

Incentives in 2008-09 through various stimulus packages offered by Govt. of India

Across-the-board cut of four percent in the ad valorem central value-added tax effected from Dec 2008. This led to reduction of Cenvat on cotton textiles from 4% to 0% and MMF textiles from 8% to 4%.

Interest subvention of two percent on export credit for labour intensive sectors was restored in Dec 2008, after withdrawal in September 2008. However, subvention of 4% was available till September 2008, of which 2% was restored in December 2008. Thus the industry has been demanding for 2% further subvention.

Full refund of service tax paid by exporters to **foreign agents** was another provision added in the December stimulus package. This was in addition to the various services already on refund list.

Limits under the credit guarantee scheme for small enterprises **doubled** in December stimulus package. Besides this, Lock-in period for loans to small firms under credit guarantee scheme reduced. This has made credit availability for small firms easier.

Import duty on naphtha for use by the power sector reduced to zero. This may have some indirect benefit to the industry through cheaper power.

In Feb 2009, reduction in excise duty and service tax by 2% was announced. However the reduction in excise duty was not applicable to the textile sector, with prevailing excise duty in textile sector not exceeding 4%. As such, the garment sector could not avail of any of the excise duty reductions announced in the two stimulus package in the absence of any system of automatic transfer of benefit from fabric suppliers to apparel manufacturers.

Trade promotion measures in Exim Policy 09-10:

1. Market Linked Focus Products Scheme - Textile and leather exporters will get direct government assistance worth 2% of their value of exports to US and the European

Union in the form of duty free scrips that could be sold for cash. The scrips or certificates, which can be used for importing goods duty free, is transferable, and the scheme will be on for six months beginning April 09. Rs. 325 crores would be provided under this promotional scheme, though individual allocation to each sector under the scheme has not been notified. The allocation is for leather and apparel sector. Preliminary assessment shows that the allocation may be insufficient for the garment sector.

2. Technical textiles have now been added under Focus Product Scheme. This being an emerging sector would be beneficial to bring in new investment.

3. Under DEPB Scheme,

a. Duty credit scrips under Chapter 3 i.e. Promotional measures and under DEPB scheme will now be issued without waiting for realization of export proceeds. The exporters will be required to submit proof of export proceeds realization with the time limits prescribed by RBI. This provision shall be applicable on or after 1st April 2009.

b. DEPB scrips were earlier used for payment of duty only on imported items that were under free category but now this utilization is now extended for payment of duty for import of restricted items as well.

c. It has also been extended till 31st December 2009.

These measures will increase the scope of the scheme and reduce procedural time.

4. Under EPCG Scheme,

a. Reduction in customs duty under EPCG scheme from 5% to 3%. This means that now the scheme allows import of capital goods for pre production, production and post production at 3% Customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme to be fulfilled over a period of 8 years reckoned from the date of issuance of license.

b. In case of decline in exports of a product(s) by more than 5%, the export obligation for all exporters of that product(s) is to be reduced proportionately and this provision is extended for 2009-10, for exports during 2008-09.

5. Interest subvention of 2% has also been extended till 30th September 2009.

6. Additional funds of Rs. 1200 crores have been allotted for CST/TED/Drawback refunds. Additional funds of Rs. 1400 crore is provided to clear the backlog claims of TUF. Both these provisions are no new incentive but by way of provisioning for existing schemes, thus has no additional benefit to the apparel sector.

7. Advance authorization

a. Export obligation period against advance authorizations has been extended upto 36 months.

b. Supply of an intermediate product by the domestic supplier directly from their factory to the port against advance intermediate authorization has been allowed.

c. For advance licenses issued prior to 1st April 2009, the requirement of MODVAT/CENVAT certificate dispensed with in cases where the customs notification itself prescribed for payment of CVD, which will help in closure of a number of pending advance licenses.

These provisions would lead to some procedural simplification, and will be beneficial to the exporters.

8. Re-imburement of additional duty of excise levied on fuel under the finance acts would be admissible.