America	23,800

These rates were fixed in pre-pandemic period. The amount of assistance per TEU (Twenty-Foot Equivalent Unit) is very less as compared to the freight amount that exporters are paying now. For e.g. for EU, assistance amount is Rs. 9,800 (~ $131) against actual ocean freight of $ 5000. Similarly, for North America against an assistance of Rs. 21,000 (~ $ 280), the actual freight is $ 6,800.

Additionally, this scheme of assistance was valid only up to 31st March 2021.

The introduction of the scheme had the right earnest to support exporters of agricultural products to offset the high cost of transportation, mainly by way of ocean freight. The exporters of agricultural products have faced difficulty in terms of undue increase ocean freights caused by shortage of containers. The Container freight charges have gone up by over 60% in the last one year. In view of this exporters are facing financial hardship as exports are becoming uncompetitive.

Infrastructure building – National carrier (Shipping Corporation of India Ltd (SCI)) is having very limited containers ships and capacity. This has created dependency on foreign shipping lines resulting in higher transportation cost and scarcity of containers during peak demand.

Suggestion / Recommendation

Accordingly, it is requested that the validity of the scheme be extended by two more years with increased rates to offset the freight increase. Further, TMA should be extended to export of other food products like snacks and noodles in addition to the existing specified agriculture products.

Government should invest in infrastructure building so that the dependence of Indian exporters on foreign shipping companies is reduced.

8. **Incremental export benefits for Exporters having energy efficient practices, superior sustainability credentials/ESG scores**

Globally, there are deliberations on introducing carbon-tax, especially in Europe, on imports of products that have a bearing on the nature and sustainable ecosystem. This also includes products of wood, pulp and paperboards.

Europe is a major paperboard market for our Indian exporters and provides a significant growth opportunity for scale up. Introducing of carbon tax will act as a deterrent in making our products competitive in such markets, in view of being subject to tax levies. While major country groups may impose restrictive trade barriers for all or few countries, necessary impetus would be required from the government for participating and competing in such markets which will thereby lead to increase in foreign exchange flows into India.

Suggestion / Recommendation:

Accordingly, it is recommended that RoDTEP incentives be suitably increased keeping in mind the impending regulatory changes in major export markets which may obviate the level playing field for the Indian exporters. Such increase in incentives encouraging exports will make the prices of our commodities competitive in such markets. Further, it is also recommended to reduce the quantum of Export obligations under EPCG schemes to cognise the trade barriers which may emanate from the impending regulatory norms which has a direct impact on the growth in exports to such countries.

A.3 FOREIGN TRADE POLICY (FTP) – Import Related

1. Import of Second-Hand Capital Goods Under Zero Duty EPCG Scheme

Issue and Justification / Rationale

Till year 2012, there was no restriction under Foreign Trade Policy (FTP) for import of second-hand capital goods. However, in Para 5.1 of the FTP announced in 2013 (Annual Review), a new clause (e) has been added which reads, "Second hand capital goods shall not be permitted to be imported under EPCG Scheme". This clause has been continued in the new FTP 2015-20. This restriction has significantly increased project costs in capital intensive industries like paper/paperboards.

The Indian Paper/Paperboard industry has made significant capital investments to ramp-up capacities for meeting domestic requirements. This sector is highly capital intensive with lower profit margins. During the last 15 years, many of the paper/paperboard mills in India have installed imported second hand machines purchased from Western Countries such as Europe, USA, Canada and Finland and made significant capital investments to rebuild such machines to match international quality standards and for improving longevity of such machines. After these machines were rebuilt, their operating efficiencies have improved significantly. Hence, permitting import of second-hand capital goods will help this sector to lower capital investments and improve return on capital employed.

Machinery for large scale manufacture of paper and paper board is not available in India. Hence the Indian manufacturers have to import such machinery. Compared to import of second-hand machinery, **a new paper making line would be three times as costly** resulting in higher foreign exchange outflow. At the same time, second hand machinery import boosts home grown ancillary industries which are engaged in the refurbishment of imported second hand machineries.

Suggestion / Recommendation

Imported second hand capital goods should be permitted under Zero duty EPCG scheme. If this cannot be done for all industries for any reason, specific permission should be given to capital intensive industries like Paper/Paperboards.

2. Restriction on Import of Paper/ Paperboards under Association of South East Asian Nations (ASEAN) and other Free Trade Agreements (FTAs)

Issue and Justification / Rationale

The current demand for paper & paperboards in the Indian market is over19 Million Tons Per Annum (TPA). This is expected to increase to around 28 Million TPA by 2027.

Whilst the domestic industry has already made significant capital investments to ramp-up capacities, the gestation period is long and the economic viability of the investments are impacted significantly by availability and cost of raw materials and other inputs. Even as the industry is grappling with the issue of producing paper and paperboards at competitive costs, the problem has been exacerbated by the Government's policy of extending preferential tariff treatment to paper and paperboards under the FTAs and other bilateral and multi-lateral trade agreements and pacts.

India has signed Free Trade Agreements (FTA) with ASEAN where import duties on most of the paper and paperboards is being progressively reduced i.e., from a base rate of 10%, import duty has come down to 7.5%

(01/01/2010), to 5% (01/01/2011), to 2.5% (01/01/2013) and to Nil rate from 01/01/2014. Moreover, under the India-Korea Comprehensive Economic Partnership Agreement (CEPA), the basic customs duty on Paper & Paperboards has been progressively reduced to Nil rate from 01.01.2017. Customs Duty on import of Paper & Paperboard from China has also been reduced to 6-7% vide concession granted in range of 30-40% vide Notification No. 50/2018 – Customs dated 30th June, 2018

The conventional markets for China have been the USA and EU. In both these markets anti-dumping/anti-subsidy tariffs have been imposed for import of paper/paperboards from China to protect their domestic industries. Taking advantage of the low Customs Duty rates, China and other ASEAN countries find India as an attractive outlet for diverting their excess inventory. Before Covid Pandemic, there was substantial increase in import of paper/paperboards from ASEAN, Korea and China by a CAGR of around 32.24%, 40.66% and 11.84 % respectively in value terms and 31.67%, 38.22% and 7.13% in volume terms over a period of 9 years from 2010-11 till 2019-20. Going forward, imports into India are expected to accelerate in view of the economic slowdown in China as well as large new paper board capacities underway in China and Indonesia. Due to Nil rate of customs duty on import of paper and paperboards from ASEAN countries and Korea, the revenue loss to Indian Government is in excess of Rs. 150 Crores per annum (based on imports under chapter 48). While the Government of India has levied Anti-Dumping duty on paper imports from three ASEAN countries, viz. Singapore, Indonesia and Thailand, duty free/concessional duty imports are still allowed for Korea, China and other ASEAN countries.

Increased import of paper and paperboard has adversely impacted revenue collections of the Government, and the economic viability of many paper mills in India.

Domestic industry has invested huge amounts in the recent past to upgrade and implement clean technology, product quality, farm forestry etc., and more investments are in the pipe line. Such large investments cannot and should not be jeopardized by allowing easy/concessional imports.

Suggestion / Recommendation

To ensure that the capital already invested and proposed to be invested in further capacity creation by Paper and Paperboards industry in India is safeguarded, incentivised and grown further, the following recommendations, may be considered favourably:

i. **Government should withdraw the concession granted on Basic Custom duty on import of Paper and Paper board from China under Notification No. 50/2018 – Customs dated 30th June, 2018 (as amended)**

ii. **Customs duty to be re-imposed / re-instated, on import of paper and paperboards from ASEAN countries and Korea, at rates similar to those applicable on imports from non-ASEAN countries.**

iii. **In order to provide a level playing field to the domestic industry, Paper and Paperboard products should be kept in the Negative List (i.e., no preferential treatment) while reviewing the existing FTAs and formulating new FTAs.**

This will also result in fulfilling the Hon'ble Prime Minister's vision of "Aatmanirbhar Bharat".

B. CUSTOMS

1. Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 (IGCRS Rules 2022)

Import of Acetate Tow and Filter rods have been prohibited vide Customs Notification No. 16/2011-NT dated 01.03.2011 except when such goods are imported for use in the manufacture of filter rods and filter cigarettes respectively and the importer follows the procedure set out in the Customs (Import of Goods at Concessional Rate of Duty for manufacture of excisable goods) Rules (IGCR Rules), 1996 subsequently amended in 2017 and 2022 (vide Notification No. 07/2022-Customs (N.T.) dated 01.02.2022 and 74/2022-Customs (N.T.) dated 09.09.2022 to be read along with Circular No. 1/2022-Customs dated 10.09.2022).
The amended IGCRS 2022 requires importers to comply *inter-alia* with the following rules.

- **Surety/Security Continuity Bond** equivalent to "assessable value" is required to be submitted by the importer (in case of imports with specified end use such as acetate tow and filter rods) along with Bank guarantee for value equivalent to 5% of the differential customs duty.
- Consumption of imported filter rods and acetate tow is required to be completed **within 6 months** from the date of Imports

The requirements as enunciated above pose severe difficulties to the importers which are indicated below:

- **Requirement of Surety/Security Continuity bond**:

Issue and Justification / Rationale
Rule 4(3)(b) of the IGCRS Rules, 2022, specifies that where the import is undertaken for specified end use and in case the notification is other than one that provides an exemption benefit, importer shall submit a Security/Surety Continuity Bond equal to the assessable value of the goods being imported.
Accordingly, Cigarettes manufacturers are required to furnish Surety / Security Continuity Bond to the extent of assessable value of acetate tow and filter rod along with Bank Guarantee equivalent to 5% of such bond value, even though no concessional duty benefit is availed under the said rules.
The earlier IGCR Rules had no such requirement of submission of Continuity Security Bond and/or Bank Guarantee. The Cigarette manufacturers are compelled to adhere to the new compliance despite no concession being availed on the imports. This is causing undue burden on the manufacturers.

Suggestion / Recommendation:
Since, manufacturers are required to submit monthly consumption details in Form IGCR-3 which ensures full data flow and complete transparency, it is recommended that suitable amendment in the IGCRS Rules be made to allow the import of acetate tow and filter rods (as per Notification 16/2011) without submission of any Security Continuity Bond as no concessional Customs Duty benefit is availed.
In the event the Security Continuity Bond is deemed necessary, the value of such Bond should be restricted to the differential Customs Duty.

- **Consumption of imported goods within a period of six months**:

Issue and Justification / Rationale
As per the Rule 10 of the IGCRS Amendment Rules, 2022, the goods imported are required to be consumed within six months (can be extended up to 3 months by Jurisdictional Commissioner if sufficient reason is shown) from the date of import where time period is not specified in the notification otherwise the importer has to either re-export such goods or clear the same for home consumption within the said period. Further, in case the imported goods are not consumed or re-exported within the stipulated time, recovery of duty may be made from the importer up to the assessable value of the goods. The earlier IGCR Rules had no such time limit for

consumption of the imported acetate tow and filter rods. Acetate tow which is a critical input material for manufacturing of filter rods is not available domestically and hence, the cigarette manufacturers are dependent on imports. Further, certain special filter rods are also required for niche brands of Cigarettes and domestic cigarette manufacturers are not able to import small quantum of inventory. Hence, there is a need to procure a minimum lot size as may be mandated by the foreign manufacturers and which are commercially viable. Further importers could also place orders of higher quantum to avail bulk discounts. As a result, usage from such quantum of imports could last well beyond six months. Further, Cigarette Manufacturers might be required to source inventory for anticipated new product launches which might get delayed due to various market factors.
Similar issues are being faced by the Paper and Paper Board Industry on imports of pulp which is imported under IGCRS Rules. Pulp is a critical material for manufacturing of different grades of paper and paperboard. There are different types of pulp, amongst others, certain varieties of pulp are not available in India and hence, the manufacturers are dependent on imports. Consumption of imported pulp depends on demand for different paper grades which are subject to seasonal fluctuations. Further, certain types of imported pulp are required in manufacturing of niche paper/ paper boards which cannot be imported in small lots. As a result, consumption of such imported pulp could last well beyond 6 / 9 months.

Suggestion / Recommendation:

Since, manufacturers are required to submit monthly consumption details in Form IGCR-3 which ensures full data flow and complete transparency, the requirement of consumption within a period of 6 months of imported goods should be done away with.
Alternatively, if for some reason, the time frame for consumption cannot be done away with, the period of 6 months must be extended to 1 year with appropriate approval mechanism for further extension of time frame for consumption.
Procedural Issues related to IGCRS Rules on ICEGATE Common Portal:

- **Non-Debit of Bond and BG during assessment of Bill of Entry**

As per Rule 5 of the IGCR Rules, the bond value and BG should be debited automatically in the customs automated system before assessment of BOE.

In this regard, it was observed that the trigger point for identification of goods for purpose of debit of Bond/BG is the relevant notification number under which concession is availed. For prohibited goods like acetate tow and filter rod, the scheme code "PB" needs to be mentioned as per the public notice dated 14.06.2022. However, on mentioning code "PB" under notification tab, an error pops up requiring special import licence number which is not applicable for specified end use imports like Acetate Tow & Filter rod and hence auto-debit of Bond and BG is not taking place on submission of Bills of entries.

Thereafter, importers are required to pursue with the jurisdictional Customs offices for rectifying the earlier assessment and facilitate to debit the Bond and BG with the import Bill of Entry. This involves multiple approvals and loss of essential time in physically approaching port of clearances which extends upto a week.

- **Issues in filing of IGCR-3 i.e. monthly return**

As per the requirement of the IGCRS rules, the importer shall submit a monthly statement on the common portal in the Form IGCR-3 containing details of receipts and utilisation of filter rods and acetate tow during the month. On successful filing of such returns, Bond and BG gets released to the extent of utilization of such imported goods.

However, due to certain technical issues in the ICEGATE portal, importers have not able to submit online monthly returns till date. As a result, importers are forced to submit manual returns to the jurisdictional Customs along with details of technical issues being faced while filing the return. Such technical issues were also communicated to the ICEGATE support team from time to time, however, resolution for the same are still awaited.

Since the IGCR-3 return is not being filed on the portal, release of Bond and BG is not taking place and therefore, importers are forced to submit Bond and BG continuously to facilitate their imports. In the process, Bonds and BGs submitted earlier, for which IGCRS conditions are already complied, are not being returned to the importers.

Suggestion / Recommendation:

Accordingly, and to address the above stated issues being faced by the importers, it is recommended that,

- o Appropriate IT system-based logic shall be built-in as part of 'ICEGATE' portal to ensure debit of Bond and BG at the time of import itself and facilitate ease of import of such goods
- o Immediate resolution of technical glitches being faced on the ICEGATE common portal pertaining to monthly filing of returns
- o Appropriate mechanism to be specified for returning the Bonds and BGs where conditions of the IGCRS have already been compiled

2. Rationalisation of rate of Custom Duties on procurement by Hotel Industry

Issue and Justification / Rationale

Hotel Industry requires Capital Goods and operating supplies of very high quality with state-of-the-art technology and high degree of international standards. With the view to make the industry more competitive, basic custom duties on the following items may be rationalized:

Suggestion / Recommendation:

- Heat Pumps (CH: 8418), Air-conditioning equipment (CH: 8415), Crockery (CH: 6911), Gym Equipment (CH: 9506), Woven Carpets (CH: 5702) and loose furniture (CH: 9403) are subject to customs duty of 20-25%. These are some of the key and essential items involving huge amount of capital expenditure by a Hotel. **It is proposed that basic customs duty on these items be rationalized to 10%.**

- Salmon fish (CH: 0302) basic customs duty was increased to 30% which has a significant impact on the Food &Beverages cost for Star hotels.

  The Customs Duty rates should be rationalized to earlier rate of 10%.

- Premium imported Alcoholic Beverages (CH: 2208) are subject to high tariff structure of approx. 150% (BCD & AIDC) which need duty rationalization to enable Hotels to increase repertoire of better quality liquors in affordable range to be more competitive. It is proposed to reduce the **tariff to 50% of the existing with immediate effect.**

- Fire resistant/ fire-rated doors (CH: 8302) and related equipment is currently subjected to Customs Duty of 15%. With a view to promote installation of such equipment in all establishments and improve fire protection systems currently prevalent in the country, **it is proposed that exemption under Customs Duty be granted to these items.** These measures would encourage and improve safety measures and would enhance India's image globally.

3. Stuffing of containers for export under self-sealing procedure

Issue and Justification / Rationale

Over a period of time, Central Board of Indirect Taxes and Customs (CBIC) has relaxed the procedural aspects pertaining to permission for stuffing of export containers under self- sealing mechanism including removal of supervision by Customs authority, which is a progressive step taken by the Board. As part of the self- sealing procedure, department has been insisting for submission of multiple documents from all the exporters irrespective of whether the concerned exporter is a status holder or not. The exporters are required to apply for self-sealing for every new premises with the Jurisdictional Authority. The multitude of documents to be submitted includes, GSTR-3B for last 2 Years, GSTR-1 for a Quarter, Details of Directors, PAN of the Company, Directors, Certificate of Incorporation, Bank statement for last 2 years etc.

Further, the list of documents sought are not uniform across Jurisdictional Authorities. Hence, there are multiple correspondences between the Exporter and Authorities for submission and verification of requisite data. Most of such information sought from the exporter is already available with DGFT / Departments of Central Board of Indirect Taxes and Customs (CBIC). Hence, submission of the above is a redundant activity, along with each application seeking permission for new units. This causes operational difficulties and increases the time taken for Export.

Suggestion / Recommendation

It is recommended that, appropriate clarification / circular be issued so as to allow the 4 star and above status holders as per Foreign Trade Policy to

- **Submit minimum standardized documentation alone viz., Agreement with the Warehouse Service Provider/ Manufacturer, Address Proof of the Premises, Declaration only in respect of the additional premises while seeking approval and a centralised repository for documentation is created to avoid resubmission;**

- **Submission of the application and supporting documentation through an e-enabled facility in an on-line portal in order to fast forward the process of application submission and its processing by Department in a time bound manner to ensure transparency and greater flexibility to the process**

4. **Supplies to SEZ from Domestic Tariff Area (DTA) Unit – Claim of drawback**

Issue and Justification / Rationale

As per current system, Customs department in SEZ is maintaining online data separately (not synchronized with EDI port system) due to which the supplies to SEZ (Deemed Exports) are not getting updated in EDI system. For claiming drawback against the exports made to SEZ Units, manual application along with proof of exports such as Shipping Bill, Invoice, Bill of Export etc are required to be submitted to jurisdictional Customs officials which requires additional effort and involves transactional costs.

Suggestion / Recommendation

It is recommended that the SEZ customs data is synchronized with EDI database so that the process can be made paperless. This will save transaction costs to exporter and aid the Government drive for 'Ease of doing Business'.

5. **Phasing out of duty exemptions on import of Capital Goods for food processing industry**

Issues and Justification / Rationale

Broadly there were two options available to the food processing industry for importing equipment at concessional rates of custom duty;

- Availing the specific exemption notifications like No. 50/2017-Customs dated 30.6.2017, wherein the food processing related machines could be imported at a concessional basic custom duty rate of 5% (vs 7.5% Standard Rate). This concession has now been removed w.e.f. 01.04.2023 (vide Notification No. 02/2022-Customs dated 01.02.2022)
- Project Imports under Chapter 98 of the Customs Tariff Act, 1975 and under Project Import Regulations, 1986. This benefit has now been removed for new projects registered after 30.09.2022 (vide Notification No. 02/2022-Customs dated 01.02.2022), on which basic customs duty of 7.5% will be applicable now

With respect to Project Imports under Chapter 98, there are various formalities / procedures required to be adhered to, like:

i. Project should be sponsored by the specified sponsoring authorities with a detailed itemised list of goods to be imported duly attested
ii. The contracts have to be registered with the Customs authorities
iii. Security in the form of Bank Guarantee equivalent to the prescribed amount has to be submitted
iv. All the imports are provisionally assessed till the reconciliation and finalization of the Contracts registered, is completed.
v. The Importer is required to submit a provisional duty bond to the Assistant/ Deputy Commissioner of Customs, Project Import Group.
vi. The Importer has to, within the prescribed period, submit a statement indicating the details of the imported goods along with all the necessary documents as proof regarding the value and quantity of the goods so imported in the terms of PIS and other documents that may be required by the proper officer for finalization of the Contract registered.
vii. The proper office of the Customs if satisfied the contracts will be finalized and closed and the security in the form of Bank Guarantee will be discharged and returned to the importer.
viii. Upon the finalization of the Contracts, all the Bills of Entry of the goods imported are finally assessed by the Customs and the provisional assessment Bond is cancelled.

The above makes it a very cumbersome process, in case the importer opts for Project Imports.

Food processing sector involves sizeable investments in quality infrastructure such as setting up of manufacturing and supply chain facilities in order to meet the stringent requirements of the domestic and foreign country's food safety laws. The domestic industry has been relentlessly investing in Product innovation and technology adoption to deliver best in quality and differentiated products. This best of the class technology is still required to be imported from outside India.

In some cases, there may be certain equipment available locally, however Imported food processing equipment, offer significant benefits in terms of yield, lower operating costs, better quality control and are state of the art technology. At present, there are no established equipment manufacturers in India, who can match the technological advancements which some of the global reputed manufacturers of food processing equipment possess. Although, 'Make in India' is a laudable initiative, it would be important for the local manufacturing industry to be given some more time in adopting these technologies and remain cutting edge. This will also give time to domestic equipment manufacturers to match the technology and sophistication which these global manufacturers provide.

Recommendation

It is recommended that in respect of import of various types of capital goods / their spare parts etc. required in the food processing industry;

i. the benefit of concessional rate of basic customs duty available under the various exemption notifications (viz. Notification No. 50/2017-Customs dated 30.6.2017) be reinstated to the erstwhile levels of 5% basic customs duty.
ii. the benefit of concessional rate of basic customs duty provided under the Project Imports Regulations, 1986 be continued at erstwhile levels of 5% basic customs duty, for those who are desirous of availing this mechanism.
iii. the existing cumbersome processes / procedures prescribed for Project Imports be simplified by:
    a. assigning a single agency for administering the end to end implementation of the Scheme;
    b. prescribing a single form of security by way of Bank Guarantee and doing away with the requirement of an additional "provisional duty bond";
    c. removal of existing requirement of provisional assessment;
    d. facilitating submission of data online on completion of the project

6. **Import Duty on Crude Glycerin**

Issues and Justification / Rationale

Crude Glycerin (CTH 1520 00 00) is a key input for manufacturing Refined Glycerin (CTH 2905 45 00). The import duty on Crude Glycerin is at 7.5% whereas, the import duty on Refined Glycerin under AIFTA (ASEAN-India Free Trade Agreement) is 5% i.e. the duty structure is inverted for Crude Glycerin imports.

Further, Union Budget 2023, introduced import duty of 2.5% for 'Crude Glycerin for use in the manufacture of **Epichlorohydrin** (under the same CTH 1520 00 00)**'.** This has resulted in differential treatment for import of Crude Glycerin used other than used in the manufacture of Epichlorohydrin.

Suggestion / Recommendation:

It is recommended that the import duty on Crude Glycerin be changed to NIL rate / duty-free irrespective of industry.

7. **Import Duty on Key Ingredients of Soap Noodles**

Issues and Justification / Rationale

Soap Noodles is a key ingredient in the manufacture of Toilet Soap. The key ingredients for manufacturing Soap noodles are Lauric acid, Palm Fatty Acid Distillate (PFAD), Palm Stearin and palm Kernel oil. The existing Customs Duty on all these products are as follows:

CTH	Product Description	Rate of Customs Duty
3400 20 00	**Soap and Soap Noodles**	NIL under AIFTA (ASEAN-India Free Trade Agreement)
3823 19 00	Fatty Acids- Palm Fatty Acid Distillate (PFAD)	5% under AIFTA
1511 90 90	Palm Stearin	7.5% (under 'Restricted')
2915 90 90	Lauric acid	7.5%
1513 21 10	Palm Kernel Oil	35%

From the above-mentioned duty structures, it is apparent that there is an inverted duty structure for import of inputs for Soap Noodles which is dis-incentivizing value addition activities such as manufacturing soap/ Soap Noodles in India.

The above situation is further aggravated by the fact that in case of Country like Indonesia, duties are levied on the export of ingredients for Soap and Soap noodles (PFAD ~ $75/Ton and Palm Stearin ~ $85/Ton), whereas there is NIL export duty on Soap and Soap noodles. Hence, local Soap / Soap noodles manufacturers in Indonesia have an advantageous position compared to Indian soap noodles manufacturers.

Restricted Import of Key Ingredient (Palm Stearin) of Soap Noodles

DGFT amended the import policy of Palm stearin (CTH 1511 90 90) in January 2020 from 'Free' to 'Restricted'. This has resulted in price increase of local Palm stearin due to which indigenous soap noodles suppliers had to incur additional processing cost of 5% to 10% (in replacing palm stearin with PFAD).

Suggestion / Recommendation:

Accordingly, it is recommended that the Customs Duty rates be changed to NIL rate for Fatty Acids- Palm Fatty Acid Distillate (PFAD) (CTH 3823 19 00), Palm Stearin (CTH 1511 90 90), Lauric acid (CTH 2915 90 90) and Palm

Kernel Oil (CTH 1513 21 10), considering the existing disadvantage to the Indian manufacturers of soap, soap noodles and other palm-based ingredients. This will provide a level playing field to the domestic industry.

Further, it is recommended to remove Palm Stearin from the 'Restricted' category to boost local manufacturing.

8. **Customs Duty on Import of Pulp**

Issues and Justification / Rationale

In May 2012 the Government reduced the import duty on pulp from 5% to "Nil". It is estimated that around 2.12 million MT of pulp, valued at approximately USD 1.3 billion (about Rs. 10,654 crore) is imported into the country every year. The Customs Duty foregone on account of these imports is estimated to be about Rs. 700 crore p.a. The break-up of the pulp imports is as under:

Type of Pulp	Quantity ('000 MT)	Value (Rs. Crore)
Hard Wood Chemical Pulp	1298	3,738
Bleached Chemi Thermo Mechanical Pulp (BCTM Pulp)	245	1,835
Sub-Total	**1543**	**5,573**
Soft Wood Chemical Pulp	577	5,081
Total	**2120**	**10,654**

It would be relevant to note in this context that to produce the quantum of hard wood and BCTM pulp imported into the country currently, i.e., 2.1 million tonnes, more than 4.3 lakh hectare of land will be required. Basis the standard norms, every hectare of plantation creates approximately 450 person days of employment, – this implies a potential of nearly 193 million man-days of employment for every crop rotation of 4-5 years.

One of the fetters to the growth of the country's economy is the lack of adequate opportunities for harnessing and deploying the unique demographic dividend that India enjoys vis-à-vis other economies. Development of plantation farming to produce raw materials for the paper and paperboards industry is a readily available avenue for creating substantial rural employment opportunities on a sustainable basis. **However, the potential in this regard has been completely undermined by a taxation framework wherein pulp is exempt from Customs Duties. Consequently, instead of generation of sizeable employment opportunities within the country, millions of jobs are being exported to the countries from where pulp is imported.**

It is submitted that if domestic production of pulp is encouraged through measures including imposition of Customs Duties on pulp imports, not only will it provide a fillip to creation of jobs, it will also have a salutary effect of overall economic development of the vast rural hinterland that houses the pulpwood plantations. It will also provide fillip to local industry to further invest in new technology for production of Hardwood pulp and BCTMP pulp.

In view of the fact that Soft Wood cannot be grown in the country, requirement of Soft Wood Pulp will have to be met through the import route only, justifying the exemption from Customs Duty.

However, in so far as Hard Wood Pulp is concerned, it would be pertinent to note that the domestic industry is working closely with the farming community for creating sustainable supply of wood – a key raw material for hard wood pulp – through re-development of waste-lands.

In so far as Bleached Chemi Thermo Mechanical Pulp (BCTMP) is concerned, the technology for manufacturing BCTMP has not been available in India. **In line with the vision "Make in India" of Hon'ble Prime Minister, the**

paperboards industry has, for the first time in the country set up a state of art BCTMP manufacturing facility which is operational since March 2017. This project will save in perpetuity substantial quantum of forex outflows that would otherwise have been spent for import of BCTM pulp.

The domestic market / consumption of paper & paperboard is over 19.5 million tonnes per annum (TPA), with over 1.3 million TPA being imported. By 2026-27, the domestic consumption is projected to rise to about 23 million TPA (source: CRISIL). About 1 million TPA of integrated pulp, paper and paperboard capacity has to be created in India on an annual basis over the current capacity to meet the growing demand. This offers an excellent opportunity for the farming community to increase areas under pulpwood plantations, creating livelihoods in hinterlands and attendant environmental benefits.

Suggestion / Recommendation

In an era of increasing global competition it is necessary for governments and industry to work in partnership to ensure creation of economic wealth for the nation. Accordingly, for creation of sustainable sources of fibre required by the pulp and paper industry it is recommended that:

a) **10% customs duty on pulp be imposed only for Hard Wood Chemical Pulp and Bleached Chemi Thermo Mechanical Pulp (BCTMP), as under:**
   - **imposition of Customs Duty @ 10% on import of Hard wood chemical pulp under Tariff ID 47032900,**
   - **sub-classification of the existing Tariff classification 47050000 (Bleached Chemi Thermo Mechanical Pulp, (BCTM Pulp)} in to Hardwood BCTMP and Softwood BCTMP, and,**
   - **imposition of 10% Customs Duty on import of Hardwood BCTMP**

b) **Policy measures be put in place to facilitate private sector participation in plantation development programmes in degraded forests and SFDC (State Forest Development Corporation) lands.**

9. **Customs Duty On Paper/Paperboards**

Issues and Justification / Rationale

The Indian Paper/Paperboard industry has made significant capital investments to ramp-up capacities for meeting domestic requirements. The Industry has strong backward linkages with the farming community from whom wood (raw material for manufacture) is sourced. A large part of this wood is grown in backward marginal / sub-marginal lands, which are potentially unfit for other use. The paper industry, being mainly located in backward areas, has transformed the socio-economic conditions of the population residing there.
Thus, whilst domestic industry is operating under extremely challenging conditions, sizeable quantities of paper and paperboard are imported in to the country at much lower costs. This is bound to discourage investments towards capacity enhancement by the domestic industry, notwithstanding the fact that such investments will be necessary to cater to the expected growth in demand for paper and paperboards. The inevitable consequence of drop in investments will have a multiplier adverse impact on the Indian farmer community with whom the industry has strong linkages and a significant outflow of foreign exchange towards increased imports of paper and paperboards.

Suggestion / Recommendation

In order to provide a level playing field to the domestic industry it is recommended that:

a) **the Customs duty for import of Paper and Paperboards be increased to 25% and brought in line with agricultural products, as currently industry is sourcing majority of its raw materials from Agro-forestry – supporting millions of farmers in creating value on their marginal lands,**

b) **this category be kept in the Negative List in bi-lateral and multi-lateral trade treaties and agreements.**

c) **Import of paper and paperboard be allowed only on the basis of Actual user license so that genuine users import the right quantity of paper for their consumption. The import policy should be changed from "Free" to "Restricted".**

d) **Non-Tariff Measures / Technical barriers to Trade, like making BIS marking mandatory, be imposed on imports of paper (like plain copier paper).**

10. Incentives for Investments in Environment Friendly "Clean" Technologies by Paper Industry

Issues and Justification / Rationale

The broad policy framework on environment and climate change in India is laid down by the National Environment Policy (NEP) 2006 which aims to chart the way forward to meet the Government's bold announcements in the energy domain like target of reduction of emissions intensity by 33%-35% by 2030 over 2005, share of non-fossil fuel-based capacity in the electricity mix aimed at above 40% by 2030 etc.

India has a definite plan of action for clean energy, energy efficiency in various sectors of industries, a major thrust to non-fossil based electricity generation and a building sector based on energy conservation. In this context, NITI Aayog, Government of India had published the 'Draft National Energy Policy' to enable meeting the goals of renewable energy capacity, emission intensity and non-fossil fuel share in the electricity mix of India by the year 2030. The Central Electricity Authority (CEA) has notified the National Electricity Plan in May 2023 covering period of 2022-32. This plan envisages that the share of non-fossil based capacity is likely to increase to 57.4% by the end of FY 2026-27 and is likely to further increase to 68.4% by the end of FY 2031-32 from around 42.5% in April 2023.

India currently meets its energy requirements predominantly through fossil-based sources (coal and natural gas). A significant portion of such energy is used to operate Industries such as Aluminium, Cement, Chlor-Alkali, Fertilizer, Iron & Steel, Pulp & Paper, Textile, Thermal Power Plants, Oil Refineries, Electricity Distribution Companies and Railways. Incidentally, Government has already identified these Industries as focus area to reduce energy consumption, under Energy Conservation Act, 2001.

Most of these Industries have installed Captive Power plants operating Boilers on Fossil fuel such as Coal, Natural gas etc., The renewable energy portion is limited to few cases even though opportunities exist to increase the footprint. **It is important that Boilers operating on renewable energy sources such as bio mass are also encouraged with appropriate incentives.**

Pulp and Paper Industry

Soda Recovery Boilers (SRBs) are one such kind of Bio-mass based Boilers that are in use in Pulp and Paper Industry to generate captive energy. The SRBs fire Black Liquor Dry Solids ("BLDS") which are generated in the Pulp manufacturing process as a by-product. In the process, SRBs generate steam which is used in the manufacturing process and is also passed through Turbo-Generators ("TGs") which facilitate simultaneous generation of electrical energy. The steam generated from SRBs is uniquely identified as originating from BLDS, and termed as "Renewable energy".

SRBs are well accepted in India and are operated by the Pulp Mills. The initial installations started in 1990s with an intent to recover process Chemicals but thereafter advanced to include Cogeneration also.

However, SRBs are unable to meet all the steam and energy requirements, and hence the Industry has to operate Coal Fired Boilers (CFBs) or other fossil based Boilers for producing steam to meet the energy needs beyond the energy generated through SRBs. In the endeavour to reduce dependence on fossil fuel for energy requirements, there is an increasing need to develop new technologies to enhance productivity of such Boilers, essentially to produce more electrical energy with available bio-mass.

High Pressure Recovery Boiler

The Industry has advanced the technology in this field to develop "High Pressure Recovery Boiler" (HPRB). **HPRB facilitates generation of more electrical energy for the same quantum of BLDS and reduce dependence on fossil based boilers (alternative sources). This energy is classified as "renewable energy".**

HPRBs initial installations were commissioned in Japan, in the 1980/90s and were later adopted worldwide. They have more than thirty years of successful operations across 40 locations worldwide and are now considered as a better replacement to SRBs. The Investment cost of HPRB is significantly higher than SRBs (approximately 3x) and is seen as a deterrent in adoption of HPRB. Consequently, there are very few HPRB installations in the Pulp and Paper Industry in India.

Today technology in the area of Energy conservation stands out as one of the critical factors in achieving sustained competitiveness. This calls for substantial investments in green and unconventional energy-based technologies such as HPRB, to ensure a positive environmental footprint. The domestic manufacturers are consciously focusing on inducting unconventional energy usage and clean technologies which involve significant capital investment, to ensure:

- Reduction of carbon foot print and save fossil fuel
- Improve performance in the area of environment

These low yielding investments however impact the profitability / viability of the business.

Hence in order to encourage manufacturers within the industry to adopt environment friendly "clean" technologies that ensure, inter-alia, reduced carbon footprints, better emission norms, better effluent treatment norms, usage of renewable sources of raw material and energy, improved waste recycling, etc., appropriate fiscal benefits should be provided.

Suggestion / Recommendation

i. **Energy units produced by the Turbine using HPRB steam to be eligible for Renewable Energy Certificate (REC) and trading of such RECs to be permitted on the Energy exchanges similar to RECs issued for Non-Solar sources. Further, HPRBs to be exempted from the Renewable Purchase Obligation (RPO).**

ii. **Import of capital goods required by the Paper & Paperboard industry for technological up-gradation in the area of Unconventional energy usage and adoption of clean / green technology (e.g., HPRB, Elemental Chlorine Free pulp manufacture, Ozone bleaching etc.) specially aimed at environmental protection (e.g. saving fossil fuels, reduction of carbon foot print etc.) - be permitted at 'Nil' rate of Customs Duty.**

iii. **Further, following additional benefits may be provided for paper board industry for investing in such clean technologies:**
   a. **Entitlement for import of raw materials at a 50% concessional rate of duty**
   b. **Exemption from Goods and Service Tax for paper and paperboard produced using clean technology or alternate suitable refund mechanism of taxes paid (similar to exports)**
   c. **Energy generated from such clean technologies to be considered at par with Renewable energy and accordingly, to be allowed to meet obligation under RPO**
   d. **Enable through Ministry of External Affairs or Ministry of Commerce and Industry, a cap and trade system for limiting carbon emissions by allowing trading in Certified Emission Reduction (CERs) / Voluntary Emission Reduction (VERs), similar to the EU-ETS scheme (European Union Emissions Trading Scheme)**

iv. **Exports by manufacturers who have adopted environmentally friendly technology are granted additional incentives in the form of cash incentive of 5% of FOB.**

11. <u>Ban on import of Mixed / Unsorted Waste Paper into India</u>

<u>Issues and Justification / Rationale</u>

To accelerate the efforts to achieve universal sanitation coverage and to put focus on sanitation, the Hon'ble Prime Minister of India launched the Swachh Bharat Mission on 2nd October, 2014. It aims to achieve Swachh Bharat as a fitting tribute to Mahatma Gandhi. Waste management is one of the major concern under the Swachh Bharat Mission which impacts several aspects of the society and the economy especially health and climate change. Environmentally sound management of wastes is one of the key element in protecting health and environment against the adverse effects. Sound Waste Management involves proper segregation at source, collection and recycling ecosystem.

India recycles only 30% of the total paper consumed and a large chunk is not collected as compared to 80-85% in the developed world (Source: Indian Agro & Recycled Paper Mills Association website). Therefore, a large volume of India's paper consumption goes into landfill.

Ministry of Environment, Forest and Climate Change (MoEFCC) has prescribed permissible limit of contraries for different type of waste paper imported into India vide its Office Memorandum dated 11.05.2010 vide F No. 13-1/2004 HSMD under Hazardous Waste Management Rules. There are various categories of waste paper out of which ***Unsorted Mixed Waste Paper*** is lowest quality waste paper which may contain contaminants such as municipal solid waste, post-consumer domestic & office waste, biomedical waste or any other type of contaminants.

Plastic Waste Management Rules have also been amended from time to time giving thrust on waste minimization, segregation of waste at source by generators, gainful utilization of waste through recycling and recovery, ban on single use plastic, fixing Extended Producer Responsibility Targets for producers, importers and brand owners.

However, due to the changes in the regulatory framework of China regarding import of waste paper, as detailed below, highly contaminated waste paper is getting imported in to India.

It is pertinent to note that China which accounts for about 55% of world imports of waste paper had notified the World Trade Organization (WTO) of its intention to ban imports of 24 kinds of solid waste as part of its National Sword 2018 program—a national environmental initiative. The contamination threshold had also been reduced to 0.5% for recyclable paper commodities such as old corrugated containers (OCC) and old newspapers (ONP) not covered by the ban. Several other measures such as restriction and delay in providing annual import licenses for domestic companies, imposition of 25% duty on recovered paper import from US, suspension of preshipment certificates have been taken by China. Apart from China, Indonesia and Malaysia have also tightened their norms with respect to imports of waste paper.

As a result of Chinese ban on import of mixed waste and contaminant restrictions on other grades of waste paper, exports of wastepaper to China has considerably declined and the same is now heading towards countries like India. Since the ocean freight costs are high to India, the sellers are not even attempting normal sorting and thus exporting contaminated waste paper to India for getting rid of waste so that landfilling is avoided at the source.

Import of Waste Paper into India has jumped from 3.2 million MT in 2016-17 to over 8 million MT in 2022-23 and the increase is attributed mainly to increase in import of Mixed Waste paper. Notably, India also overtook China as the main U.S. export destination for mixed paper.

This clearly indicates that that 'foreign waste' is being dumped into India which is having the following adverse effect:

i. Contaminated portion of the foreign waste imported into India finding its place to dumpsites which has adverse Environmental and Public health impact.
ii. Cheaper imports make indigenous waste paper less competitive which in turn dis-incentivizes waste segregation and recycling efforts in India and eventually the non-segregated local waste also goes to the landfill.
iii. Beside adverse environmental and health impact, this affects livelihood of poor and vulnerable rag-pickers and small entrepreneurs such as scrap vendors.

<u>Suggestion / Recommendation:</u>

i. **Impose ban on import of Mixed/Unsorted waste paper into India.**
ii. **Make the regulatory standards more stringent on the allowable contraries to a maximum of 0.5% for grades other than Mixed/unsorted waste paper.**
iii. **Increase the effective rate of duty or impose a cess on import of waste paper @10% from 2.5%, on such imports under specific preferential tariff agreements (PTA) or under end use condition vide Customs Notification 50/2017.**
iv. **Government should provide necessary infrastructure & logistical support in waste collection & segregation required for scalability for recycling, to all the NGOs and agencies having objectives of clean environment and ecology besides providing support to the industry to use greater volume of such recycled fibre.**

The above measure would result in several benefits, including:

i. Reduction of waste paper going into landfill (India consumes over 19 Million MT per annum with meagre recycling of 30% as compared to 80-85% in developed countries such as Germany, Sweden, Japan, US.) Employment generation of 150 million man days per annum (direct employment- 10 man days/MT at 80% recovery of 19 million MT paper consumption p.a. in India) thus helping create circular economy.
ii. Savings of foreign exchange to the country as the aggregate spend on imports of Mixed waste for FY 2022-23 is estimated at ~ 250 million USD.
iii. It will be in line with the Swachh Bharat Mission launched by Hon'ble Prime Minister of India

12. **<u>Supplies of Coal by Coal India Subsidiaries to Paper and Paperboards Industry</u>**

<u>Issues and Justification / Rationale</u>

The Paper and Paperboards Industry in India is passing through a very difficult phase due to growing cost of raw material coupled with significant increase of fuels prices causing resulting in substantial increase of production cost of paper.

Paper Industry is capital-intensive, power-intensive and location sensitive with respect to various key inputs. The industry has invested a huge amount of money in setting up of the captive power plants (CPPs) for sustained supply of power and steam for its production process requirements. Captive power plants in Paper Mills, by having their own boilers and turbines, reduce the generation and distribution load on the country's entire power system. Paper Industry is a continuous process industry and energy cost is a significant part of the total production cost in Paper Mills.

From 2021 onwards, M/s Coal India Limited and its subsidiaries, like Singareni Collieries Company Limited, Eastern Coalfields Limited, Mahanadi Coalfields Limited, Central Coalfields Limited etc., have prioritised coal supplies to the power sector / thermal power plants on priority at the cost of non-power / non-regulated sectors. The problems have been compounded by even priority allocation of railway rakes to the power sector / thermal power plants.

In view of the above, Paper Mills in India are finding it extremely hard to source adequate and un-interrupted coal supplies as feedstock for their captive power plants and are facing rapidly dwindling coal stocks available with them. As a result, operations of Paper Mills across the country are getting severely impacted and they are being forced to import coal which is very costly.

Hence, it is essential that M/s Coal India Limited and its subsidiaries ensure that adequate supplies of coal are despatched to Paper Mills for smooth running of their captive power plants so that their operations remains un-interrupted.

Importance of the Paper from the daily lives of people cannot be undermined. Paperboard / packaging is crucial for almost all types of goods, especially essential goods like FMCG, pharmaceuticals, food products, soaps, cartons, hygiene products, etc. Similarly, writing & printing paper is essential for labels, pharmaceutical inserts, and for all types of educational institutes. Hence, Pulp/Paper and Paperboard industry must also be categorised under priority list by M/s Coal India Limited and its subsidiaries while allocating the supplies of coal.

Suggestion / Recommendation:

Government of India through, Ministry of Coal & Mines and Ministry of Railways, should consider priority allocation of both coal and railway rakes to captive power plants of Pulp & Paper Industry at par with thermal power plants, and also the supply of coal from allocated / designated mines to consumers be restored.

C. "Ease of Doing Business" - Simplification and Technological Solutions

1. **Export Obligation Discharge Certificate (EODC) and Simplification of Procedures for Cancellation of Bonds / LUT's under EPCG**

Issue and Justification / Rationale

EODC is required to be submitted to the Customs Department upon fulfilment of export obligation against pre-export licences (like Advance Licence, Duty Free Import Authorisation (DFIA), Export Promotion Capital Goods (EPCG) and so on). Without submission of the EODC to the Customs authorities, the Bond / Letter of Undertaking (LUT) furnished by the exporter is not cancelled.

As per current provisions of law, the EODC has to be obtained from the jurisdictional DGFT office and submitted to the Customs authorities thereafter. Only upon verification of the EODC, the Customs authorities cancel the Bond / LUT executed by exporter at the time of import. The entire process is time consuming and at times the cancellation of the Bond / LUT remains pending even after a decade of issuance of the EODC by the DGFT.

Suggestion / Recommendation

In order to reduce avoidable paperwork and delays in cancellation of Bonds / LUT, it is recommended that while issuing the EODC the DGFT should declare in the Certificate that export obligation is fulfilled and all bonds/LUT executed in respect of the specific Authorisation (with Ministry of Finance / Ministry of Commerce) stand cancelled with immediate effect. This information can be updated in the on-line system to ensure that the corresponding records maintained by Customs Department is updated as well.

Customs authorities insist upon production of the entire set of documents (redemption letter from DGFT, ANF – 5B, copy of EPCG licence & LUT/Bond, Installation certificate, export shipping bills copies, Bill of entry for the goods imported etc.) along with application to them for verification for cancellation of Bond/ LUTs submitted under EPCG Scheme. This is despite the fact that the relevant CBEC Circular No. 25/2003 clearly states, "It is reiterated that redemption of Bond/BG against license issued under EPCG Scheme shall normally be allowed by the Custom House on the basis of Export Obligation Discharge Certificate issued by DGFT authorities without insisting for production of copies of relevant export documents including shipping bill etc. This is because the job of monitoring of export obligation fulfilled under EPCG Scheme is assigned to relevant DGFT authorities".

The insistence by Customs authorities for production of the full set of documents creates administrative complexities for the assessee and delays the process of cancellation.

It is recommended that appropriate instructions be issued to Customs to institute the process of EPCG Bond / LUT cancellation on the basis of Export Obligation Discharge Certificate issued by DGFT without assessee having to furnish any other documents.

2. **Facility to reflect balance carrying values of MEIS / SEIS Licences:**

Currently Importers are unable to retrieve the balance in MEIS/SEIS licences or ledger of transactions in ICEGATE portal and have to either approach CHA or Customs officers. Earlier, after every utilization, Customs Officers used to state the utilized amount and balance amount of the MEIS/SEIS licences on the face of the licences. At present, the utilization etc are updated in the ICEGATE and balance in the licence can only be viewed from the ICEGATE.

It is recommended that ICEGATE to have facility for Importers to login and check the balance amount in the MEIS / SEIS licences along with statement of past utilisations. Once such facility can be extended, physical interface with Customs can be reduced.

3. Issues in Generation of Scrolls for RoDTEP and Synchronization of Scroll for RoDTEP and Drawback

Issue and Justification / Rationale

RoDTEP scheme has been introduced to provide for remission of duties and taxes on export of products in lieu of the MEIS Scheme vide notification no. 76/2021 dated 23rd September 2021.

The scheme is administered electronically and permits the exporter to issue E-Scrips on the basis of scrolls to be generated by Customs authorities. The generation of scrolls by the Customs authorities is an automated process based on the shipping bills filed by the exporter. For generation of the RoDTEP Scrips, the exporter has to utilise the Scrolls which are generated by Customs against eligible shipping bills filed for exports. The Scrolls are generated in the Customs Automated System (ICEGATE portal) upon filing of the Export General Manifest (EGM) by the Ocean Liner / Vessel. This system is similar to the Duty Drawback (DBK) system wherein a cash incentive in the form of duty drawback is credited to the exporter's bank account upon generation of scrolls. Filing of EGM is the pre-requisite for processing of the scrolls by Customs for both the incentives.

The Scheme is administered through a portal "ICEGATE" which is managed by the Customs authorities.
The exporters are facing the following issues in respect of the administration of RoDTEP scheme:

1. Non-generation of Scrolls even though Shipping bills have been filed.
2. The exporters have to continuously follow-up with respective Customs authorities of each port for the generation of Scrolls in respect of shipping bills where scrolls have not been generated.
3. In certain cases, exporters are facing issue of e-scrip being generated by utilisation of scrolls but not reflecting on the ICEGATE portal. Further, in certain cases information pertaining to such scrips is not flowing to another Customs portal (ICES system) and therefore, exporters are not able to utilise the scrips for duty payments. In such cases, exporters are left to co-ordinate with various offices of Customs for its resolution. This process of rectification/ resolution is extremely time consuming, resource intensive and is causing undue hardship to Exporters.

Suggestion / Recommendation

Accordingly, it is recommended that;

- **the ICEGATE portal be made robust and the authorities ensure generation of scrolls within 15 days of the filing of Shipping Bills by the exporter.**
- **a facility be given to Exporters for cancellation of erroneous e-scrips upon intimation by exporter and restoring the scrolls so utilised for generation of such erroneous e-scrips.**
- **Seamless flow of e-scrips details be made available on ICES as well as ICEGATE portal to facilitate exporter for its timely utilisation**

4. Clearing of import consignments by Indian Customs – Acceptance of certificate of origin in digital mode

Issue and Justification / Rationale

Certificate of Origin is an instrument which establishes evidence on origin of goods imported into any country. These certificates are essential for importers to prove where their goods come from and therefore stake their claim to whatever benefits goods of foreign origin may be eligible for in India. There are two categories of Certificate of Origin – (1) Preferential and (2) Non-Preferential. **Preferential** arrangement / scheme under which

India is giving tariff preferences for its Imports from certain countries. Indian customs have been insisting for Certificate of Origin in Original from Importers which has been causing enormous difficulties to the trade.

It is pertinent to note that exporters are not facing such a challenge due to acceptance of Certificate of Origin in digitally signed / scanned form by custom authorities in India and abroad.

Suggestion / Recommendation

In view of the above it is recommended that, appropriate instructions be issued for acceptance of the Certificate of Origin in digitally signed / scanned form at least from 4star and above status holders as per Foreign Trade Policy

5. Export incentive / benefit licences registration with Customs department

Issue and Justification / Rationale

A number of initiatives have been taken by the Government of India in the area of automation, of various processes thereby facilitating ease of doing business. This also includes automating certain processes involved with regard to export incentives licences under FTP which have enabled expeditious issue of export incentive licences:

a. Online application for licenses on the DGFT website and validation of digital certificates
b. Online filing of application by exporters by linking of the Shipping Bills and the BRCs
c. The licences are then issued online.

However, as per current practice, after obtaining such licence from DGFT, the licence holder is required to get the licence registered with the Customs Department for utilisation / transfer which involves significant efforts and multiple follow ups.

Suggestion / Recommendation

As the details of the licence are already getting transferred from DGFT server to Customs server, **it is recommended that the formality of registration of the licence with the Customs is done away. This will eliminate the transaction cost involved in registration and also help in saving time of importers as well as Customs officials.**

6. Simplification of closure of outstanding transaction in Export Data Processing & Monitoring System (EDPMS) Portal

Issue and Justification / Rationale

RBI has implemented EDPMS system to monitor the export realisation status for the exports made from the country and compliance to the FEMA guidelines thereof.

The Authorised Dealer (AD) Bankers on realising the payments and submission of documents by exporter, shall close the transaction in EDPMS. In case the transactions are not closed in EDPMS beyond a point of time (currently 2 Years), the RBI is caution listing the exporters.

However, it is pertinent to note that the exporters have no access to the pending EDPMS data to monitor the closure status of their transactions. The Exporter is now burdened with continuous follow-ups with the AD to complete the entire process of raising the Foreign Inward Remittance Certificate (FIRC) first and to close the export bill.

Suggestion / Recommendation

Accordingly, it is recommended that where the exporter has submitted the request to the AD, for the closure of the export bill with the requisite details, the same shall be treated as proof of sufficient compliance and RBI will not put the exporter in caution list. RBI should further stipulate timelines to the ADs for carrying out the Export Bill closure. Simultaneously, Exporters also can be provided access to the EDPMS to track the status of the transactions.

7. Auto updation of shipping bill data in banks / Customs server to DGFT server

Issue and Justification / Rationale

While issuing bank realization certificate (BRC), banks are updating the details of shipping bill manually. If the bank officials make any data entry error while updating the details, the exporters are facing problems in claiming export benefits as the Shipping Bill details does not appear in the DGFT portal. Further in some cases errors are made by Custom department in uploading shipping bills in DGFT portal.

Suggestion / Recommendation

It is recommended that the above-mentioned processes are automated so that clerical mistakes are avoided for seamless process –

a. **Shipping Bill data is picked by Bank from the Customs database instead of feeding the data manually**
b. **Data transfer of Shipping Bills from Customs server to DGFT server is made automatic**

8. Uploading of Responses to Queries Raised – Bills of Entry:

Issue and Justification / Rationale

At the time of filing the Bill of Entry, all prescribed documents are uploaded in e-Sanchit. As per the current practice, uploading the query documents are done manually at the service centre. This process completely defeats the purpose of online documentation and also results in delays as the service center works only for a specific time period in a day.

Suggestion / Recommendation

It is recommended that an online work flow system be introduced enabling the Trade to respond to the queries online itself along with uploading query documents.

9. High Trade costs in International Trade:

Issue and Justification / Rationale

Trade costs are a major issue in international trade. They determine competitiveness, which is fundamental to participating in international trade activities. With various developments around international trade rules resulting from successive trade agreement negotiations at the global, regional, and bilateral levels, tariffs for international trade have fallen to historically low levels, leaving non-tariff measures such as logistics and customs procedures as the main stumbling blocks to international trade. The rise of the COVID-19 pandemic in a deeply interconnected global economy, has led to several disruptions across global supply chains, trade, and travel across borders. Blockchain technology presents an opportunity to further enhance efforts at trade digitalization and support in mitigating the socioeconomic impacts of the crisis. Currently the ecosystem of Customs, Banks, Exporters / Importers, Agents, Freight operators, Commodity boards / Trade bodies that provide certification, etc work in disparate and isolated system that depend largely on flow of physical documents which affect the cycle times in trade settlement.

Suggestion / Recommendation

The policy framework to provide for roadmap and support both in terms of infrastructure and budget for digitisation to usher in Block Chain technology that provides for automated, secure and efficient information sharing between various stakeholder, thus reducing settlement times.

10. Appropriate HS Code Classification for certain products / categories:

Issue and Justification / Rationale

India adopted eight-digit Indian Trade Classification (harmonized System) codes - ITC (HS) Code, for classification of goods in line with WCO's Harmonized Commodity Description and coding system. There are number of products for which there are no specific codes and they are classified as 'Others' in ITC (HS) schedules. A sizable portion of items traded are falling under the description of 'Others' category. Items falling under 'Others' category lack clarity in term of tariff and import / export compliance requirements. This often results in re-opening of Customs assessment after a significant passage of time exposing importers to undue hardships.

Suggestion / Recommendation

It is suggested that a road map be provided for the Ministry of Commerce to identify major items traded under the 'Others' category and allocate a specific code for the same. This would provide a clear picture about regulatory conditions and tariff applicable to a specific item.

11. Extension of Time for filing Bill of Entry (BoE)

Issue and Justification / Rationale

As per amended section 46 of Customs Act (vide Circular No. 08 /2021-Customs dt 29.03.2021) an importer is required to file a BoE before the end of the day (including holidays) preceding the 'day of arrival' of the vessel/aircraft/vehicle carrying the imported goods at a Customs port/station at which such goods are to be cleared for home consumption or warehousing. Previously, there was a grace period of 48 hours for filing of BOE (excluding Sunday and some special holidays at Custom) from the day of arrival which has been reduced to 24 hours at present.

At times, it becomes difficult to file the Bill of Entry within 24 hours due to geographical distances and/or other business/operational reasons.

Suggestion / Recommendation: In order to facilitate trade, it is suggested to re-instate the grace period for filing of Bill of Entry to 48 hours from the day of arrival instead of current 24 hours.

12. Simplification of Custom / FTP processes

The Foreign Trade Policy provides a framework for increasing exports from India and value addition in the country keeping in view the 'Make in India' vision of our Hon'ble Prime Minister. The focus of the Government is to support the industry with special emphasis on 'Ease of Doing Business'. While several initiatives have been taken by the Government to simplify the processes relating to availment of various schemes, certain processes still require interventions

i. **Free of Charge Imports:**

Justification / Rationale

Due to warranty condition in agreement / Purchase order with Foreign vendors, sometime spares, lost / damaged items, drawings etc are received on Free of Charges (FOC) basis. Vendors bear the cost of custom duties on these materials. There is a requirement of reconciliation between IDPMS (Import Data Processing and Monitoring System) and Bill of Entry for all items which are being imported. In regular import cases where the payment is involved, payment details are submitted to bank for closure. However, for FOC basis import no payment details are available. Thus, Banks are not willing to close these entries in IDPMS. In the recent past, "Free of Charge" is categorically specified in Bill of entry to establish that these materials are supplied on FOC basis which banks consider as valid document for closure.

Suggestion / Recommendation

However, suitable advisory may be issued for the purpose of closing old Bill of Entries where "FOC" is not mentioned.

ii. **EPCG: Modification of EPCG License**

Justification / Rationale

In case, Installation certificate for a particular line item(s) submitted is not approved by RA of DGFT, the assessee is unable to submit another installation certificate issued for other line item(s) under the same licence. This is causing delay in submission of Installation Certificate and can lead to payment of composition fee.

Suggestion / Recommendation

It is recommended that a timeline (maximum 3 working days) should be mentioned in FTP to ensure adherence by RA DGFT for approving online submitted Installation Certificates.

iii. **Assessment of duty under Provision Duty Bond and its reversal**

Justification / Rationale

Section 18 of the Customs Act provides for the circumstances under which the proper officer can assess the imported goods provisionally. Customs (Provisional Duty Assessment) Regulations 2011 provides that where the proper officer on account of any of the grounds specified in sub-section (1) of section 18 of the said Act, is not able to verify the self-assessment or make re-assessment of the duty on the imported goods or the export goods, as the case may be, he shall make an estimate of the duty to be levied (hereinafter referred to as the provisional duty) and Importer shall provide for the Provisional Duty (PD) Bond for such amount to enable the proper office to assess the duty on goods provisionally and release the Cargo. Upon submission of such PD Bond by the Importer, the assessment is completed by debiting the value of duty for the subjected import to the bond value. While the above provision is a relief to the importer, there are times when the duty amount is incorrectly/excess debited to the bond as compared to provisionally assessed value. In such cases, while there is an option of recalling such incorrectly assessed bill of entry and re-assess/re-debit the correct bond value, the amount of time taken for such procedural regularisation is high resulting in severe financial hardship on importer in the form of demurrage and detention charges due to delay in release of cargo.

Further, due to rapid fluctuation in commodity prices further accentuated by shipping disruptions, the import prices of certain inputs can vary from shipment-to-shipment by a large measure. This can lead to delays during the process of faceless assessment which relies mainly on time series price movements.

Suggestion / Recommendation

In the backdrop of Ease of Doing Business, it is recommended that re-assessment of bill of entry with incorrect/excess debit to the bond should be done in a time bound manner and multiple layers of approvals may be pruned to speed the entire process.

It is recommended that suitable advisory may be issued covering mechanism to deal with queries related to faceless assessments in a time bound manner.

iv. Extension of time limit for submission of Installation Certificate under EPCG Scheme

The FTP Hand Book of Procedures inter alia provides for submission of Installation Certificate for the Capital Goods procured under EPCG scheme within six months from the date of completion of import and for Spares procured within three years from the date of import. One time extension of the period may be granted by the Regional Authority for a maximum period of 12 months with a composition fee of Rs. 5000/-.

The Pulp and Paper Industry is capital intensive and requires substantial investments for growth. Considering the complexity involved, some of these projects could extend even beyond two years for complete installation. The existing policy therefore creates hardship for the industry in meeting the prescribed deadlines and the importer has to spend substantial time and effort to get permission for extension of time for submission of Installation Certificate.

Suggestion / Recommendation:

It is therefore recommended that the extension for submission of Installation Certificate be increased from 12 months to at least 24 months, subject to relevant approvals.

v. Single window exchange for Foreign Inward Remittance Certificate (FIRC) issuance

In the existing process, where the remittance is received into a bank account, then Electronic Foreign Inward Remittance Certificate (e-FIRC) is required to be issued by that bank to the AD under whose account the shipping bill is filed for closure. The process of FIRC issuance, NOC obtained from other banks etc. takes more time in the current process.

Suggestion / Recommendation:

In order to promote ease of trade and transaction flow, the e-FIRCs issuance shall be made automatic so that it can be accessed and downloaded by the bank through which the SB is filed for closure without having to receive it on request.

vi. Facility to Update multiple E-mail IDs of Importers:

Circular No. 19/2020-Customs dated 13th April, 2020 has enabled electronic communication (e-mail) for documents such as Electronic Out of Charge (OoC), Bill of Entry & e-Gate pass which is excellent trade facilitation measure.

Suggestion / Recommendation:

In order to make it more user friendly, **a facility should be enabled in EDI to register multiple e-mail ids after requisite authorization from importers to enable ease of operation for organisations having multi-location and multi-business operations**.

vii. Issue related to multi-location / multi-business Organisations

Justification / Rationale

Organisations that have multiple businesses and / or operate out of multiple locations across the country, at times, find it difficult to trace the respective business / unit / Customs port to which a particular matter or notice or letters pertains. This causes substantial administrative inconvenience and costs and complexity in dealing with exports/imports related matters.

Further, applications and cancellation of customs bonds are currently been done through the ICEGATE portal. ICEGATE allows only one parent Login access to a Company / IEC. The parent user is given access at the application level and is provided with an option to create child users / logins. However, there is no provision for the Parent User to restrict or provide specific access to the Child users. Due to this, a child user has access to all areas which are accessible by Parent User, which may result in dilution of controls.

Suggestion / Recommendation

- **It is recommended to include apart from IEC, branch & port code additionally in all documents such as Bill of Entry, Letters, Show Cause Notices, Payment challans etc. This will help the Department as well multi-Divisional Corporates to easily identify the transactions w.r.t. location & business it pertains to, leading to substantial reduction in time & effort.**

- **In order to facilitate better control over accesses for Companies with multiple business verticals / divisions, it is recommended that the Parent User in the ICEGATE portal to have the ability to provide restricted access to the Child User (s).**

D. POLICY ISSUES

Cigarettes and Other Tobacco Products

1. **Need for Compulsory Licensing for Cigarette Manufacturing**

   Issue and Justification / Rationale

   Cigarette manufacture in India requires compulsory licensing under the I(D&R) Act, 1951. However, by taking advantage of the definition of 'factory' under the Act, units employing less than 50 workers with the aid of power, or 100 workers without the aid of power, can be set up without obtaining a compulsory license.

   This has enabled some manufacturers to set up units for manufacture of cigarettes without having to obtain an Industrial License under the I(D&R) Act. Some manufacturers amongst them, who are unscrupulous and 'fly-by-night' in nature, have been resorting to clandestine removal of cigarettes from their factories without payment of taxes. As a result, their products are widely available in the market at prices which are much lower than even the applicable taxes on these cigarettes.

   It is recommended that Licensing is made compulsory for all cigarette manufacture in the country, irrespective of size and nature of the manufacturing units. In addition, the Government should mandate all buyers of tobacco from auction platforms to file complete details of sales made to domestic customers with the Tobacco Board. This will ensure audit trail of tobacco consumption / utilization and will further augment the tax-efficient form of tobacco utilization.

   Suggestion / Recommendation:

Compulsory licensing under I(D&R) Act, 1951 for all cigarette manufacture in the country, irrespective of the size and nature of the units in which such manufacture is undertaken, without any exception.

Ministry Of New And Renewable Energy and Ministry of Power

1. **Issues relating to Inter State wheeling of Wind Energy**

   Renewable Energy sources like bio mass, wind, hydro and solar are sustainable sources of energy and provide many environmental benefits over traditional sources of energy like fossil fuels. **Given the green credentials of renewable energy sources, Government of India has been encouraging investments in this sector and** many corporates have adopted a low carbon growth plan as part of its multi-pronged strategy to combat climate change thereby maximising the use of renewable energy and sharpening energy efficiency across its energy consumption points**.** Unfortunately, in the current scenario the investments in renewable energy sources are regulated primarily at a State level and numerous problems are, invariably, faced by industry. **These issues lead to escalation of project costs as well as under recovery of operating costs.**

   The issues being faced and recommendations in respect thereof are outlined below:

- **Levy of Inter-State Open Access Charges & Losses on Wind Power**

  Issue and Justification / Rationale

  Currently Transmission and Point of Connection (POC)/ Inter-State Transmission (ISTS) Charges and losses are levied/deducted on Inter-State wheeling of Wind power. These charges have severely impacted the viability of existing Wind Power investments and also are a deterrent to future renewable energy investments.

  Further, the Ministry of Power (MOP) issued Order No. 23/12/2016-R&R dated 23rd November 2021, wherein *Clause 3.1(i)* provides for applicability of **waiver of Inter-State Transmission Charges (ISTS)/ POC Charges for** Solar or wind energy generation set up by any person/entity. The power generated from such sources can be self-consumed or sold to any entity either through competitive bidding, power exchange or through bilateral agreement.

Central Electricity Regulatory Commission (CERC) has issued the amended regulation viz. Sharing of Inter-State Transmission Charges and Losses First Amendment Regulations, 2023, in February 2023 based on the MOP Order for waiver of Transmission / Inter-State Transmission (ISTS) Charges & Losses on inter-state wheeling of wind power. These regulations are scheduled to come into effect from the date to be notified by the Commission which is awaited.

Suggestion / Recommendation

It is requested that CERC notifies the aforesaid regulations for implementation of waiver of Transmission / Inter-State Transmission (ISTS) Charges & Losses on inter-state wheeling of wind power at the earliest.

- **Levy of Cross Subsidy Surcharge (CSS) on Wind Power consumed at Unit located in Telangana**

Issue and Justification / Rationale

Cross subsidisation is the practice of charging higher rates to one type of consumer to artificially lower the rates for another group. The Electricity Act, of 2003 exempts the levy of CSS on captive energy consumption. However, some States are levying cross-subsidy surcharges and additional surcharges on Captive Renewable energy consumption effectively penalising investment in renewable energy. The absence of a Regulatory mechanism for recognition of the Captive Generating plant is the cause for such a levy.

Suggestion / Recommendation

Regulations / policy to be issued for recognition of the captive Renewable Energy Generating Plant and exemption of levy of CSS on captive renewable energy consumption.

- **Denial of Inter-state open access by Telangana State Load despatch centre (TSSLDC) to Captive Wind Turbine Generators (WTGs)**

Issue and Justification / Rationale

In order to avail of Inter-State open access from own wind farms in Andhra Pradesh to manufacturing facilities in Telangana, WTGs are required to obtain a “No Objection Certificate (NOC)” from Telangana State Load Despatch Centre (TSSLDC) as per the prevailing Open Access Regulations. TSSLDC has been issuing NOC against such applications for grant of Inter-State Open access from September 2016 to March 2023 basis CERC order.

However, since April 2023, TSSLDC has been denying open access applications stating that “As the Intra-State corridor is in congestion due to heavy increase of load, issue of NOC is very difficult at this time, Hence the quantum is curtailed to ‘0’ MW”.

It is to be noted that the Transmission Capacity in Telangana was about 52,126 MVA (as on 31-03-2018) and the peak power demand in Telangana is approx. 18,000 MVA (recorded on 10th February 2023), which indicates availability of sufficient transmission capacity for allowing Open Access in the State.

Suggestion / Recommendation

It is recommended that CERC issue guidelines / notifications for uniform and standardised implementation of Inter-State open access by State Load Despatch Centres.

- **Telangana State Load Dispatch Centre's (TS SLDC) curtailment of Wind power open access quantum to the extent of Contracted maximum demand (CMD)**

  Issue and Justification / Rationale

Certain Consumers of the TS SLDC, on approval of the SLDC avail Wind power for captive consumption from their Windmill through Inter State open access. The SLDC's Approval restricts to the quantum of the Contracted Maximum Demand (CMD) which is against the Electricity Act and Regulations, wherein Section 9 of the Act specifically provides the right to open access and states that "Every person, who has constructed a captive generating plant and maintains and operates such plant, shall have the right to open access for the purposes of carrying electricity from his captive generating plant to the destination of his use". The said restrictions result in higher consumption of fossil fuel based power at Telangana unit due to restriction of Wind Power Open access quantum to the extent of CMD.

  Suggestion / Recommendation

  It is recommended for Uniform regulations / policy be issued by CERC to permit open access from captive renewable power plants irrespective of the Consumer's contracted maximum demand (CMD)

- **Renewable Energy Banking of Wind & Solar:**

  Issue and Justification / Rationale

  Energy generation from wind and solar sources is infirm in nature and varies throughout the day and year. Energy Banking allows renewable energy generators to deposit surplus power into the grid and withdraw it later whenever it is needed, which will help the investments in Renewable energy viable. Some States are proposing to withdraw the banking facility for excess wind energy generated.

  Suggestion / Recommendation

  It is recommended to continue the banking facility; further Government should remove restrictions on withdrawal period / timing to make renewable energy investments more competitive specifically for captive consumption.

- **"Backing down" of Wind energy generators**

  Issue and Justification / Rationale

  All the renewable energy generators are given "must run" status as per CERC regulations. However, some states are still backing down / stopping wind energy generators in case of grid disturbances. This is resulting in losses to the developers and captive consumers.

  Suggestion / Recommendation
  It is recommended that a Central agency should be formed to monitor the implementation of the "must run" status across all states.

2. **Issues relating to Solar Energy**

Issue and Justification / Rationale

Currently, solar energy generators are paying electricity duty and / or parallel operating charges for units generated in solar plants. This is resulting in a higher cost of generation and a deterrent to investments.

Suggestion / Recommendation

Recommended that a uniform policy be laid down by the Centre to exempt solar energy generators from payment of electricity duty, and parallel operating charges.

In order to provide an incentive to various companies to invest in "green energy" and reduce their dependence on fossil fuels, the aforesaid issues need to be looked into so as to bring down the cost of investment in renewable/green energy and promote its usage.

3. **Renewable Purchase Obligation (RPO)**

Issue and Justification / Rationale

Renewable Purchase Obligation (RPO), is a mechanism by which the obligated entities are obliged to purchase a certain percentage of electricity from Renewable Energy sources, as a percentage of the total consumption of electricity. The State Electricity Regulatory Commission (SERC) fixes the minimum RPO for the State based on the availability of different sources of energy i.e. solar, wind etc.

Suggestion / Recommendation

It is recommended to specify the overall RPO obligation instead of segregation between Solar & Non-Solar, as the ultimate objective is to reduce Green House Gases emissions. This will also encourage investments in sustainable energy sources like Biofuels.

4. **Energy Conservation (Amendment) Act 2022**

Issue and Justification / Rationale

Obligation to use non-fossil sources of energy: The Act empowers the Central Government to specify energy consumption standards. The Designated Consumers are mandated to meet a minimum share of energy consumption from non-fossil sources. Different consumption thresholds may be specified for different non-fossil sources and consumer categories.

The Act considers establishment of a Domestic carbon market which will allow voluntary participation and also allows the trade of existing Energy saving certificates and Renewable energy certificates. The objective is to incentivise the industry for its decarbonization initiatives. But ineffective implementation of the Carbon market mechanism will discourage the industry to invest in decarbonization initiatives.

Suggestion / Recommendation

- While specifying the obligation or targets for Designated consumers, the overall share of Non-fossil fuel sources shall be considered instead of specifying different obligations for different energy sources, as for some industries it is economical to consider a certain type of energy mix in the operations. Ex: For the Pulp & paper industry large share of Biomass sources of energy is used in the Final energy mix.
- Effective implementation of Domestic Carbon Market to be ensured by laying down effective regulations and monitoring mechanism.

5. **Central Pollution Control Board (CPCB) Directions regarding Compliance of Emission Limit Notified for Thermal Power Plants by Captive Power Plants (CPPs)**

Issue and Justification / Rationale

In recent years, the Pulp & Paper Industry has invested crores of rupees towards upgradation of process technology to comply with the evolving environment standards.

Pulp & Paper industry is energy intensive and has invested a huge amount of money in setting up of the captive power plants (CPPs) for sustained supply of power and steam for the process requirements. CPPs in Pulp & Paper Mills are classified as co-generation power plants as in the process, two or more forms of useful energy are produced simultaneously - steam and power, and are hence different from Thermal Power Plants (TPPs) which generate only power. Paper Mills, to meet their captive requirement of power as well as process steam for use in manufacturing process, have set up co-generation CPPs using solid fuel as well as bio-mass spent liquor generated during pulping process. Pulp & Paper Industry has also invested a huge amount in making their captive cogeneration power plants energy efficient.

The Pulp & Paper Industry generates significant quantity of waste biomass from the raw material used. Such biomass is used as fuel in boiler and biofuels available around the plant are sourced for maximising Green Energy generation (for process use) and significantly reduce coal consumption. Captive co-generation power plants in the Pulp & Paper Industry are meeting the thermal and electricity requirements of industry in energy efficient and environmental friendly manner.

The key differentiators between Thermal Power Plants (TPPs) and CPPs in the Pulp & Paper Industry are as follows:

a) In Pulp & Paper Mills, CPPs are operated in co-generation mode to meet steam and power demand. Therefore, all boilers in Pulp & Paper Industries are Process Boilers and power is a by-product.

b) The size of the captive co-generation power plants depends upon the process steam to be drawn for process heating / drying application.

c) Captive co-generation power plants in Pulp & Paper Mills have very wide fluctuations in load ranging from 20% to 100% due to variation in process load and various other reasons.

d) The capacity of captive co-generation power plants in Pulp & Paper Industry mostly falls within the bandwidth of 5 MW to 55 MW (per TG Set) which is very small compared to TPPs. Also, steam from Recovery Process Boiler which is generated from black liquor (biomass generated in process) is fed to these smaller captive co-generation power plants.

e) TPPs are generally of very high capacity and the boilers used for these power plants have high and different technology where the fines are arrested and burnt in the boiler. Where as in CPPs, the technology used is totally different where it is not possible to arrest all fines in the boiler.

f) The fuel for such captive co-generation power plants is mostly biomass (ETP bio sludge, fibre waste sludge, chip dust, bark) / coal / lignite / imported coal based on availability and cost. Unlike TPPs which get quality coal, captive co-generation power plants in the Pulp & Paper Mills do not always get linkage and quality coal and have to use whatever quality is available from the market.

g) Specific cooling water consumption (make-up) of 3.5 m3/MWh mandated for TPPs is also not practical for CPPs of Pulp & Paper Mills; since specific cooling water consumption for CPPs connected to only condensing steam turbines will not be able to achieve the norms because of lower turbine inlet steam pressures as compared to TPPs. Condensate recovery is very low 50-60% due to use of steam in direct heating especially in digestors where condensate return is not possible.

Imposing the emission norms of TPPs to captive co-generation power plants of capacity between 5 MW to 55 MW units is not appropriate for following reasons:

a) The quantum of investment for compliance of standards in 5 MW to 55 MW CPP is far higher when compared with 210 MW or 500 MW capacity plant. This makes installation of CPPs for co-generation purpose unviable while heat rate of such plants is only one-third of TPPs.

b) The notification also means that the new standards proposed (w.e.f. 1st January 2017) for new TPPs are also applicable for CPPs irrespective of capacity of plant. This is completely illogical considering the quantum of emissions from TPPs and that from captive co-generation power plants with small installed capacities in the Pulp & Paper Mills.

A period of two years from the date of notification was given to Thermal Power Plants to meet the prescribed emission limits vide notification S.O. 3305(E) dated 7th December 2015. Later, applicability of emission norms extended to 16 category of industries including pulp & paper industry vide notification G.S.R. 96(E) dated 29th January 2018. Currently, the applicability of these notifications requiring to meet prescribed emission limits are deferred till December 2024. While these Standards are appropriate for the Thermal Power Plants, it will be extremely onerous and economically unviable for captive co-generation power plants installed in Pulp & Paper Mills to comply with these specifications.

<u>**Suggestion / Recommendation**</u>:

Therefore, we suggest that the notification mandating emission norms for SO_2, NO_x and Hg in flue gas emanating from power boiler stack and water consumption limits, be restricted to Thermal Power Plants and a specific exemption be given to industrial captive co-generation power plants of the Pulp & Paper Industry.

Ministry Of Environment, Forest And Climate Change (MoEF & CC)

I. Wood based Industry: Unleash Employment Potential

Issue and Justification / Rationale

- As per India State of Forest Report, 2021, the total Forest cover in India is estimated at 71.37 million hectares; (~22% of total geographical area of 328.7 million ha).
    - In terms of density classes, Very Dense Forest cover is 9.97, ha (3.04%), Moderately Dense Forest cover is 30.68 m ha (9.33%) and Open Forest (OF) is 30.71 m ha (9.34%).
    - Total Growing stock of India's forest and trees outside forest is estimated as ~6167 million cubic meters

  India is one of the 17 Mega-diverse countries with 4 global biodiversity hotspots; it has 16 major forest types and 221 sub-forest types. There are around 300 million forest dependent communities including around 87 million tribals, deriving their livelihood and substantial part of their income from forests. The National Forest Policy aims to bring minimum 1/3rd of land mass of India (i.e. ~110 m ha) under forest and tree cover to achieve the national goal for ecological security. To achieve this goal, about 30 - 40 million ha of additional land is to be afforested.

- Considering the pressures on the finite land area of the country, both from ecological security perspective of the country and livelihood perspective of people dependent upon forest resources, **an innovative Agro Forestry model can create enormous employment opportunities** and **address the traditional conflict of land use for food, fuel, fibre and forests**.

- Presently states like Tamil Nadu are not permitting transport of eucalyptus wood outside the State while States such as Madhya Pradesh are insisting on Transit pass for eucalyptus wood. All these restrictions are contrary to National Agro Forestry Policy of Government of India and are adding to the operating costs for the Industry as well as demotivating farmers to take up agro forestry plantations, thereby leading to shortage of wood for industrial growth as well as restricting carbon sequestration.

- Initiative to facilitate **Public Private Participation (PPP) models is required for undertaking afforestation and reforestation activities** in degraded forest areas and forest areas available with Forest Development Corporations (FDC).

- **Employment Generation:** Illustratively, every hectare of plantation creates approximately 450-person days of employment. Assuming afforestation of ~30 million hectares of degraded forest land in India, this **implies a potential of nearly 15 billion man-days of employment for every crop rotation of 4-5 years.**

- **Import Substitution: India imports over US$ 7 billion worth wood and wood-based products** such as wood pulp, paper & paperboard, news print, furniture, plywood etc., largely from ASEAN countries. While the domestic paper & paperboard industry is investing in creation of indigenous production capacity apart from striving to achieve self-sufficiency in pulp requirements through expanding tree plantations, the industry is hampered by the duty reduction / exemption being offered by India for imports. **The current tariff policy, which makes imported wood / wood products more attractive than growing trees in India, prevents livelihood creation in the country and "exports" the jobs to countries selling these products**, simultaneously putting pressure on the current account balance.

Paper & Paperboard Industry

- As outlined above and to encourage PPP models for afforestation/reforestation initiatives, the Paper & Paperboard industry would need about **2.5 million ha. of degraded/forest/FDC land to meet its raw material requirements** on sustainable and continuous basis and to make it globally competitive. Keeping in view that about 50% of area may need to be utilized for soil and water conservation, and may not be productive, this initiative would result in several benefits, including:

i. **Increase in Pulp wood yield by 15 million metric tonnes per annum** thereby meeting fibre requirement of pulp and paper industry on a sustainable basis
ii. **Savings of foreign exchange of about US$ 1.5 Billion per annum** through import substitution of wood pulp
iii. **Employment generation of around 1.2-1.3 billion man-days over 4-5 years**
iv. **Increase in forest cover** resulting in carbon sequestration and other attendant benefits.

– Though growing trees is a long gestation effort (5-8 years), it has the potential to generate the following spin-off benefits since inception, including the following:
  - generate immediate employment opportunities to the rural / marginal sections of the society right from clearing degraded forest land, planting saplings, nurturing them etc. – MGNREGA scheme could be utilized to fund these activities
  - skilling forest dependent population in forestry sector jobs through Forest Skill Development Centres with the help of National & State Skill Development Agencies
  - **encourage setting up of wood-based industries under MSME sector such as veneer, plywood, furniture etc. and growing as well as primary processing of Non-Timber Forest Product (NTFP) (e.g. Medicinal & Aromatic Plants) that could meet not only domestic needs but also increase India's share of value-added exports.**

– As per Free Trade Agreements signed by India with ASEAN countries and CEPA with South Korea, import duty on most paper & paperboard items have been gradually reduced to 'Nil' from 1st Jan 2014 and 1st Jan 2017 respectively. Similarly, duty on imports from China has been reduced from 10% to 7% effective July 2018. Consequently, before Covid there was substantial increase in import of paper/paperboards from ASEAN, Korea and China by a CAGR of around 32.24%, 40.66% and 11.84 % respectively in value terms and 31.67%, 38.22% and 7.13% in volume terms. According to the latest data issued by Directorate General of Commercial Intelligence and Statistics (DGCI&S), imports in volume terms from China have increased by 114% and from ASEAN countries by 60% compared to FY 2021-22 while the increase is 112% and 97% in value terms from China and ASEAN countries respectively. While the Government of India has levied Anti-Dumping duty on copier paper imports from three ASEAN countries, viz. Singapore, Indonesia and Thailand, duty free/concessional duty imports are still allowed for Korea, China and other ASEAN countries.

Suggestion / Recommendation

i. MoEF should issue guidelines/amend Indian Forest Act to exempt all agro forestry species (Eucalyptus, Poplar, Subabul and Casuarina) of wood from felling and transit permission.
ii. **Implement Public Private Partnership model expeditiously to enable allotment of degraded forest /** land parcels in possession of Forest Development Corporation **to the Paper & Paperboard industry** for development through afforestation & reforestation – *Policy changes & incentives needed for this transformation are summarized in Annexure I.*
iii. **Development of industry linked agro forestry wood catchments (Policy interventions detailed in annexure I)**
iv. **Promoting globally competitive wood-based industries for import substitution (Policy interventions detailed in annexure I)**
v. High raw material cost from indigenous sources adversely impacts the competitiveness for the Indian Paper Industry. Hence, till such time plantations on degraded land becomes a reality, to support Domestic players by:
   a. **Imposing 10% standard Customs duty** on import of Paper & Paperboards from ASEAN, South Korea and China instead of the current Nil / concessional rates.
   b. **Keeping Paper and Paperboard products in the Negative List** (i.e., no preferential treatment) while reviewing the existing FTAs and formulating new FTAs including RCEPs.
   c. **Withdrawing Custom Duty exemption for Hard Wood Pulp** (since India grows hard wood)

vi. It would be desirable to extend to agro-forestry all the benefits applicable to agriculture including unrestricted movement of such produce. In order to support farmer investment, **institutional credit needs to be provided in the form of long term, unsecured, low interest loan**s, depending on the species being planted.
vii. Extend tax and other fiscal incentives to promote wood-based products as also to locate industry such as furniture, plywood, veneer etc. near plantations in rural India.

Annexure I

I. Policy Changes & Incentives needed for encouraging Domestic Wood based Industry

- Wood/bamboo industries to be established in identified clusters which are linked to wood catchments existing or to be developed
- Viability gap assistance for wood / pulp input till domestic wood catchments or related pulping capacities are available
- Incentives to wood/bamboo-based industries as per priority sector industry norms, to be provided, such as-
    - 20% of project cost, disbursed over 5 years
    - Electricity duty exemption on captive power
    - Reimbursement of power cost @Rs.3/unit for 5 years
    - Secure coal supply at concession price for 15 years.
    - 100% Gross SGST reimbursement for 15 years
    - Assured water supply
    - One-time assistance on construction of effluent treatment plant
    - 100% exemption on stamp duty
- Relaxing regulatory and licensing regime for setting up wood pulp/ wood/bamboo-based industries and bringing in single window and time bound (3 months) approval, licensing and consent system in place of the existing multiple and cumbersome approval processes.

II. Policy Interventions Needed for encouraging PPP model of Afforestation in FDC lands

- Ministry of Environment and Forests (MoEF) to issue required guidelines under the Forest Conservation Act permitting private sector involvement in afforestation of degraded/FDC lands.
- Plantation funding as per agri funding norms.
- No felling and transit restriction by any government authority in respect of tree species planted on the lines allowed for Bamboo.
- Viability gap assistance to be provided for wood raw material till wood from such plantations are available to related industry.

III. Policy Interventions Needed for development of agro forestry wood catchments

- Implementation of model Contract Farming Act for industry linked agro forestry plantations
- Norms for agro forestry plantation funding to be similar as agri -funding norms
- No felling and transit restriction for the species of plantation used by existing industry as indicated below, to be done by Central Government, by amending section 2 of Indian Forest Act, on the lines done for bamboo

Tree Species	Tree Species	Tree Species	Tree Species
Poplar species	*Acacia species*	*Anthocephalus cadamba*	*Gmelina arborea*
Eucalyptus species	*Dalbergia sissoo*	*Leucaena leucocephala*	*Gliricidia sepium*
Alnus nepalensis	*Salix tetrasperma*	*Grevellia robusta*	*Casuarina species*
Melia species	*Bombax ceiba*	*Tectona grandis*	*Ceiba pentendra*
Ailanthus excelsa	*Artocarpus*	*Millettia pinnata*	*Albizia species*
Terminalia species	*Depterocarpus turbinatus*		

Agriculture

1. Increasing Competitiveness of Indian Agricultural Exports

As per the WTO framework, India is not eligible to provide direct export incentives, however, it is important to keep supporting export led value chains in a sustainable manner while helping farmer improve their incomes. Some of the support measures that can be extend which would be WTO compliant are as follows:

1. Price Deficiency Payment:The Government may consider alternate mechanism of supporting farmers like crediting a specified amount to farmers (linked to acreage meant for exports) for export led crops such as Rice, rather than increasing Minimum Support Price (MSP). This will help in protecting the farmers income without increasing the procurement price for exporters and will result in maintaining price competitiveness in international markets. This measure would fall under 'amber box', as per WTO framework.
2. As per WTO definition (article 6); production related support to small and marginal (less than 10 ha land) farmers is exempted. Since most farmers are smallholder farmers, support provided to them (product specific + non-product specific) will be exempted as per WTO calculations. However, such support can make the export competitiveness by keeping the actual cost low for the crop.
3. Instead of increasing MSP, the Government should provide subsidies/ incentives on use of high yielding variety seeds, providing support for capacity building of farmers. This will keep prices in control while will help farmer lowering cost of cultivation and encourage better farming.
4. Government should consider providing safe insecticide / pesticide to farmers at subsidized rate to ensure that MRLs are within safe limit.
5. Development of freight corridors for transportation of agri commodities from production centers to port will help in decreasing transportation cost. The measure will fall under green box.
6. Strengthening of Existing Programs: Government has taken initiative to invest in network of advisory laboratories and providing research and technical advisory services to shrimp farmers to tackle shrimp diseases. Such initiatives should be strengthened by allocation of higher budget as this falls under green box, which is WTO compliant.
7. Developing financial products specifically for industries such as coffee so as to enhance access to finance.
8. Market Research and Promotion Fund: It is important to understand international consumer preferences in market of interest. Government should provide support to exporters in market research as well as market promotion.
9. Enhancing Export Oriented Infrastructure:
    a. Government is already providing subsidies on processing infrastructure development. However, there is a need to build export-oriented infrastructure in a strategic manner in identified districts in PPP mode to provide efficient processing facilities.
    b. Consumers are demanding cleaner label products, made with only natural ingredients. India should proactively establish itself in this space to capture clean label market, it is important to create high quality infrastructure across different value chain stages starting from storage, testing, grading, packaging etc. Under rural development provision, Government can create village level infrastructure for storage and certification of organic produce.
10. Government may consider increasing income of farmers by paying farmers a specified amount to shun stubble burning. This is an environmental measure and will not fall under amber box, however, will contribute to stabilizing farmer incomes as well as maintaining soil fertility.

2. Sustainable Agriculture

Issue and Justification / Rationale

Since 2014-15, India has had a National Mission for Sustainable Agriculture (NMSA) to promote sustainable agriculture. It consists of several programmes focusing on agroforestry, rain fed areas, water and soil health management, climate impacts and adaptation. Beyond NMSA, the Pradhan Mantri Krishi Sinchai Yojana promotes the adoption of precision farming techniques such as micro-irrigation, and the Integrated Watershed Management Programme supports rainwater harvesting.

However, only a small portion of Ministry of Agriculture and Farmers Welfare (MoAFW) budget is allocated to NMSA. Beyond the total budget of MoAFW, the Central government also spends significant amount on fertiliser subsidies. While the Indian government recognises the importance of promoting sustainable agriculture, the focus remains heavily skewed towards green revolution-led farming.

Suggestion / Recommendation

It is hereby recommended to:

- Focus on knowledge exchange and capacity building among farmers and agriculture extension workers on sustainable agricultural practices and systems by promoting location specific integrated / composite farming system, soil & moisture conservation measures, efficient water management and mainstreaming rain fed agriculture.
- Focussed development of suitable climate resilient varieties by public sector research and development Institutes will help in capability building for future readiness.
- Align incentives towards resource conservation while rewarding outcomes (such as total farm productivity, enhanced ecosystem services). It will allow a multitude of farming approaches, including sustainable agricultural practices and systems, to flourish.
- Provide support to the farmers for transition to organic farm practises through training programs, financial assistance, and by establishing organic markets. Promoting organic farming will enhance sustainability, improve soil health, and cater to the growing demand of organic produce.
- Setting up of National Organic Mission
  a. Policy level support for expanding organic quality testing infrastructure at local level to the farmers and farmers producing organizations.
  b. Relook at various residue limits as per the Indian context to ensure appropriate quality management and certification process.

3. Policy interventions for promoting Agriculture ecosystem in India:

Suggestion / Recommendation

a) Farm Agronomy Related

- Quality seed would be the single most item which can have a positive impact on the productivity of the farmer. Currently subsidy is available to public sector companies engaged in seed production. Private companies engaged in production of quality foundation and certified seed especially in open pollinated crops can also be provided same subsidy. It will provide a massive boost to the use of quality seeds in the country and will have a huge multiplier effect on the farm productivity**.**

- **Focus on localised research** for generating low cost solutions for small and marginal farmers and **developing next Generation Varieties** to match global yields in Indian context.

- **Demand driven agriculture Production:** To promote crops and varieties which are having demand from Industry and Consumers thereby aligning consumer trends in to farming decision of farmer. The evolving consumer needs such as quality, health, nutrition, safety, variety and convenience offer a great opportunity to diversify farm production to more remunerative crops like vegetables, fruits, nutri-cereals (millets), pulses, and the derived products like milk and meat.

  National Grid for Market Intelligence and Crop planning to address issues of glut and scarcity can be set up with the objective to provide comprehensive crop and market price analytics advisory to farmers.

To **shift towards creating Demand Driven value Chains**, it is recommended to have active Public – Private collaborations and participation. Private sector can bring expertise and management of projects with defined outcomes and deliverables and **linking to Integration of Value Chains** across Agriculture & Allied Sectors. Towards this a **Value Chain PPP Corpus (Say Rs.500 Cr)** can be created for inviting projects from Private Sector with a time frame of 3 to 5 years involving requisite stakeholder commitment i.e. Private sector, Government agencies and farmers/ communities' contributions with specific objectives, interventions which are market linked, with defined timelines and outcomes. The Mandated CSR spend of Private Sector Companies can also be made eligible for such projects.

- **Promote & Support Start-up ecosystem in Agri sector to fuel innovation** such as (i) precision farming using sensors & technologies will improve productivity and help balance use of inputs, (ii) Digital platforms (both public and private) that use smart technologies to enable high-yielding, early-warning, waste-mitigating (through Internet of Things, image recognition, predictive analytics etc.) agriculture, (iii) Block chain as a record keeper will track transactions paired together with private and public keys. This will ensure increased traceability, accountability, and food quality thus food safety.

- **Promote Farm Mechanization through adoption of new age technology like drones, smart irrigation, sensors etc. for reduction of cost of cultivation and increase in farmer returns**

b) Repeal Redundant Agricultural Land Ceiling Acts:

The Agricultural Land Ceiling Laws were enacted in the 1960s after the abolition of the Zamindari System. The limit of land holding varies from state to state. For example, in West Bengal, the limit on perennially irrigated land is 5 hectares and dry land is 7 hectares. For Haryana, it is 7.25 hectares for perennially irrigated and 21.8 hectares for dry land. In Madhya Pradesh, it is 7.28 hectares and 21.85 hectares, respectively. Some states like Andhra Pradesh have sub-categories within these limits depending on the district where the land is situated. For most states, the ceiling ratio of dry land to perennially irrigated land is 3:1.

The land ceiling laws may have allowed for re-distribution of land in the past but today, they act as a barrier to the growth of farmers' income. Successful farmers who own land as per the ceiling limits are unable to buy more land and increase their income. Land ceiling laws prevent normal economic growth where efficient producers can acquire more means of production (land) to increase their outputs. Land ceiling laws prohibit not only *owning* agricultural land but also *leasing* such land. It is time to repeal these laws and allow farmers to grow economically.

c) Integrated Nutrient Management (INM):

Balanced nutrition involving Organics, Bio and Chemical fertilizers would enable in not only safeguarding soil health but also the costs and competitiveness of crop production. Hence a clear policy on promotion of bio-fertilizers usage and also use of crop residues / farm wastes as organic manures, which are currently burnt in most of the areas. Further, there should be a special drive on fast pacing development of Customized Fertilizers and support at par with bulk fertilizers for faster adoption. Also, the government should support R&D efforts in developing slow / controlled release customized fertilizers for improved uptake and minimize the nutrient loss.

d) Reforms in Agriculture Education:

- Agriculture Education mechanism under ICAR (Indian Council of Agricultural Research) should be reformed with improvement of current programs and introduction of new programs which are aligning to current industry trends.
- ICAR must digitize the crop management know-how in a web-portal that is usable by all companies involved in agricultural extension. It will not only enable easy access to the knowledge, but also ensure dissemination of approved technologies.

- Agricultural Universities and Krishi Vigyan Kendras must be encouraged to share their physical infrastructure with the private sector for training their agriculture extension staff, unnecessary investments in creating additional infrastructure will be eliminated.

It is important to disseminate Agricultural Good Practices (AGP) to the farmers in a timely and efficient manner. In this process, the digital infrastructure being put up by some companies can play a stellar role. However, it is important to have relevant content on AGP in a digitised manner. The **agricultural universities and research institutes can be provided subsidies / incentives to digitise the content on AGP to facilitate smooth dissemination of best practices**.

4. **Warehousing Infrastructure Development:**

Issue and Justification / Rationale

Currently there is a limited number of Warehousing Development regulatory Authority (WRDA) accredited warehouses restricting the participation in Commodity Exchanges or availing loans against negotiable warehouse receipts (NWR/ electronic NWR). The current quality standards are very rigid limiting the participation by more number of players. Most of the farmers, especially small and marginal farmers cannot participate due to small lots of production and varied quality.

As all warehouses are not accredited with WRDA, the data on private stocks stored in warehouses is not available but data on Government stocks is available. The unavailability of data on private stocking causes hoarding and price manipulation. Further it damages the spirit of agriculture trade by delaying the organised trade.

Suggestion / Recommendation:

Hence the following mechanism can be adopted for increased participation:

- Facilitate private investment for improving WRDA accredited Warehouses and Warehouse Service Providers
- Improve the staffing and skill of WRDA for timely accreditation of warehouses
- Enhance the basket of quality standards / grades for improving the participation
- Support and facilitate Farmer Producer Organisations (FPOs) as Aggregators to participate on behalf of farmers
- Recommend Central Government agencies like Food Corporation of India (FCI) and National Agricultural Cooperative Marketing Federation of India Ltd (NAFED) along with State Government agencies like Markfed to use Electronic Negotiable Warehouse Receipt (eNWRs).

eNWRs are issued from centralised repository system having the unique identity and audit trail of all the transactions. Being digital, it avoids loss or damage as well as duplication of receipts and promotes easy market access.

It is recommended to register all warehouses in India with WDRA in phased manner and implement eNWR (mandatory issuance of Electronic Warehouse Receipts in all registered warehouses) for better ecosystem and online real time information. Further, eNWR should be declared as security under SEBI Act and Negotiable Instrument under RBI Act, also permissible for bank financing.

5. **Strengthening of Futures Market In India**

Issue and Justification / Rationale

In recent times, exchanges with respect to certain agri commodities have taken several actions like postponement of opening new futures contract, imposition of special margins in certain commodities, delisting of certain contracts with abrupt settlement etc. While such actions may cool down the market in the short term, in the long term they will be detrimental to the maturity of the Indian Commodity Exchanges and stability of the institutions.

Suggestion / Recommendation:

The following recommendations are being made in order to enhance the stability of the markets:

a) Introduce long term futures contract with 12-month price visibility.
b) Increase the delivery centres in production States.
c) Warehouse Receipt financing.
d) Encourage participation of hedgers.

6. **Licensing for Agri Input Sales**

Issue and Justification / Rationale

Currently, there are various state specific processes and compliances such as Character Certificate, NOC from Fire Department, Standards of Weights and Measures Act (SWMA) license, Seeds / Fertilizer / Pesticides license etc. to distribute Agri inputs. Additionally, multi layered approvals across hierarchy in respective departments adds to the delay in securing input licenses.

Further, for every point of sale a separate license is required under each Act. While this system is alright for a single location agri-input dealer, it is cumbersome for companies working across geographies.

Suggestion / Recommendation:

Therefore, it is recommended that Single window clearance and a state-wide license for all Agri Inputs is provided to encourage private participation and complement Government efforts in Agri extension activities.

7. **Exports of Aqua Products (Shrimps)**

Issue and Justification / Rationale

Exports of Aqua Products face the following issues in tariff barriers:

European Union imposes an import duty @ 4% on imports of Shrimps from India. However, in case of imports from countries such as Vietnam, the import duty has been removed since 2020. USA also levies an anti-dumping duty (currently @ 3.1%) on imports from India thus making the exports of Shrimps from India, uncompetitive.

Further, the following non-tariff barriers are also detrimental to export of shrimps from India:

a. Export Licensing requirement by EIC (Export Inspection Council) for opening of new Processing Plants for shipments to EU and Russia – The licenses are not being renewed in a timely manner and pending since 2017 as EIC Delhi has to seek approvals from EU health authorities. Similarly, no new licenses have been issued during last year for new units that have been set up.
b. The products are subject to testing at the destination countries. In EU, 50% of the containers that are imported are mandated for testing and sampling. For Vietnam and Ecuador there is no such requirement of testing and sampling. This can be done away for exporters with good track record and these importing countries can accept Export Inspection Agency (EIA) approved quality reports for accepting the shipments

Suggestion / Recommendation

Therefore, in order to provide a level-playing field, it is recommended to,

a. **Negotiate with EU and US authorities and remove import duty for imports of Shrimps from India.**
b. **Do away with Export licensing requirements for established exporters with proven track record and provide for automatic export licensing.**

8. **<u>Policy intervention and Support to Medicinal & Aromatic Plant Farmers:</u>**

To facilitate policy intervention and support to Medicinal and Aromatic plant farmers, following measures are suggested:

- <u>Research & Development:</u> Allocate funds for research & development programs focused on Medicinal and Aromatic Plants. This can include studies on plant cultivation, identification of active compounds, standardization of green processing methods & exploration of new species
- <u>Incentivization:</u>
    - PLI Scheme for Botanicals Processing (Essential Oils & Botanical Extracts) for Nutraceuticals, Animal Feed Additives and Cosmetics
    - Incentives for farmers across India for the cultivation of Medicinal & Aromatic Plants
- Fund Allocation for the Identification & Development of Germplasms of Internationally relevant, Extinct prone, Wild grown Medicinal & Aromatic Plants
- <u>Quality Control & Certification:</u> Funds to establish regulatory environment around Medicinal and Aromatic Plants and Extracts so that the overall quality of extracts is improved in the Country for domestic & export markets
- <u>Collaboration & Networking:</u> Allocate Funds for fostering collaboration & networking among stakeholders involved in the sector
- <u>Training & Development:</u> Funds to train farmers for cultivation & minimal processing of Medicinal and Aromatic Plants at the farmgate

9. **<u>Agricultural Produce Marketing Committee (APMC) Laws</u>**

<u>Background:</u> Agri business and its marketing is administered through more than 2500 Agricultural Produce and Marketing Committees (APMCs) that operate as public sector monopolies over agricultural produce. These regulations discourage transactions between farmer and the farm produce buyer outside the market yard.

Majority of agricultural produce is transacted through long, fragmented and inefficient agri-marketing chains that prevent competition from the private sector, investment in value addition, emergence of modern integrated value chains (IVCs), and technology innovation. The outcome of public monopoly is – low productivity, significant postharvest losses of total farm-gate production, low value addition and producers receiving a low share of the final price to consumer.

<u>Central Government Intervention:</u> The Central Government enacted three ordinances on 5th June, 2020 which subsequently became an Act of Parliament on 27th September 2020. Refer below table on the purpose of passage of the Central Farm Laws.

Act dated 27th September 2020	Purpose
The Essential commodities (amendment) Act, 2020	• To increase competitiveness of agriculture sector by deregulation of supply chain of food items • Removal of stock limits for processors and value chain participants
The farmers (empowerment and protection) agreement on price assurance and farm services Act, 2020	Framework on farming agreements to protect and empower farmers to deal with Agri Business firms for farm services and sale of future farm produce at mutually agreed remunerative price
The Farmer's Produce Trade and Commerce (Promotion and Facilitation) Act, 2020	• Creation of ecosystem where farmer and buyer have the freedom of choice related to sale and purchase of farmer produce which facilitates competitive prices through competitive alternate agri marketing channels • Barrier free intra / interstate trade of farmers produce outside

	notified markets • To provide framework of electronic trading

The Central Government rightfully undertook these reforms with a view of doubling farmer's income through the measures mentioned above. Many states facilitated these reforms in right earnest, and towards increased alternatives for the farmer. The industry had started taking steps for building efficient value chains that enhance farmer productivity, reduce wastage in the chain and link farmer to the consumer.

Supreme Court Interim Stay

On 12th January 2021, in the matter of Rakesh Vaishnav & Others Vs. Union of India (Writ Petition (Civil) No. 1118 of 2020), the Supreme Court (SC) of India passed an Interim Order staying the Central Farm Laws until further Orders.

The said Order of the SC is without pointing out infirmities, if any, in the Central Acts and also it has not adjudicated on any questions relating to constitutionality of the said Central Acts. In its Order, SC stayed the Farm Laws and it did not set aside or strike down the Central Acts as un-constitutional. The said issue is still pending before the SC of India for final adjudication.

Post this, the State Agri Produce Marketing Committee (APMC) Authorities started to enforce their respective State APMC Acts and Rules.

The Farm laws were later repealed effective from 12th June 2021. However, various APMC authorities have started demands for the interim period - 12th Jan 2021 to 12th June 2021 which is causing undue hardship to the industry. There is an ambiguity on the co-existence of Central Farm Laws and State APMC Acts post stay by the Supreme Court i.e. 12th January, 2021.

The State APMC Authorities have started enforcement of their respective APMC Laws. Some have even started issuing notices retrospectively including for the period covered by the Central Farm Laws i.e. from 5th June 2020 to 11th January 2021. Many such retrospective notices even for this period under Central Laws, are demanding APMC Cess along with the levy of interest and penal charges. This is completely against principles of natural justice.

Recommendation

It is suggested that Central Government to issue advisory or guidelines related to any notice / demands towards levy of APMC Cess/ Interest/ Penalty pertaining to the period between enactment of the Central Acts and stay by the Supreme Court, and such advisory or guideline to recommend State Governments to withdraw such unjust demands which have already been raised and to be rescinded.

10. Mandi License for Farmer Producer Organisations (FPOs):

Government of India is promoting large number of FPOs with a view to increase Farmer income and address the challenges faced by small holder farmers. These FPOs are encouraged to undertake various business activities including aggregation and sale of their produce. These FPOs are currently being treated at par with traders, especially in APMC Mandis and have to apply for mandi licenses. However, the process of application and requirements thereof vary across the states and some of the requirements hinder / discourage the FPOs to apply for mandi license. For example, in many states, FPOs need to produce Bank Guarantees (BGs) / Fixed Deposits up to Rs. 2 lakhs which is a significant amount for FPOs.

Therefore, instead of treating FPOs at par with traders, it is recommended that Central Government to issue guidelines for State Government to exempt FPOs from deposits / BGs to secure Mandi Licenses.

PROCESSED AND PACKAGED FOODS

1. Support to the Indian Fruit Based Value Chain

Issue and Justification / Rationale

India is the second largest producer of fruits & vegetables in the world. However, the Indian farmers do not get remunerative returns on their produce. For decades, the farmers have suffered due to drought, low productivity and high wastages.

- Over Rs. 40,000 Cr of the fruits and vegetables, produced by the Indian farmers, wasted annually
- Only 2% of the total fruit production gets processed.

Lack of demand for Indian farmers produce is mainly caused by low import duty on imported fruit/vegetable pulp & concentrates by the beverage manufacturing sector and misuse of free trade agreements.

The Government of India has undertaken various initiatives to help distressed fruit farmers find a better market for their produce. The need to manufacture fruit-based beverages using domestically sourced fruit has even been mentioned by our hon'ble Prime Minister at various occasions. The fruit & vegetable farmers have suffered in particular due to use of imported fruit / vegetable pulp & concentrates by the beverage manufacturing sector in India, instead of using Indian farmers' produce. Lack of demand for Indian fruits / vegetables is caused by:

- Low import duty in India on fruit pulp / concentrates (35% to 50%) when compared to duty applicable on other agri-commodities like coffee (100%), tea (100%) etc. As a result of the lower import duty, the beverage manufacturers prefer to use 3rd country origin fruit & vegetables in their product since the final cost of such imported pulp /concentrates is cheaper than Indian produce. (Refer Annexure)

- Further, some beverage manufacturers are using the Free Trade Agreements (FTA) with our neighbouring countries like Nepal, Bhutan, Sri Lanka etc., in a manner which is detrimental to the interest of the Indian farmers as well as against the interest of other Indian manufacturing units. These FTAs are being used for importing 3rd country fruit pulp / concentrates into neighbouring countries without payment of any customs duty. Beverages made out of such imported fruit pulp / concentrates are thereafter exported into India free of any duty.

- Inadequate infrastructure of fruit processing units in the country, due to lack of economies of scale

Suggestion / Recommendation

In light of the above, we urge the Government to support the Indian farmers by:

- Enhancing Customs Duty on import of all fruit / vegetable pulp and concentrates to the maximum possible. As a suggestion the duty rates on imported pulp / concentrate of Orange, Apple, Mixed Fruit and Pineapple should be increased to the maximum permissible bound rate (currently 85% for most fruit pulps / concentrates). Further efforts should be made to increase the bound rate and also the import duty on these fruit pulps / concentrates to 180%.

- Reviewing terms of the Free Trade Agreements (FTAs) with neighbouring countries so as to prevent import of pulps & concentrates manufactured in 3rd country at nil / preferential rate of duty. The FTAs may be considered to be revised as follows:

    - Benefit under FTAs to be granted only if pulp / concentrate / fruit etc. used in the final product have also originated from these neighbouring countries.

- Local value addition norms prescribed in the FTAs for the final product manufactured in these neighbouring countries should be enhanced upwards to at least 80% (from current 30% - 35%).

Annexure - Cost of Indian Pulp versus imported concentrate in India in Final Product

Variant		Indian Pulp	Imported Concentrate
Orange	Cost of imported concentrate (USD/Kg)		2.6
	Cost of pulp / concentrate in Rs/Kg (1 USD = Rs. 80) (A)	80	208
	Brix (B)	1.0	6.5
	Basic per (Rs/kg) cost of RM (C=A/B)	80	32
	Customs Duty (D)		**35%**
	Landed Rate per (Rs/kg) cost of RM in India [E=C x (1+D)]	**80**	**43**
Apple	Cost of imported concentrate (USD/Kg)		2.1
	Cost of pulp / concentrate in Rs/Kg (1 USD = Rs. 80) (A)	57	168
	Brix (B)	1.0	7.0
	Basic per (Rs/kg) cost of RM (C=A/B)	57	24
	Customs Duty (D)		**50%**
	Landed Rate per (Rs/kg) cost of RM in India [E=C x (1+D)]	**57**	**36**
Pineapple	Cost of imported concentrate (USD/Kg)		2.2
	Cost of pulp / concentrate in Rs/Kg (1 USD = Rs. 80) (A)	77	176
	Brix (B)	1.0	6.0
	Basic per (Rs/kg) cost of RM (C=A/B)	77	29
	Customs Duty (D)		**50%**
	Landed Rate per (Rs/kg) cost of RM in India [E=C x (1+D)]	**77**	**44**

2. Easing of Non-Tariff Barriers to boost exports of processed food

Issue and Justification / Rationale

- **Market Access to EU and UK for dairy based products of Indian Origin**: Ready to Eat (RTE) and Ready to Cook (RTC) items are being exported from India to USA, Canada, South Korea, Singapore, Australia, New Zealand etc. Some of these items have dairy content. However, blanket restrictions imposed by EU and UK on Indian dairy is impacting exports of Indian products to the EU and UK.

- **Issues relating to Ghee exports**: For milk and milk products, an exporter needs to obtain Health Certificate from Export Inspection Agency (EIA – under Ministry of Commerce & Industry) for every individual batch of consignment proposed to be exported to any country from India. The EIA is not issuing health certificate (one of the mandatory documents for export clearance) for dairy products made in India to EU countries. Even for products made from imported raw material which is in compliance with EU requirements, the certification is not being granted.

- Ready to Eat (RTE) items undergo complete sterilisation during the retorting process. Curry Pastes also undergo pasteurisation. While Australia also has restrictions on imports of items containing Indian dairy, the rules permit items with up to 10% Indian dairy as long as the product has undergone the retort sterilisation process. Even USA, permits the import of these very items basis an Import permit issued by the USDA, obtained in advance for specific items and a Certificate from Animal Quarantine & Certification Services, Govt. of India.

- EU market has a large Indian diaspora. Products like ghee available in EU markets are being made locally. This leads to Indian manufacturers losing out on large potential market as well as loss of valuable foreign exchange earnings for the country.

Suggestion / Recommendation

- **Market Access to EU and UK for dairy based products of Indian Origin**: It is recommended that Government should work with the aforesaid destination countries for easing the restrictions, by making some exceptions made in light of the nature of processing the product goes through.
- **Issues relating to Ghee exports**: Products of companies of repute, complying with laid down quality parameters should be allowed to be exported to such countries. A one-time health certificate may be granted to such companies' subject to annual / half yearly revalidation to ease the export process, instead of the requirement to obtain the certificate for each individual batch of consignment EIA should allow issuance of Health certificate to manufacturers manufacturing Ghee from imported butter which is sourced from EU compliant source of butter thereby enabling exports to these countries.

PAPER AND PACKAGING BUSINESS

1. Harnessing the Potential of Export of Packaging Material from India

India has been going through a period of unprecedented liberalisation with significant steps taken by the Government of India over the past few years in unlocking the country's vast economic potential. Exports from India have also benefitted from the "Make in India" initiative of the Government. The clarion call given by our Hon'ble Prime Minister to use these trying times to become "Atmanirbhar" (self-reliant) to enable resurgence of the Indian economy has also been very well received by India's diaspora.

The packaging material industry in India has been growing at a rate of 8-10% over the past few years and we believe that it has a significant export potential which, if harnessed effectively, in line with the Government's policies, can provide a significant fillip to Indian exports. In this regard, we are listing certain suggestions for your kind consideration.

Removal of Differential Import Duty Barriers faced in Exports of Packaging Materials from India

Issue and Justification / Rationale

Whilst there are several regional trade blocks around the world which offer duty concessions for export-import trade for member countries within the Block, India is not a part of many of them. However other countries like India, which are not part of such trade blocks, engage in bilateral trade agreements with importing countries in such trade blocks in order to safeguard their exports and avail lowest possible duty for maximizing exports.

Exports of Packaging Materials under CTH 4823/4819/3921 to African Countries such as Algeria, Egypt, Kenya is attracting differential rates of import duties based on country of origin of goods. This differential duty structure deprives Indian manufacturers/exporters of a level playing field as compared to competition from other countries. Details of some of the differential treatment are as follows:

(i) Exports to Algeria

For the paperboard-based packaging materials, for which technology does not exist locally in Algeria, the applicable customs duty in Algeria for import of the blanks is 62% for exports from India. However, imports from EU & Arabic countries attract only 2% import duty.

(ii) Exports to Kenya

Existing import duties for HS codes 3921/4823 and 4819 into Kenya from India are 25% and 40.5% respectively. At the same time, within Africa for COMESA (Common Market for Eastern and Southern Africa) trade block, there is an exemption to import duties (0%).

(iii) Exports to Sri Lanka

Indian manufacturers have been exporting paperboard-based packaging material under HS Code 4819 to Sri Lanka. The import duties into Sri Lanka from India are at a Most Favourite Nation rate of 37.5%. However, the same item when imported into India from Sri Lanka is at NIL duty. The Indian manufacturers do not get the same reciprocal benefit when exported from India to Sri Lanka.

Suggestion / Recommendation:

It is recommended that Government of India negotiate as part of Free Trade Agreement (FTA) to provide a level playing field to Indian manufacturer / exporters by extending such preferential tariffs to India.