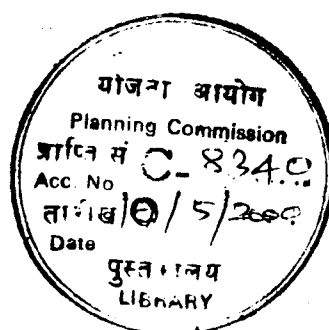


Report of the Working Group on Exports for formulation of the Ninth Five Year Plan



GOVERNMENT OF INDIA

Ministry of Commerce

Udyog Bhavan
New Delhi

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Working Group on Exports for the Ninth Five Year Plan

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LIST OF MEMBERS OF WORKING GROUP ON EXPORTS

1.	Shri Tejendra Khanna Secretary Ministry of Commerce	Chairman
2.	Ms. Tarjani Vakil Chairperson & MD Exim Bank	Member
3.	Dr. Rakesh Mohan Economic Adviser Ministry of Industry	Member
4.	Shri S K Tuteja Secretary (Industry) Govt. of Punjab	Member
5.	Shri R V Choudhury Secretary (Industry) Govt. of Kerala	Member
6.	Shri G. Patnaik/S M Acharya Chairman, APEDA	Member
7.	Shri P K Shah President, FIEO	Member
8.	Shri S Gupta Vice Chairman and M.D. Tata Exports Ltd	Member
9.	Dr. Amit Mitra Secretary General FICCI	Member
10.	Shri Tarun Das DG, CII	Member



11.	Shri P K Shah President, EEPC	..	Member
12.	Shri K L Madan Chairman, AEPC	..	Member
13.	Dr. R Mandal Joint Adviser (MIE) Planning Commission	..	Member
14.	Shri Shymal Ghosh DGFT	..	Member
15.	Shri K K Mathur CMD, ITPO	..	Member
16.	Dr. (Mrs.) V S Bharucha Economic Adviser Ministry of Commerce	..	Member-Secretary

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I . INTRODUCTION

The Working Group on Exports was set up by the Planning Commission in the context of formulation of the 9th Five Year Plan (1997-2002), under the Chairmanship of Shri Tejendra Khanna, Secretary, Ministry of Commerce, Government of India. The Working Group included among members senior officials of Ministry of Commerce, DGFT, Department of Customs, Exim Bank, ECGC, leading Chambers of Commerce and Industry such as ASSOCHAM, FICCI & CII and export organisations such as ITPO, FIEO, EEPC, AEPC & APEDA. Dr.(Mrs.) V S Bharucha, Economic Adviser, Ministry of Commerce served as the Member-Secretary. The details of members of the Working Group are at annexure I.

The terms of reference of the Working Group included :

1. To analyse the impact of export growth on GDP during the 8th Plan and explore possibilities of improvement in export to sustain its increasing contribution to GDP during the 9th Plan;
2. To assess the importance of export of manufactured/processed goods in the industrial growth of the economy;
3. To suggest measures to make export planning an integral part of industrial planning in the country;
4. To identify the constraints inhibiting higher growth of existing exported items and to suggest measures to overcome them. These suggestions may include consideration of improvement in procedures as well as priorities;
5. To evolve a strategy for qualitative improvement in the export of manufactured/processed goods and introduce 'TQM' system in the Indian industry. The strategy may include consideration of different measures like :
 - changes in the prevailing fiscal and tariff policy framework.
 - means to achieve technology and quality upgradation of products.
 - means to improve the infrastructure for marketing of Indian products.
 - identification of products and markets with high potential and relative advantage for export growth.

- changes in the administrative structure (if needed) governing exports.
 - industrial location policy (if any) in supplement exports.
6. To make an assessment of necessary infrastructure and investment requirement for promotion of exports.
 7. To consider the complementary role of the State Governments may play for export promotion as an integral part of their industrial planning.

The Working Group held five meetings holding discussions on various aspects and agreeing on a broad framework of policy and other issues to be addressed during the 9th Plan period.

In the first meeting of the Working Group it was decided to formulate 7 sub-groups on different issues viz. Subgroups on Infrastructure requirement for exports, Role of States in export promotion, Quality issues, Trade finance and fiscal measures for export promotion, Export marketing issues including networking, trade policy and procedural simplification and Better Organisational Coordination, Industrial policy and export promotion linkages. Later on a Sub-group on Agro-exports was also formed to especially make recommendations for this growing and crucial sector for exports; this Sub-group on Agro-exports also subsumed the work and Terms of Reference of a separate Working Group on Agro-exports for 9th Plan constituted by the Planning Commission with Shri Tejendra Khanna, Commerce Secretary as the Chairman.

This report presents the combined results and recommendations of the Working Group on Exports for 9th Plan and the Working Group on Agro-exports for 9th Plan since agro-exports constituted a part of total exports. The Working Group attempted a positive and optimistic approach to export projections for 9th Plan which would be crucial for achieving external sector viability. A broad consensus was arrived at in moving towards a high target of \$ 90-100 billion exports to be achieved by the terminal year of the 9th Plan (2002) despite an awareness of the constraints being faced by the export sector as also the increasingly competitive global trading environment. Attempts were made to seek and incorporate ideas and suggestions for achieving and sustaining a high export growth during the 9th Plan period with unanimity of views expressed by the Members of the Working Group on the targetted growth and measures required to sustain it.

This report is presented in two parts. Section I presents the main report giving an overview of world trade trend and India's position, a review of export performance during the 8th Plan period and projections for 9th Plan besides summarising issues and recommendations of the 8 Sub-groups constituted to address the terms of reference of the Working Group. An executive summary and conclusions is presented in the main report. Section II of the report presents the sub-group reports relating to exim policy and procedures, industrial policy and export promotion linkages, strategy for agro-exports, export marketing and networking, infrastructure requirements for exports, aspects relating to export finance, quality aspects in export promotion and the role of states in export promotion efforts. A comprehensive study of issues crucial for export promotion effort, and also prescriptions and recommendations have been made possible thanks to the efforts of the Members of all the Working Group and the Convenors of the Sub-groups to ensure that the terms of reference are adequately covered besides suggesting a broad framework for achieving the desired export growth in the 9th Plan.

WORKING GROUP ON EXPORTS

II. EXECUTIVE SUMMARY

The Working Group on Exports was set up by the Planning Commission in the context of formulation of the 9th Plan under the Chairmanship of Shri Tejender Khanna, Secretary, Ministry of Commerce. The Working Group formulated 7 seven Sub-Groups on different issues mainly Sub-Group on Infrastructure requirement for Exports, Role of States in Export Promotion, Quality Issues, Trade Finance and Fiscal Measures on Export Promotion, Export Marketing Issues including Net Working, Trade Policy and Procedural Simplification and Better Organisational Coordination, Industrial Policy and Export Promotion Linkages. Later on, a Sub-Group on Agro Exports was also formed to with subsume the work and terms of reference of Working Group on Agri Exports for the 9th Plan.

While making the recommendations on various measures required for boosting Exports during the 9th Plan Period, the Sub-Groups have assumed that by the end of the 9th Plan, the value of Exports would be around US \$ 90 billion. The need for infrastructure requirement, changes in Policies and Procedures, Technological and Qualitative upgradation, developing marketing net work and specifically focussing on some sectors take into account the need to have a high export growth during the 9th Plan.

EXIM POLICY ISSUES

The Government is committed to liberalise the Trade Environment and move away from quantitative restrictions to a Tariff Based Regime. For this, the system and the procedures must be suitably amended with the thrust to ensure

stability both in the Policy and the Procedural Regime. Therefore, the thrust of the Exim Policy during the 9th Plan should be on stability and transparency of the Export Promotion Schemes.

There are essentially two categories of schemes that are in operation: one category of schemes is designed to offer duty free access to international supplies. The second category offers preferential import of capital goods subject to export obligation. It is felt that in future there should not be multiplicity of schemes. There should be an absolutely irreducible number of export specific schemes. The emphasis should be on continuously upgrading the operational efficiency of the schemes than on introduction of new schemes. Continuation of a scheme over a longer time frame with efforts towards continuous improvement enable the user community to appreciate its operation more effectively and transact export business more efficiently. The need for skill development to utilise the schemes at the corporate level will to that extent get minimised. The tasks of the servicing agencies such as the EPCs and the trade industry bodies will also concurrently be less in this regard and have opportunities to focus more on providing professional marketing expertise to their members and advise them on aspects of product and market development, quality consciousness etc.

Therefore, it is proposed that the forthcoming policy should concentrate essentially on the following three categories of schemes for export promotion:

(i) one category of scheme designed to offer duty free access to international inputs, in advance, subject to export obligation.

(ii) second category of scheme designed to offer replenishment benefits or rebate of duties, post-exports.

(iii) third category of scheme designed to offer import of Capital Goods at concessional/zero rate of duty subject to export obligation.

The Duty Exemption Scheme including the Pass Book Scheme and the Duty Drawback Scheme, therefore, need to be simplified. The single window approach is desirable for all the schemes. The vital ingredients of the scheme should be transparency, simplicity, quick servicing and effective administration. The details of the scheme should be worked out by the Government in consultation with the representatives from the Trade and Industry.

Since the liberalisation of imports, there is an increasing demand for the opening up of the consumer goods sector. However, keeping in view the apprehensions of certain domestic manufacturers as well as some economists, it is proposed that import of consumer goods may be allowed with certain quantitative restrictions to be phased out over a period of time. For this purpose, a broad approach can be adopted by taking a time frame of five years broken into two equal phases. In the first phase, items currently in the SIL list can be made freely importable and an equal number of restricted items can simultaneously be placed on the SIL list. During this phase dual use items could also be made freely importable. In the second phase the items with domestic sensitivities could be considered. After studying the trends in import in respect of certain class of consumer goods, the quantitative ceiling may be lifted.

The Export Policy also needs to be rationalised further. The restriction on exports of any item should be limited only to giving effect to international Treaty/Convention or because of environmental, ecological or purely social and cultural considerations. The export of agricultural commodities should also be allowed freely when exported as value added products in consumer packs. The present system of a stop-go arrangement for agro-based commodities, is not conducive to the exporters for developing and sustaining an export market for a

particular product. There is also a need to review the system of exporting certain products through a canalising agent. Except for the items of strategic importance, all the items should be decanalised.

One reason for procedural complexity and substantial documentary requirements is the administrative view that all export-import transactions need to be scrutinised, to ensure that there are no violation of rules and the trading community does not appropriate illegally what is due to the State. The anticipated increase in foreign trade transactions will obviously make such an approach unrealistic. What is required is a changeover from a 100% checking of consignment to a sample-based strategy which will be effectively complimented by deterrent punishment to the violators. It will, therefore, be necessary to develop an appropriate legal machinery if a 'green channel approach' has to be implemented. It was felt that the government should analyse the profiles of exporters/importers and consignment of firms with good track record should be cleared on the basis of a sample approach.

Since the aim of the Exim Policy is development of international Trade, it should be rechristened as "TRADE DEVELOPMENT POLICY". The other schemes in the Trade Development Policy would be as follows:

EPCG SCHEME: This policy allows import of Capital Goods at concessional/zero rate of duty subject to export obligation. The policy should encourage the EPCG's licence holder to source their Capital Goods indigenously from domestic Capital Goods manufacturers who could be allowed to import components, spares and even raw materials at Concessional/Zero rate of duty. The Concessional duty available under EPCG may have to be reduced owing to general reduction in duty structure pertaining to Capital Goods.

EOU'S/EPZ'S: The policy relating to EOU/EPZ would also require simplification of procedure and policy guidelines and reduction in number of schemes by merger of parallel schemes. A simple comprehensive and separate framework in regard to customs/central excise policy and procedures for governing/functioning of EOU/EPZ units be made. The system of physical bonding should be gradually replaced by a system of fiscal bonding.

EPIP Scheme: Involving the State Governments in developing infrastructure facilities for Export Oriented Production may also be continued to give thrust for Exports..

Industrial Policy and Export Promotion Linkages: Recognising the need to promote Foreign Investment for a strengthening the product based several initiatives have been taken in the new industrial policy since 1991. Therefore, however, there is clearly a lack of thrust for Foreign Direct Investments in export related activities which is vital to achieve sustained growth in Exports. The policy framework for FDI should be made more conducive to Export Oriented Investment than what it is today.

Reservation of items in the Small Scale Sector is inhibiting flow of investment, technology and capacity creation in the export related activities. It is, therefore, recommended that the automatic approval list of industries (Annex III of Industrial Policy) may be expanded to include all Sub Sectors with high export potential and which are in need of technological improvement and global market access. In fact, apart from a small negative list, all industries should be permitted automatic approval.

The ceiling for automatic approval of lump sum payment be raised from present Rs. 1 crore to Rs. 10 Crores.

All items restricted for production in the Small Scale Sector should be dereserved and the decision relating to the size of the unit and the level of investments be left to Entrepreneurs, Investors and Financers.

Alternatively, a phased approach may be followed, the first phase may include dereservation of all items in which there has been Nil or very Low production in the Small Scale Industry Sector and dereservation of items of production which are deemed to have a strong export potential or which are on the priority list of Export Promotion Strategy.

Policy be modified to permit investments of more than the limits prescribed for SSI for certain specific products.

AGRO EXPORTS

The agricultural and allied exports sector is one of the thrust sectors identified for faster export growth, in view of the immense potential on exports of processed agricultural products and other processed food items.

This sector is, however, dependent on domestic production and growing demand of internal consumption. Low productivity and high per unit costs, lack of varieties of food products which have international demands, reservation of items in the food processing industry for SSI and high cost of packaging hamper the desired progress in exports of this sector.

Policy initiatives like quantitative restrictions canalisation and Land Ceiling Acts need to be reviewed to give a boost to this important sector. Apart from problems relating to credit availability and high cost of credit State Levies are also a constant impediment. The infrastructural support like cold chains at farm level, specialised transport for perishables, mechanised cargo handling facilities,

congestion free Sea Ports and well equipped airports are essential for further development of this sector.

It is proposed that the growers and manufacturers may be provided incentives to switch over to export oriented production, technology transfer should be allowed liberally, a fully equipped quality rating agency may establish with the network of quality labs for quality upgradation and issuing quality ratings to exporters. The standards of importing countries should be disseminated and adopted by the exporters. Dedicated air cargo handling facilities may be provided for perisables at least at the metro cities. Land Ceiling Act must be suitably amended to facilitate captive farming. The development of land and field infrastructure may be opened to private investment.

EXPORT MARKETING AND INFORMATION NET WORKING

The key to success in export marketing is to make available the requisite on line information and promoting the image of our country. Simultaneously we need to strengthen the data base relating to the profiles and strength of domestic industries, exporters and potential exporters in different sectors and other information about our own country. The marketing strategy needs to be focussed with specified attention at target markets and products. Suitable leaders for export marketing efforts should be chosen amongst industries and institutions. To give "off the shelf " and "on time" delivery there is a need for warehousing facilities in developing countries to tackle non tariff barriers Government should provide subsidy to exporters out of MDA to fight in the Courts of Law. Indian Companies should be provided grant to register their patents abroad. The Government should set up a venture capital fund to cover the products which are technology intensive and will create new niche for exports. The limit on the amount of expenditure on export promotion work need to be removed.

INFRASTRUCTURE REQUIREMENTS FOR EXPORTS

ROAD TRANSPORT

The poor quality of roads and heavy congestion results in longer turn around of vehicles, high energy consumption and warefare thus increasing transportation costs. Check posts are also points of harrasment and lead to avoidable delays.

The introduction of super highways should be the long term strategy and in the short term a crash programme for four laning and maintenance of roads be undertaken by involving the private sectors through the offer of substantial auxiliary incentives such as opportunities for real estate development and provision of auxiliary services.

The Octroi, entry tax and other tax instruments must be abolished. A Green Card System introduced for loaded trucks/containers to move without checking enroute. Checking may be done at starting point and verified only at destination. Highest priority be given for creation of link road infrastructure to ports, airports and ICDs with the primary road network consisting of National and State highways. Vehicles must be subjected to stringent testing to ensure road worthiness and safety.

AIR TRANSPORT

Though the share of exports by air is about 30% and imports is around 20%, the cargo operations constitute only about 8 to 10 per cent of the revenue

earned by the airports in India. As a result creation of cargo handling facilities specifically for high value or precious goods do not receive the prime attention it deserves from the point of promoting exports.

A system needs to be developed to make forecast for various commodities/airports for planning of air cargo capacities and for development of commodity specific nodal airport. Permission must be given to both private and public agencies for setting up new air cargo complexes/temporary facilities in the interim period/nodal complexes for specific commodities. Transparent guidelines should be made and flexible approach should be adopted regarding the actual location of cargo complexes. All clearances should be given through single window. Besides these auxiliary facilities like X-Ray machines, handling machines, storage facilities, security areas for theft prone cargo, closed circuit TV also need to be augmented. The long dwell time at air cargo terminals for import cargo need to be reduced drastically by better management. An independent regulatory body can be created to subject all operators both private and public to well defined regulatory mechanisms and operational quality parameters. EDI should be adopted for a documentation at all airports so that international cargo can be booked at any airport.

Ports

The existing major ports are not in a position to handle a trade turnover of the order of US \$ 180 billion by the end of 2001-02. There is a lack not only of berthing facilities and handling equipment but also a host of other auxiliary support facilities such as transit shed, warehousing and storage, stockyards, container freight stations, port railways etc. There is also a severe strain on customs inspection facilities and other resources with the customs authorities.

To develop the ports they should be given total autonomy and freed from administrative control of Ministry of Surface Transport. The existing Major Port Trust Act should be replaced by a suitable act favouring optimal utilisation of resources, freedom of investment decisions and attracting private sector participation, in development. Focus should be on corporatisation of ports. While creating new capacities or adding capacities, the focus should be on (a) creation of new facilities where the draft is good so that large vessels can call at and (b) development of intermediate/minor ports having all weather berthing facilities. For improvement of labour productivity there should be elimination of Dock Labour Board and system of dock workers. The surplus labour can be effectively redeployed in other operations. Modernisation of customs clearance mechanism is an essential pre requisite for efficient handling of large volume of traffic. A system of automatic clearance on the basis of self declaration may be introduced with necessary safeguard provisions.

Export Finance

Though a well developed export finance mechanism exists to help exporters to have credit arrangements for financing export business and to provide insurance cover to mitigate the risk involved in export ventures, the finance mechanism and credit policy would have to be strengthened and entire set up be made more effective to ensure availability of competitive credit and a stable and supportive credit and insurance policy for exports.

There is an urgent need to speed up credit risk assessment procedure specially for exporters and speedier processing of export related advance be assured. To reconcile the risk perception of banks with the expectations of exports, the credit risk assesment process can be speeded up by maintaining a central registry of background information on exporters by RBI with commercial banks having access to it.

It is recommended that the commercial banks be urged to increase the share of export credit to net bank credit from existing around 12% to 17% gradually till the end of Ninth Plan. There is also a need to develop speedy transmission of export proceeds within the internal bank net work system, similar to the Swift System.

To enable adequate supply of export credit through the banking system the deposit mobilisation rate should be increased steadily. Available indications are that domestic savings rates may go up by 15-16 per cent during the Ninth Plan. Other measures to encourage deposit growth (removal of TDS), fiscal incentives for savings need to be considered.

Due to the low level of inventory or capital in services export, it is necessary to evolve separate norms and criteria for exports from this sector. ECGC could also work out a system for providing cover to services export with low premium to enable flow of funds as working capital to the services sector at the pre-shipment stage.

Investments in industries having an export orientation (export obligation for a minimum period of 5 years) should not require approval of Department of Company Affairs under Section 372 if such investment has been approved by the shareholders of the investor company. Given the low level of inventory or capital in the services sector and the predominant share of human services and value addition, it is necessary to evolve norms and criteria for banks on the basis of which banks can provide credit to services sector similar to the manufacturing industry.

Interest rates is still an issue affecting competitiveness for agricultural exports (rice, wheat). A special scheme to provide pre-shipment credit against

warehouse's receipt could be considered, provided a higher margin is available to the banks similar to a scheme for oilseeds prevalent now. As the level of savings is lower than that required by high rates of economic growth, other credit requirement will have to be made by new schemes or by opening up cross border financing.

Cross border financing facility is required with flexibility to raise loans/equity abroad viz. (i) easier flow of loan/equity from abroad to supplement domestic saving investment balance (ii) private corporate sector to be allowed to raise loans abroad based on calculation of dollar cash flows required to repay FE loan, (iii) institutions like ICICI need to have greater flexibility to raise loans abroad and lend competitively.

Exim Bank could tap lines given by ECA backed credit by export credit agencies. It may go for forfeiting in a large way. The other schemes which need to be strengthened during the Ninth Plan period are product liability insurance finance for major engineering items, product development in the software industry to develop software package for marketing abroad, marketing finance support and training institutes to train professional engineers and software professionals. Special line of credit for achieving environmental standards would be useful.

Quality Issues

The major reasons identified for inferior quality products are unawareness of exporters of quality parameters of importing countries, non-availability of adequate quality of basic raw material, components and packaging material at competitive prices, non-installation of quality assurance system and adequate testing facilities or internationally recognised certifying agencies, non-availability of mechanism of quality rating.

To produce internationally acceptable quality products a National Quality Council be evolved as an apex organisation for quality control measures. It should be linked to a chain of testing facilities and accreditation of the same with important countries. There is a need to create awareness among the producers/exporters about the environmental issues in processing and packaging and also addressing sanitary and phyto-sanitary issues for developing export of agro based products.

Role of States

The State Governments are involved in subjects covered in the State list and Concurrent list which impinge upon exports and cover areas like infrastructure, labour, industrial disputes, factory safety, pollution control, technical institutes etc. The State Governments also extend support to export oriented industrial units by way of concessions in sales tax, capital subsidy, allotment of industrial plots etc.

The State Governments should formulate and integrate export policy as a part of its industrial policy. Incentives like abolishing specific levies in inputs for purpose of export goods, abolishing Octroi and Municipal Tax, for free and unhindered movement of goods, uninterrupted power supply to 100% EOUs, reserving 10% of its industrial plots for allotment to EOUs on a priority basis. The scheme of EPIP can be enlarged and set up in all States and all EOUs should be given public utility status. Marketing support, financial support, human resources support and information dissemination are other areas which need to be developed by State Governments for export promotion.

WORKING GROUP ON EXPORTS

CONCLUSIONS

Exim Policy

- The thrust of the Exim Policy during the Ninth Plan should be on stability, both on Policy and Procedural regime and transparency of the Export Promotion Schemes.
- There should be an absolutely irreducible number of export specific schemes. The emphasis should be on continuously upgrading the operational efficiency of the schemes than on introduction of new schemes.
- Therefore, it is proposed that the forthcoming policy should concentrate essentially on the following three categories of schemes for export promotion:
 - (i) one category of scheme designed to offer duty free access to international inputs, in advance, subject to export obligation.
 - (ii) second category of scheme designed to offer replenishment benefits or rebate of duties, post-exports.
 - (iii) third category of scheme designed to offer import of Capital Goods at concessional/zero rate of duty subject to export obligation.
- The Duty Exemption Scheme including the Pass Book Scheme and the Duty Drawback Scheme, therefore, need to be simplified. A single window approach is desirable for all the schemes.
- The vital ingredients of the scheme should be transparency, simplicity, quick servicing and effective administration.
- Import of consumer goods may be allowed with certain quantitative restrictions to be phased out over a period of time. For this purpose, a broad approach can be adopted by taking a time frame of five years broken into two equal phases. In the first phase, items currently in the SIL list can be made be placed on the SIL list. During this phase dual use items could also be

made freely importable. In the second phase the items with domestic sensitivities could be considered. After studying the trends in import in respect of certain class of consumer goods, the quantitative ceiling may be lifted.

- The Export Policy also needs to be rationalised further. The restriction on exports of any item should be limited only to giving effect to international Treaty/Convention or because of environmental, ecological or purely social and cultural considerations.
- The export of agricultural commodities should also be allowed freely when exported as value added products in consumer packs. The present system of a stop-go arrangement for agro-based commodities, is not conducive to the exporters for developing and sustaining an export market for a particular product.
- There is also a need to review the system of exporting certain products through a canalising agent. Except for the items of strategic importance, all the items should be decanalised.
- A changeover from a 100% checking of consignment to a sample-based strategy effectively complemented by deterrent punishment to the violators may be adopted for speedier custom clearance.
- An appropriate legal machinery is to be developed if a 'green channel approach' has to be implemented.
- Exim Policy to be recrystallised as "TRADE DEVELOPMENT POLICY".
- The other schemes in the Trade Development Policy would be ECGC, EOU/EPZ, and EPIP.

Industrial Policy

- The policy framework for FDI should be made more conducive to Export Oriented Investment than what it is today.
- Apart from a small negative list all industries should be permitted automatic approval.

- The ceiling for automatic approval of lump sum payment be raised from present Rs. 1 crore to Rs. 10 Crores.
- All items restricted for production in the Small Scale Sector should be dereserved and the decision relating to the size of the unit and the level of investments be left to Entrepreneurs, Investors and Financers.
- Alternatively, a phased approach may be followed, the first phase may include dereservation of all items in which there has been Nil or very Low production in the Small Scale Industry Sector and dereservation of items of production which are deemed to have a strong export potential or which are on the priority list of Export Promotion Strategy.

Agro Exports

- Policy initiatives like quantitative restrictions canalisation and Land Ceiling Acts need to be reviewed.
- The infrastructural support like cold chains at farm level, specialised transport for perishables, mechanised cargo handling facilities, congestion free Sea Ports and well equipped airports are essential for further development of this sector.
- A fully equipped quality rating agency may be established with the network of quality labs for quality upgradation and issuing quality ratings to exporters. The standards of importing countries should be disseminated and adopted by the exporters.
- Dedicated air cargo handling facilities may be provided for perishables at least at the metro cities.

Export Marketing And Information Net Working

- To make available the requisite on line information and promoting the image of our country.
- To strengthen the data base relating to the profiles and strength of domestic industries, exporters and potential exporters in different sectors and other information about our own country.
- The marketing strategy needs to be focussed with specified attention at target markets and products.
- Suitable leaders for export marketing efforts should be chosen amongst industries and institutions.
- To give “off the shelf “ and “on time” delivery there is a need for warehousing facilities in developing countries.
- To tackle non tariff barriers Government should provide subsidy to exporters out of MDA to fight in the Courts of Law.
- Indian Companies should be provided grant to register their patents abroad.
- The Government should set up a venture capital fund to cover the products which are technology intensive and will create a niche for exports.
- The limit on the amount of expenditure on export promotion work need to be removed.

Infrastructure Requirements For Exports

Road Transport

- The introduction of super highways should be the long term strategy.
- In the short term a crash programme for four laning and maintenance of roads be undertaken by involving the private sectors, through the offer of substantial auxiliary incentives.
- The Octroi, entry tax and other tax instruments must be abolished.
- A Green Card System be introduced for loaded trucks/containers to move without checking en-route. Checking may be done at starting point and verified only at destination.

- Highest priority be given for creation of link road infrastructure to ports, airports and ICDs with the primary road network consisting of National and State highways.
- Vehicles must be subjected to stringent testing to ensure road worthiness and safety.

Air Transport

- A system needs to be developed to make forecast for various commodities/airports for planning of air cargo capacities and for development of commodity specific nodal airport.
- Permission must be given to both private and public agencies for setting up new air cargo complexes/temporary facilities in the interim period/nodal complexes for specific commodities.
- Transparent guidelines should be made and flexible approach should be adopted regarding the actual location of cargo complexes.
- All clearances should be given through a single window.
- Besides these auxiliary facilities like X-Ray machines, handling machines, storage facilities, security areas for theft prone cargo, closed circuit TV also need to be augmented.
- The long dwell time at air cargo terminals for import cargo need to be reduced drastically by better management.
- An independent regulatory body can be created to subject all operators, both private and public to well defined regulatory mechanisms and operational quality parameters.
- EDI should be adopted for documentation at all airports so that international cargo can be booked at any airport.

Ports

- To develop the ports they should be given total autonomy and freed from administrative control of Ministry of Surface Transport.
- The existing Major Port Trust Act should be replaced by a suitable act favouring optimal utilisation of resources, freedom of investment decisions and attracting private sector participation in development. Focus should be on corporatisation of ports.
- While creating new capacities or adding capacities the focus should be on (a) creation of new facilities where the draft is good so that large vessels can call at and (b) development of intermediate/minor ports having all weather berthing facilities.
- For improvement of labour productivity there should be elimination of Dock Labour Board and system of dock workers. The surplus labour can be effectively redeployed in other operations.
- Modernisation of customs clearance mechanism is an essential pre-requisite for efficient handling of large volume of traffic. A system of automatic clearance, on the basis of self declaration, may be introduced with necessary safeguard provisions.

Export Finance

- There is an urgent need to speed up credit risk assessment procedure specially for exporters and speedier processing of export related advance be assured.
- To reconcile the risk perception of banks with the expectations of exports, the credit risk assesment process can be speeded up by maintaining a central registry of background information on exporters by RBI with commercial banks having access to it.
- It is recommended that the commercial banks be urged to increase the share of export credit to net bank credit from existing around 12% to 17% gradually till the end of Ninth Plan.

- There is also a need to develop speedy transmission of export proceeds within the internal bank net work system, similar to the Swift System.
- To enable adequate supply of export credit through the banking system the deposit mobilisation rate should be increased steadily. Other measures to encourage deposit growth (removal of TDS), fiscal incentives for savings need to be considered.
- Investments in industries having an export orientation (export obligation for a minimum period of 5 years) should not require approval of Department of Company Affairs under Section 372 if such investment has been approved by the shareholders of the investor company.
- Given the low level of inventory of capital in the services sector and the predominant share of human resources and value addition, it is necessary to evolve norms and criteria for banks on the basis of which banks can provide credit to services sector similar to the manufacturing industry.
- ECGC could also work out a system for providing cover to services export with low premium to enable flow of funds as working capital to the services sector at the pre-shipment stage.
- Interest rates is still an issue affecting competitiveness for agricultural exports (rice, wheat). A special scheme to provide pre-shipment credit against warehouses receipt could be considered provided a higher margin is available to the banks, similar to a scheme for oilseeds prevalent now.
- Cross border financing facility is required, with flexibility to raise loans/equity abroad viz. (i) easier flow of loan/equity from abroad to supplement domestic saving- investment balance (ii) private corporate sector to be allowed to raise loans abroad based on calculation of dollar cash flows required to repay FE loan, (iii) institutions like ICICI need to have greater flexibility to raise loans abroad and lend competitively.
- Exim Bank could tap lines of credit given by ECA backed credit by export credit agencies. It may go for forfeiting in a large way.

- The other schemes which need to be strengthened during the Ninth Plan period are product liability insurance finance for major engineering items, product development in the software industry to develop software package for marketing abroad, marketing finance support and training institutes to train professional engineers and software professionals. Special line of credit for achieving environmental standards, would be useful.

Quality Issues

- A National Quality Council be evolved as an apex organisation for quality control measures. It should be linked to a chain of testing facilities and accreditation of the same with importing countries.
- There is a need to create awareness among the producers/exporters about the environmental issues in processing and packaging and also addressing sanitary and phyto-sanitary issues for developing export of agro based products.

Role of States

- The State Governments should formulate and integrate export policy as a part of its industrial policy.
- Incentives like abolishing specific levies in inputs for purpose of export goods, abolishing Octroi and Municipal Tax for free for unhindered movement of goods, uninterrupted power supply to 100% EOUs, reserving 10% of its industrial plots for allotment to EOUs on a priority basis will strengthen exports.
- The scheme of EPIP can be enlarged and set up in all States and all EOUs should be given public utility status.
- Marketing support, financial support, human resources support and information dissemination are other areas which need to be developed by State Governments for export promotion.

III. OVERVIEW OF WORLD TRADE TREND AND INDIA'S POSITION

The signs of recovery in world economy are evident since 1994 which follows a slow down witnessed during 1993. Compared to the average growth rate of world merchandise exports at 5% per annum during 1990-93, the growth rate rose to 13% in 1994; with world trade and other economic indicators pointing towards positive trend, it is expected that external environment for developing countries like India would be much better in the next few years than it has been since 1960s.

Any projection of India's world trade for the 9th Plan period terminating in 2002 or a longer time frame of up to 2012 needs to be viewed in the context of trends in world merchandise trade and services exports, sectors registering faster growth and regions expected to play an important role. Assuming that liberalisation policies continue, the world merchandise trade is expected to grow at over 6% a year; trade in services is expected to increase even faster especially as advances in information and telecommunication technology expand trade in long distance services. The rate of merchandise trade integration of developing countries is projected to average over 2% a year during the next decade implying a more rapid integration of developing countries in world trade as compared to the negative rate till 1990.

The output growth in developing countries is projected to accelerate from 2.2% in 1981-94 to 4.9% in the next decade with developing countries' share of output rising to 25% with faster export growth as compared to industrialised countries. Economic growth of the industrialised countries is expected to average at 2.8% during 1995-2004 with a rising importance of developing countries in world trade.

The successful conclusion and effective implementation of the Uruguay round would have a significant bearing on the economic prospects of developing and industrial countries during the next decade. Reduction in the average tariffs, agreement on elimination of voluntary export restraints within 4 years and the multi-fibre arrangement within 10 years, replacement of non-transparent quantitative reduction by transparent tariffs in the agricultural front and reduction in tariffs on industrial commodities are expected to confer benefits on developing countries in specific areas. Removal of uncertainty regarding application of countervailing duties,

agreement on trade related intellectual property rights and strengthened dispute settlement procedures are expected to improve market security.

It is predicted that in purchasing power parity term; developing countries could account for more than half of world output and three countries namely India, China and Indonesia could be amongst the world's largest economies in the post-Uruguay period.

Recent data on world trade during 1991-94 reveal that of the incremental change in world exports of \$ 782 billion, Asia accounted for a high growth and India represented the highest export growth in Asia (Reference Table-I). India's share in incremental world trade during 1990-94 is 1.2% which is higher than India's current share in world trade of 0.6%. This indicates that buoyancy in India's exports can be sustained in the post liberalisation period and it would benefit from the projected increase in world exports. With world trade projected to increase at an average of 6% during 1997-2004 and anticipated gains to developing countries including India in the areas of agro-products, textiles and other manufactures, it would be safe to assume a steady and sustained growth in exports during the terminal year of the 8th Plan (1996-97) and the full term of the 9th Plan (1997-2002) at a growth rate of 20% per annum in dollar terms during the six year period. The exercise for projection of India's exports during the 9th Plan has thus been carried out in the context of projected world trade growth in the post Uruguay period and an assumption of sustained growth rate for the 9th Plan period based on growth rate achieved during the 8th Plan period.

The export projection exercise for 9th Plan needs to take cognisance of the emerging trends in the international trading environment in terms of formation and progress of regional trading blocks in enlarging market access through intra-regional trade, the reduction in tariffs by all countries with an impact on the emerging competitiveness in trade, inclusion of services in the WTO, integration of textile trade besides issues covering non-tariff barriers especially environmental standards and health and safety regulations. The fundamental changes brought about by the Uruguay Round are particularly relevant for the developing countries with large or lucrative and growing domestic markets like India through the opening up of these markets for goods and services, investment and technology. It is observed that bilateral relationships as well as the policies and programmes of the multilateral institutions are also moving relentlessly in the same direction. The fundamental strategy of the Government in India to meet these changes should be to focus upon

TABLE - I : RECENT TRENDS IN WORLD TRADE : 1990-94

	1990	1991	1992	1993	1994	1995
Value of world export (in \$ billion)	3435	3504	3742	3734	4215	5030
Percentage growth rate		(2)	(6)	(-1)	(13)	(8)
Incremental change		(71)	(238)	(-8)	(481)	
West Europe (\$ billion)	1636	1617	1715	1591	1797	
Latin America (\$ billion)	146	144	150	159	184	
North America (\$ billion)	522	549	583	610	678	
Central/East Europe (\$ billion)	105	93	94	101	118	
Africa (\$ billion)	101	98	96	89	91	
Middle East (\$ billion)	133	118	123	121	121	
Asia (\$ billion)	792	885	980	1064	1226	
% growth		(11.7)	(10.7)	(8.6)	(15.2)	
India's exports*	17.97	17.66	19.56	21.55	25.05	31.5
% growth		(-2)	(11)	(10)	(16)	(20.9)
Percentage share in World Trade	0.52	0.52	0.52	0.58	0.59	0.64
	<u>1990-91</u>	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>
India's exports**	18.14	17.87	18.54	22.24	26.33	22.75
(\$ billion)	(9.2)	(-1.5)	(3.8)	(20.0)	(18.4)	(24.2)

SOURCE : *WTO REPORT 1994/95 DGCI&S

raising the efficiency and competitiveness of the Indian agriculture, trade and industry including the small and medium producers. A positive and determined attitude to be competitive in domestic and international markets would help the key to India's success in sustaining an accelerated growth in the export sector.

REVIEW OF EXPORT PERFORMANCE DURING EIGHTH PLAN PERIOD AND THE NINTH PLAN PROJECTIONS

PERFORMANCE DURING THE EIGHTH PLAN

The 8th Plan document had envisaged that the exports in volume terms would grow at 13.6% per annum during the Plan Period. The total exports over the 5 years of Plan 1992-97 were estimated to be Rs.320759 crores. Of these, Rs.250800 crores would be accounted for by manufactured goods, comprising the share of 77.5%. The exports of agricultural and allied products were envisaged at Rs.50235 crores resulting in a share of a little over 15% of total exports. Thus, compared to the 7th Plan period, it was envisaged that the share of manufactured products would increase from 73% in 1991-92 to 79.2% in 1996-97 and simultaneously, the share of agriculture and allied products was expected to decline from 17.4% in 1991-92 to 14.7% in 1996-97. However, the exports of processed agricultural products such as marine products, meat products and other processed food items would increase at a faster rate as compared to the exports of traditional items. Within the manufacturing sector, it was perceived that there would be accelerated growth in labour intensive manufacturing activities such as textiles and textile products, handicrafts, gems and jewellery etc.

Analysing the overall export performance in US\$ terms during the first 4 years of the 8th Plan, it is observed that the rate of growth of exports during 1992-93 was 3.8% in \$ terms. This slow annual growth was due to transitional adjustments in the economy caused by macro economic imbalances which had occurred and the process of reforms initiated thereafter. The impact of the dismantling of the erstwhile USSR which accounted for a sizeable share of India's foreign trade - though was partially offset by an increase in trade with hard-currency area - resulted in a slow down in overall export growth rate in the first year of the 8th Plan. However, the liberal trade environment gave a boost to the exports during the next 3 years i.e. 1993-94, 1994-95 and 1995-96 and the export growth in \$ terms was 20%, 18.4% and 21.4% respectively. The average rate of growth during the first 4 years of 8th Plan thus works out to 15.9%; with the average inflation of US\$ around 2.5% this approximately shows a real growth of 13.4%. The average rate of export growth of the agricultural and allied products during this period was 16.3%. Within this sector, the commodities which achieved the faster rate of growth were coffee, pulses, poultry and dairy products, fruits/vegetable seeds, fresh fruits, fresh

vegetables, processed vegetables, processed fruits and juices, marine products, raw cotton and meat and preparations.

Ores and minerals sectors which was envisaged to grow at a rate of 3.1% during the 8th Plan period showed an average only growth of 10% in \$ terms during this period. It was mainly due to the high growth of 82.5% in coal, 20.91% in processed minerals and 20.3% in other ores and minerals.

The manufactured goods sector which was expected to register a growth of 15% during the 8th Plan recorded growth of 17% in \$ terms during this period. The sectors which showed high rate of growth were leather manufacturers, rubber footwear, sports goods, gems and jewellery, drugs and pharmaceuticals, dyes/intermediates inorganic/organic agro chemicals, rubber manufactures and products, glass and glassware, paper and wood products, plastic and linoleum products, chemicals and allied products, ferro alloys, non-ferrous metals, manufactures of metals, transport equipment, iron and steel products, electrical goods, computer software and textiles products.

The sharewise analysis of products for 1994-95 indicates that the gems and jewellery accounted for 17.1% of our total exports. However, this is to be viewed with the high imports intensity of this sector. This was followed by a share of 8.5% of cotton yarn, fabrics, made ups, woollen yarn and fabrics and made ups. The other items which had a major share in exports are leather and leather manufacturers including footwear, pharmaceuticals, dyes and intermediates, inorganic and organic chemicals, rubber manufactured products, plastic and linoleum products, manufactures of metals, machinery and instrument, transport equipment, primary and semi-finished iron and steel, electronic goods, manmade fibres and carpets.

COMPARISON OF ACTUAL PERFORMANCE WITH EIGHTH PLAN TARGETS

The Eighth Plan targets have been given in Rs. crores at 1991-92 prices. To compare the performance versus targets the current data has to be deflated at 1991-92 prices. Table I gives a comparison of actual performance of exports to that projected for the 8th Plan period. While comparing the actual performance with that projected the data has been deflated at 1991-92 prices using the wholesale price index. As the actual data is available only upto 1995-96 and where as the 8th Plan ends during the 1996-97, the target verses performance is judged by only average

rates of growth by major product group of exports achieved during the first four years of the 8th Plan.

The analysis reveals that the agricultural and allied products sector has shown a much higher growth of 18.6% as compared to the average growth of 9.4% projected for the 8th Plan period. This is basically due to higher than the expected growth of miscellaneous processed items, meat and preparations, marine products, sugar and molasses and raw cotton. Due to the surplus availability of cereals like rice and wheat the performance of this sector has been much higher than that projected. In fact, the share of this sector which was expected to be 15.5% for the 8th Plan period has actually been 17.7% during 1992-96.

The ores and minerals sub-group which accounts for about 3.8 share has also shown much higher performance of average growth of 6.7% than that envisaged for the 8th Plan.

The manufactured goods sector was expected to grow at an average growth of 15% per annum during the plan period. This sector which accounts for over 75% exports has also registered a higher growth of 15.7%. However, the share of the sector which was envisaged to be 77.4% for the 8th Plan has actually been 75.5% for the period 1992-96.

The only sector which did not achieve the desired level of growth is petroleum products which registered a growth of 3.9% during 1992-96 as compared to 5.6% envisaged for the 8th Plan. However, this is not to be viewed with concern as it signifies greater demand and more utilisation of petroleum products by the domestic industry and hence its development.

The overall exports which were projected to show an average growth of 13.6% per annum during the 8th Plan period have actually registered a growth of 15.4% during the first 4 years of the 8th Plan.

Thus the performance of the exports sector during the first 4 years of the 8th Plan has been much better than that envisaged for this period which is mainly due to the macro economic reforms initiated since July 1991 and consistent thrust to boost exports and various export promotion measures initiated by the Ministry of Commerce.

TABLE - II - TRENDS IN TOTAL EXPORTS : 1989-95

Year	Total exports in US \$ Million	Percentage growth over the previous year
1989-90	16612	18.9
1990-91	18143	9.2
1991-92	17866	(-) 1.5
1992-93	18537	3.8
1993-94	22237	20.0
1994-95	26223	18.0
Total 1992-95	66997	41.8
Average 1992-95	22321	13.9

TABLE - III - EXPORTS AS PER CENT OF GDP

Year	Total Exports in Rs. crores	Exports as percentage of GDP
1989-90	27658	6.8
1990-91	32553	6.8
1991-92	44042	8.0
1992-93	53688	8.6
1993-94	69751	9.6
1994-95	82674	9.7
1995-96	106465	10.8

The 8th Plan projected a large proportion of earnings from exports of primary commodities like marine-products, oil-cakes, rice, cashew kernel, fruits, vegetables, miscellaneous processed foods, sugar and spices. Among the manufactured products, promising sectors were expected to be handicrafts, gems & jewellery, ready-made garments, engineering goods, basic chemicals, leather and manufactures, cotton yarn and fabrics.

The performance till 1993-94 (the latest period for which DGCIS data are available at constant prices) shows that among agricultural and allied products export of coffee, oil cakes, spices, marine products, sugar and molasses and miscellaneous processed foods, grew at higher rates. The manufactured items which showed significant growth include -- cotton yarn, fabrics made ups, coir and coir manufactures, woollen yarn fabrics made-ups, sports goods, rubber manufactured products, engineering goods, chemical and allied products and handicrafts.

EXPORT PROJECTIONS FOR 9TH PLAN; 1997-2002 - AGGREGATE AND SECTORWISE PROJECTIONS

For drawing up Export projections for the 9th Plan period, the following methods have been used :-

- (a) Statistical projection based on sectoral performance for major sectors during the 8th Plan and projections for 9th Plan based on sectoral annual growth rate achieved during the 8th Plan period;
- (b) An interaction with EPCs and Commodity Boards regarding sectoral performance achieved during the 8th Plan, prospects and commoditywise projections for the 9th Plan alongwith constraints being faced and suggestions;
- (c) projections based on export-intensity of GDP with alternative GDP growth rates and
- (d) projections based on India's targetting 1% of world exports by 2002.

The results obtained in the above four methods were analysed to arrive at the aggregate and sectoral export projections for the 9th Plan. The details are outlined below;

(a) Statistical projections based on sectoral growth rates achieved during the 8th Plan:

Itemwise export performance figures (in US dollar terms) for 84 items during each of the completed four yearsw 1991-92 to 1994-95 and for april-November 1995-96 were used to calculate the relevant annual growth rates. These growth rates were critically examined in order to use them for arriving at appropriate growth rates which may be utilised for projecting the estimated (projected) export values for the year 1995-96. Based on this methodology annual itemwise projections for the 6 years 1996-97 to 2001-2002 were arrived at. In several items, no established pattern was visible in the growth rates hence the methodology for individual items had to be decided through an examination of several possible alternatives. A number of exercises were conducted for itemwise projections and after examining the results one exercise was chosen as the most plausible exercise. The projection based on this methodology yield the following aggregate export values:-

Table-IV : Statistical Projections Based on Part Sectoral Growth.

Year	Projected export values in \$ terms
1995-96	31.54
1996-97	37.90
1997-98	44.13
1998-99	52.40
1999-2000	62.42
2000-2001	74.63
2001-2002	89.56

The statistical projection on the assumption of sectoral export growth rates achieved during the 8th Plan for 84 items categorised under major groups is presented in table-V enclosed. It is noted that the average growth rate for the 8th Plan period is 16.14% per annum and the base year export value for the terminal year of 8th Plan works out to \$ 37.3 billion. Applying the average sectoral growth rates for 84 items for the 9th Plan period yields export values at 89.5 billion dollars (current dollar in 2002) which yields an average annual growth rate at 19.15% during 9th Plan.

TABLE V : ITEMWISE/AGGREGATE EXPORT PROJECTIONS FOR THE NINTH PLAN

Sl. No	Item Description	Average Growth Rate 8th Plan	Projected 1996-97	Projected 2001-02	Average Growth Rate 9th Plan	Percentage share 1994-95	2001-02
(US \$ Million)							
I. AGRICULTURAL & ALLIED PRODUCTS		16.27	6266.84	12877.15	15.49	16.05	14.38
1.	Tea	-4.59	454.02	1172.18	20.89	1.18	1.31
2.	Coffee	37.41	504.75	1202.29	18.96	1.27	1.34
3.	Pulses	24.36	46.91	139.49	24.35	0.11	0.16
4.	Rice (Basmati)	6.01	244.47	327.32	6.01	1.05	0.37
5.	Rice (Other than Basmati)	683.88	972.25	1517.32	9.31	0.41	1.69
6.	Wheat	4826.83	58.57	58.57	0.00	0.05	0.07
7.	Other cereals	39.78	10.85	10.85	0.00	0.03	0.01
8.	Poultry & dairy products	26.57	19.50	34.31	11.96	0.06	0.04
9.	Floriculture products	39.45	26.40	142.57	40.12	0.04	0.16
10.	Tobacco (Unmanufactured)	5.33	110.81	143.68	5.33	0.22	0.16
11.	Tobacco (Manufactured)	- 1.67	18.74	17.23	- 1.67	0.09	0.02
12.	Spices	10.35	248.48	406.65	10.35	0.74	0.45
13.	CNSL	- 29.10	0.29	0.06	-27.02	0.00	0.00
14.	Cashew	8.94	400.84	615.11	8.94	1.51	0.69
15.	Sesame/Niger seed	40.20	63.03	145.24	18.17	0.17	0.16
16.	Groundnut	474.15	39.21	63.81	10.23	0.12	0.07
17.	Spirit & Beverages	4.96	19.80	25.26	4.99	0.06	0.03
18.	Guargum meal	10.48	60.15	99.02	10.48	0.17	0.11
19.	Oil meals	10.83	536.75	897.70	10.83	2.17	1.00
20.	Castor oil	56.39	269.87	843.19	25.59	0.53	0.94
21.	Shellac	25.77	27.87	87.77	25.79	0.06	0.10
22.	Sugar & Molasses	566.89	122.06	122.06	0.00	0.08	0.14
23.	Fruits/Veg. Seeds	26.18	16.57	53.04	26.20	0.03	0.06
24.	Fresh fruits	7.41	70.25	100.41	7.41	0.03	0.11
25.	Fresh vegetables	15.70	124.93	259.04	15.70	0.30	0.29
26.	Processed Veg.	40.62	55.94	307.36	40.60	0.10	0.34
27.	Proc. fruits & juices	16.25	71.45	151.65	16.24	0.20	0.17
28.	Misc. Proc. items	49.88	92.03	191.80	15.82	0.14	0.21
29.	Meat & preparations	17.04	204.55	449.22	17.04	0.49	0.50
30.	Marine products	18.82	1322.52	3132.23	18.82	4.28	3.50
31.	Cttn. raw incl. waste	24.86	52.97	160.72	24.86	0.17	0.18
II. ORES & MINERALS		10.05	1446.47	3533.96	19.56	3.75	3.95
32.	Iron ore	2.17	584.78	1316.44	17.62	1.57	1.47
33.	Mica	-10.73	8.92	15.90	12.26	0.03	0.02
34.	Coal	82.55	43.63	139.65	27.90	0.11	0.16
35.	Proc. Minerals	20.89	365.16	942.98	20.89	1.00	1.05
36.	Other ores & Minerals	20.31	443.98	1118.99	20.31	1.95	1.25

No.	Item Description	Average Growth Rate 8th Plan	Projected 1996-97	Projected 2001-02	Average Growth Rate 9th Plan	Percentage share 1994-95 2001-02
III.	MANUFACTURED GOODS	17.04	28715.14	71341.95	19.96	77.50 79.66
37.	Leather	9.01	430.76	662.99	9.01	1.45 0.74
38.	Leather Mfrs.	12.61	950.85	2152.36	17.75	2.58 2.40
39.	Footwear of leather	8.64	726.70	1485.31	15.37	2.09 1.66
40.	Ftwr. of rubber/canvass etc.	16.61	13.96	30.13	16.63	0.05 0.03
41.	Sports goods	24.40	91.25	271.74	24.40	0.25 0.30
42.	Gems & jewellery	18.54	6361.43	14887.25	18.54	17.09 16.62
43.	Drugs, Pharm & Fine Chemicals	13.99	1238.92	3630.59	23.59	3.04 4.05
44.	Dyes/Int. & Coal tar chemicals	12.32	556.26	994.21	12.32	1.82 1.11
45.	Inorg/Org. Agro chem	30.82	576.12	1740.67	24.75	1.22 1.94
46.	Cosmt. Toiletries etc.	4.39	202.17	400.97	14.68	0.62 0.45
47.	Rubber Mfd. Prods.	30.08	339.30	689.31	15.23	1.11 0.77
48.	Paints/Emls./Varnish etc.	13.65	162.81	369.78	17.83	0.48 0.41
49.	Gls/Glswr/Cerms/ refrs./Cmnt.	36.77	229.13	407.97	12.23	0.76 0.46
50.	Paper/Wood Prods.	48.17	269.03	1057.46	31.49	0.56 1.18
51.	Plastic & Lin Prods.	57.26	728.00	2793.61	30.86	1.82 3.12
52.	Resd. chem & allied prods.	31.98	255.74	632.13	19.84	0.73 0.71
53.	Ferro alloys	15.82	153.84	443.60	23.59	0.34 0.50
54.	Alum. other than prods.	- 5.21	54.87	41.99	- 5.21	0.36 0.05
55.	Non-ferrous metals	41.32	34.49	51.36	8.29	0.11 0.06
56.	Mfr. of metals	18.10	1020.99	2345.94	18.10	2.68 2.62
57.	Machine tools	8.64	77.53	209.21	21.96	0.21 0.23
58.	Mach. & instruments	10.95	998.42	2211.53	17.24	2.76 2.47
59.	Transport equipment	19.02	991.96	2004.75	15.11	2.93 2.24
60.	Resd. eng. items	17.83	33.52	76.14	17.83	0.07 0.09
61.	Iron & steel bar/rod etc.	37.52	165.98	234.55	7.16	0.39 0.26
62.	Primary & semi-finish iron and steel	55.13	546.22	972.12	12.22	1.62 1.09
63.	Elect. goods	30.90	844.82	4718.29	41.06	1.57 5.27
64.	Comp. software	82.83	112.41	663.28	42.65	0.21 0.44
65.	Manmade stap. fbr	43.15	72.83	437.91	43.16	0.10 0.42
66.	Cotton yarn, fab. madeups	19.56	3104.13	7583.68	19.56	8.48 8.47
67.	Natl. silk yarn fab.madeups	1.20	138.35	159.61	2.90	0.52 0.18
68.	Manmade yarn fab. made-ups	25.47	1014.21	3153.46	25.47	2.33 3.52

Sl. No	Item Description	Average Growth Rate 8th Plan	Projected 1996-97	Projected 2001-02	Average Growth Rate 9th Plan	Percentage share 1994-95	2001-02
69.	Wln. yarn fab. madeups	21.37	78.10	205.69	21.37	0.23	0.23
70.	RMG Ctn. incl. accss.	18.77	3580.26	8461.31	18.77	9.50	9.45
71.	RMG silk	1.32	114.43	122.14	1.31	0.44	0.14
72.	RMG manmade fibres	7.77	654.97	1559.70	18.95	1.74	1.74
73.	RMG wool	23.96	119.14	348.76	23.96	0.34	0.39
74.	RMG of other tex. matl.	18.48	207.94	485.43	18.48	0.44	0.54
75.	Coir & coir mfrs.	23.93	82.25	240.47	23.93	0.21	0.27
76.	Jute mfr. excl. flr. cover	10.63	234.81	389.19	10.63	0.55	0.43
77.	Flr. cover of jute	132.68	12.64	88.78	47.68	0.02	0.10
78.	Carpet (excl. silk)handmade	0.67	419.03	433.21	0.67	1.68	0.48
79.	Handcrpts excl. handmade carpets	16.19	511.08	1082.64	16.20	1.47	1.21
80.	Carpet (excl. silk)millmade	17.24	162.08	362.09	17.44	0.40	0.40
81.	Silk carpet	- 0.57	18.53	13.03	- 6.06	0.05	0.01
82.	Project goods	7.90	22.91	34.90	8.78	0.08	0.04
83.	Pet. products	0.32	410.27	415.84	0.27	1.58	0.46
84.	Other commodities	24.77	458.72	1387.04	24.77	1.12	1.55
TOTAL		16.14	37297.44	89555.94	19.15	100.00	100.00

Analysing the change in the share of commodities/commodity groups on the basis of projected values for 2002-2002 compared to 1994-95, it is observed that the share of agricultural and allied products has declined from 16.5% in 1994-95 to 14.4% in 2001-2002. This is in lieu of increasing share of manufactured groups from 77.5% to 79.7%. The share of petroleum products is also expected to decline and marginal increase is observed in the share of ores and minerals and the residual other commodities. Within the manufactured goods the high growth commodities are expected to be electronic goods computer software, man-made staple fibre, cotton yarn fabric made-ups, plastic and linoleum, paper and wood products, floor cover of jute, drugs and pharmaceuticals and fine chemicals, gems and jewellery, readymade garments (woollen), coir and coir manufactures and sports goods. However, the relative share of gems and jewellery is expected to decline and the share of electronic goods and computer software is expected to rise. In the agricultural and allied products a decline is observed in the share of marine products, oil meals and cashew. The shares of tea and coffee and pulses is expected to increase marginally.

considering that a minimum 20% growth in current dollar terms is crucial for sustaining the level of growth and to maintain a sustainable current account deficit, MoC is projecting a 20% growth in dollar terms per annum during the period 1996-97 to 2002. Given the estimated export values at \$31.5 billion in 1995-96, the base year export values for 1996-97 (terminal year of 8th Plan) will be \$ 37.8 billion. Projecting a 20% per annum compounded growth in current dollar terms on the estimated base year value of 1996-97, the following projections emerged:- (Table VI)

Table-VI : Projections based on sustainable growth assumption.

Year	Projected export values in \$ billions
Base year 1996-97	37.8
1997-98	45.4
1998-99	54.4
1999-2000	65.3
2000-2001	78.4
2001-2002	94.1

It is noted that a purely statistical projection arrived on the basis of sectoral growth rates achieved during 8th Plan gives exports values at 89.5 billion dollars by 2002 while the projection based on a 20% annual growth in current dollars gives export values at \$ 94.1 billion in view of the difference in average growth of 19% in the statistical projection exercise.

(b) Projection based on interaction with export promotion organisations and industry:-

Interaction with exporting community through the promotional organisations yielded commoditywise data on export growth achieved during the 8th Plan and commoditywise projections for 9th Plan. These projections were based on policy initiatives taken already, trends in world trade and India's share, projections for world trade based on regional and sectoral developments, competitors and post-Uruguay issues, expansion in India's sectoral output and special advantages/disadvantages for India envisaged during the 9th Plan. A summary of commoditywise responses received from the EPCs is presented in Table-VII enclosed. While sectoral commoditywise growth during the 8th Plan has varied annually and as an average during the 8th Plan, the average growth for all commodities during the 8th Plan is 20.50%; the projected average growth for all commodities based on EPC projections is 20.7% during the 9th Plan. The sectors which are expected to grow above 20% are computer software, electronics, handicrafts, wool and woollen products, cotton textiles, plastic and linoleum products and basic chemicals and pharmaceutical products. Growth rate in respect of garments, cashew, coir, agri and allied products, leather products, chemicals and allied products and marine products are considered medium ranging between 10%-16%. Commodities like spices, coffee, tobacco, handloom, silk products are projected to have a lower than 10% growth rate.

Projections by the concerned Government departments regarding commoditywise growth rates approximate to the projections made by the councils since the sectors indicating higher export growth rates are also projected to achieve higher output and overall industry and output growth rates.

It is interesting to note that export projections for 9th Plan based on the above three methodologies converge to an approximately similar average growth rate during the 8th Plan period namely; 18-20% in current dollar terms.

(c) Projections based on export intensity of GDP with alternative GDP growth rate:-

Liberalisation and globalisation policies appear to have resulted in an increased share of exports to GDP in recent years reflecting the growing export intensity of GDP. It is observed that the exports to GDP ratio has risen from 6.8% in 1990-91 to around 10% in 1994-95. It is possible to assume that this ratio will

**TABLE VII : REVIEW OF EXPORTS DURING 8TH PLAN AND PROJECTIONS FOR THE 9TH PLAN
EXPORT PROMOTION COUNCIL/COMMODITY BOARDWISE**

(US\$ Million)

COUNCIL/COMMODITY BOARD	REVIEW OF THE PERFORMANCE DURING THE 8TH PLAN						PROJECTION FOR THE 9TH PLAN				PROJ. GROWTH OVER 9TH PLAN	
	92-93	93-94	94-95	95-96	96-97	Avg.	97-98	98-99	99-00	00-01	01-02	Avg.
AEPC	3085	3653 18.4		3137 -29.6	4985 58.9	17.4	5250 5.3	5775 10.0	6641 15.0	7637 15.0	8783 15.0	12.1
EEPC Engg. Goods	2398	2898 20.9		3537 10.3	4000 13.1	13.7	4514 12.9	5097 12.9	5760 13.0	6514 13.1	7369 13.1	13.0
Cashew EPC Cashew Incl. CNSL	259	334 29.3		379 -4.2	428 12.9	14.1	484 12.9	546 12.8	616 12.9	695 12.9	785 12.9	12.9
Electronics EPC Electronic Hardware	316	349 10.1		603 24.1	784 30.0	26.0	1020 30.1	1357 33.0	1805 33.0	2500 38.5	3500 40.0	34.9
Computer Soft & Services	380	453 19.2		984 32.6	1380 40.2	39.0	1930 39.9	2700 39.9	3800 40.7	5320 40.0	7450 40.0	40.1
Coir Board Coir*	33	41 24.1		58 6.0	66 14.2	19.4	75 13.4	85 13.0	97 13.7	109 13.3	126 15.4	13.7
Spices Board Spices*	145	174 20.5		194 0.5	224 15.4	11.8	239 6.4	253 6.0	269 6.3	283 5.2	306 8.3	6.4
EPC for Handicrafts Handicrafts*	488	628 28.8	839 33.7	600 -28.6	1151 91.8	31.4	1494 29.9	1941 29.9	2520 29.9	3273 29.9	4250 29.8	29.9

COUNCIL/COMMODITY BOARD	REVIEW OF THE PERFORMANCE DURING THE 8TH PLAN						PROJECTION FOR THE 9TH PLAN				PROJ. GROWTH OVER 9TH PLAN	
	92-93	93-94	94-95	95-96	96-97	Avg.	97-98	98-99	99-00	00-01	01-02	Avg.
APEDA												
Agri. & Allied Products*	716	909 27.0	948 4.3	1648 73.9	1771 7.5	28.2	2025 14.3	2319 14.5	2659 14.7	3053 14.8	3510 15.0	14.7
Wool & Woolen EPC												
Wool & Woolen Products*	205	256 24.4	314 22.7	351 12.0	423 20.4	19.9	507 19.9	609 20.0	731 20.0	876 19.9	1051 20.0	20.0
TEXPROCIL												
Cotton & Textiles	1322	1533 20.1	2307 45.3	2696 16.9	3088 14.5	24.2	3706 20.0	4447 20.0	5336 20.0	6403 20.0	7685 20.0	20.0
Council for Leather Exports												
Leather & Leather Prods.	1277	1299 1.7	1559 20.0	1780 14.2	2082 17.0	13.2	2445 17.4	2883 18.1	3452 19.5	-	-	11.0
SYNRAYCIL												
Synth & Rayon Textile*	499	589 18.1	792 34.5	978 23.5	1222 25.0	25.3	1467 20.0	1772 20.8	2139 20.7	2502 17.0	2903 16.0	18.9
Rubber Board												
Rubber	11	0.47 -95.7	807	271 -66.4	-	42860.0	No export has been projected					
Tobacco Board												
Tobacco & Products*	175	155 -11.7	85 -44.9	118 38.2	130 10.1	-2.1	143 10.1	157 9.8	173 10.1	190 9.9	209 10.0	10.0
Coffee Board												
Coffee	381	587 54.1	1096 86.7	1267 15.6	1367 7.9	41.1	1367 0.0	1500 9.7	1690 6.7	1765 10.3	1825 3.4	6.0
Gem & Jewellery EPC												
Gem & Jewellery	3272	4139 26.5	4675 12.9	5420 15.9	6500 19.9	18.8	-	-	-	-	14.5 to 15 bl.	17.0

COUNCIL/COMMODITY BOARD	REVIEW OF THE PERFORMANCE DURING THE 8TH PLAN						PROJECTION FOR THE 9TH PLAN					PROJ. GROWTH OVER 9TH PLAN	
	92-93	93-94	94-95	95-96	96-97	Avg.	97-98	98-99	99-00	00-01	01-02	Avg.	
PLEXCONCIL Plastic & Lino. Prods.	145	254 75.2	370 45.7	445 20.3	535 20.2	40.3	665 24.3	870 30.3	1130 29.9	1470 30.1	1900 29.3	28.9	
CAPEXCIL Chem & Allied Prods.	1530	1735 13.4	1989 14.6	2258 13.5	2600 15.1	14.2	3000 15.4	3457 15.2	4000 15.7	4600 15.0	5286 14.9	15.2	
CHEMEXCIL Basic Chem. & Pharma *	1258	1563 24.2	1892 21.0	2269 20.0	2837 25.0	22.6	3546 25.0	4432 25.0	5540 25.0	6926 25.0	-	20.0	
MPEDA Marine Products*	615	798 29.6	1139 42.7	1100 -3.4	1314 19.5	22.1	1580 20.2	1820 15.2	2100 15.4	2475 17.9	2780 12.3	16.2	
Silk EPC Silk & Silk Fabrics	254	252 -7.8	299 18.7	262 -12.5	300 14.7	3.3	323 7.6	340 5.3	358 5.3	375 4.7	399 6.4	5.9	
Handloom EPC	333	417 25.1	478 14.5	450 -5.8	463 2.8	9.1	482 4.1	506 4.9	526 3.8	563 6.8	-	3.9	

* Exchange rate used from 1995-96 is 32.73

continue to rise to achieve export intensity at 17% of GDP by the end of the 9th Plan; assuming that export intensity of GDP increases by over 1% per annum.

Two alternative scenarios emerge while making export projections based on export intensity of GDP. Assuming a 6% real growth in GDP during 1995-96 and beyond up to 2002 and an exchange intensity at 17% of GDP with exchange rate at \$1 = Rs.35, it is seen that the overall exports by the end of the 9th Plan will be around \$99 billion. The average annual export growth rate during the 9th Plan will be around 20% (while making these calculations the growth of 8% has been taken for GDP deflator for 1995-96 and a growth of 6.7% has been taken for 1996-97 upto 2002).

Table-VIII : Projections based on Export Intensity of GDP Growth

Year	Exports		GDP(Factor Cost)		\$ Exports % change	Exchange Rate	Exports/ GDP
	Rs.Crore	US\$(Mil.)	Rs. Crore				
			Current	Constant			
87-88			294851	170322			
88-89			352706	188462			
89-90	27658	-	408662	201453			6.8
90-91	32553	18142.7	477797	212276		17.9428	6.8
91-92	44041	17865.1	552030	214256	- 1.5	24.6520	8.0
92-93	53668	18530.1	627634	223438	3.7	28.9626	8.6
93-94	69751	22238.1	723103	236064	20.0	31.3655	9.6
94-95	82674	26330.5	854103	251010	18.4	31.3986	9.7
95-96	107313	32783.8	977777	266071	24.5	32.7336	11.0
96-97	132703	37916.1	1105885	282035	15.7	35.0000	12.0
97-98	162601	46457.5	1250779	298957	22.5	35.0000	13.0
98-99	198052	56586.2	1414656	316894	21.8	35.0000	14.0
99-00	240001	68571.6	1600004	335908	21.2	35.0000	15.0
00-01	289542	82726.2	1809636	356062	20.6	35.0000	16.0
01-02	347945	99412.8	2046735	377426	20.2	35.0000	17.0

- Assumption
1. 6% real growth in GDP
 2. Export/GDP : 12-17%
 3. 6.7% growth in GDP Deflators in 1996-97 and beyond 8% growth for 1995-96

India's share in world exports comes to 1.08 by 2001-02.

In the alternative optimistic export scenario based on an assumption of 8% real growth in GDP and a growing export GDP ratio to reach 17% by 2002, India's export values are projected are \$113 billion which would raise India's share in world exports to 1.2%. A statement on export projection for current and constant GDP values and an increased export intensity is presented in table-VIII above. The

realistic and the optimistic scenarios as indicated in the table range from 20% to 22% of export growth.

(d) Export projections based on India's targetting 1% share of world exports by 2002:-

It has been observed that India's share in world exports has been showing improvement in the post-liberalisation period rising from 0.45% in 1991 to 0.6% in 1995 (based on WTO data for 1995). On the basis of trends projected for world trade growth by World Bank reports, the share of Asian region and developing countries, one could assume that India's share could rise to 1% of world exports by 2002. As per these calculations, India's exports would amount to \$92 billion with the overall growth rate during the 9th Plan being at around 20% per annum in constant dollar terms.

To sum up, there is reasonable similarity in the export projections and growth rates for the 9th Plan calculated under various methodologies outlined at (a) to (d) above. Summarising the results of these projections, the following picture emerged (Table-IX):-

TABLE-IX : Summary of 9th Plan Export Projections under different methods.

Type of Analysis	1996-97 base-year value (\$ billion)	Projections for 2002 (\$ billion)	Growth rate
Statistical projection sectoral growth rate achieved during 8th Plan.	37.3	89.6	19.15%
Assumption of 20% growth in dollar terms based on sustained growth rate in the last four years of 8th Plan.	37.8	94.1	20.2%
Projections based on EPCs/Commodity Boards estimates.	20.5% growth for 8th Plan	20.7% 20.7% growth for 9th Plan	
Projection based on exports to GDP ratio of which:			
(a) realistic (6% GDP)	37.9	99.4	21.2%
(b) optimistic(8% GDP growth)	39.4	113.3	22.4%
Assumption of 1% share for India in world trade by 2002		91.6	(1% share in world trade)

To sum up export projections prepared under different methods - realistic/practically viable/optimistic yield an average growth ranging from 19% - 22% in current dollar terms. Exports values are projected at \$90 billion to 113 billion by the year 2002 by assuming different GDP growth rates at 6%, 7% & 8% per annum and a gradually increasing exports to GDP ratio from the present 12% to 17% by 2002.

The major recommendations of the various Sub-groups are presented in the following chapter.

V

ISSUES AND RECOMMENDATIONS **OF** **SUB-GROUPS**

- I. EXIM POLICY AND PROCEDURES AND
BETTER ORGANISATION COORDINATION
- II. INDUSTRIAL POLICY AND EXPORT
PROMOTION LINKAGES
- III. STRATEGY FOR AGRO-EXPORTS
- IV. EXPORT MARKETING AND INFORMATION
NETWORKING
- V. INFRASTRUCTURE REQUIREMENTS FOR
EXPORT
- VI. EXPORT FINANCE ASPECTS
- VII. QUALITY ASPECTS IN EXPORT
PROMOTION
- VIII. ROLE OF STATES IN EXPORT PROMOTION

SUB-GROUP ON EXPORT IMPORT POLICY AND PROCEDURES FOR THE NINTH FIVE YEAR PLAN

ISSUES

1. The commitment of the Government to further liberalise Exim Policy as well as to bring down the average rate of protection to the domestic industry will necessarily create a situation where the ability of the Exim Policy to provide preferential advantages to the export sector at the cost of non-tradeable sector will become marginal.
2. The reforms process have started a movement away from the QR regime to a tariff based regime which may get accelerated during the Ninth Plan. This will automatically imply a shift in terms of controls on export-import trade from the Ministry of Commerce to the Ministry of Finance.
3. In the past, there has not been any consistent policy relating to controls on exports in the event of conflicts between domestic and export requirements. However, if a consensus is achieved on the desirability of maintaining the export market either at the cost of the domestic consumers or through import or third country trade, the need for export controls will be much less felt in future.
4. In this scenario, the relative importance of Exim Policy in its traditional form will be of little significance. The really important instrument will be other macro-economic policies such as exchange rate management, maintenance of domestic price level, policies relating to privatisation, infrastructure development etc.
5. The real threats to the country's export development will come in future from the new types of neo-protectionist instruments such as social clauses and environment related non-tariff barriers. There is also a perception that the use of anti-dumping and countervailing duties by the developed countries will become increasingly frequent. The other major threats originate in the increasing regionalisation of the world trade due to which India may face with a problem of reduced market access.
6. It is clear that the Exim Policy as designed today focusing narrowly on export-import transactions will become totally inadequate to counter these threats. What will, therefore, be required is a much greater co-ordination among the various economic policies to work out suitable responses to these developments.
7. Due to substantial expansion in foreign trade in the last few years, the trade/GDP ratio has already increased to about 18 percent. If the present growth rates continue, the proportion will rise to a still higher level. The rising level of foreign direct investment is also increasing the integration of the Indian production system with the rest of the world. In this situation, the strategic thrust of the trade policy measures should be to help the Indian economy to attain global competitiveness as a whole and not aim at creating only artificial export price competitiveness or higher export profitability.
8. Given the anticipated reduced importance of the traditional Exim Policy, it is clear that the focus, so far as the traditional component is concerned, will have to

be on the systematic improvements of the regime controlling export-import transactions. Any complicated procedural system can increase the uncompetitiveness of the export sector in a variety of ways :

- i) It can increase the transactions cost.
- ii) It can increase the transactions time.
- iii) It can reduce transparency.
- iv) It can influence rent seeking behaviour.

9 Since in future, the country has to achieve a much higher level of operating efficiency to compete globally, it is clear that the systems and the procedures must be suitably amended. One component of this thrust towards systematic improvement will be to ensure stability both in the policy and the procedural regimes.

10 Second is the appreciation that overall operating efficiency can only be achieved if a holistic approach is followed since Exim Policy and the Procedures are only a small part of the totality of systems and procedures governing foreign trade transactions.

11 Third, if there is no corresponding qualitative improvement in the human and infrastructural resources, in line with the increase in the country's trade volume, it is inevitable that even a simple, transparent policy and procedural regime will become complex and time consuming.

12 Fourth, the need for an increase in the number of staff and officers in the regulatory agencies can only be mitigated to some extent with the increased use of EDI which all the government departments connected with trade promotion have been exhorted to adopt from January 1998 and can, therefore, result in a substantial improvement in the operating efficiency.

13. Despite the perceived reduction in the importance of the role of the Exim Policy in future, there is no doubt that in the near term especially during the initial years of the Ninth Plan, some of the existing features of the current Exim Policy will continue to be of interest and importance to the Indian trade and industry. The thrust in this segment should be on the stability and transparency of the export promotion schemes. There are essentially two categories of schemes that are in operation : one category of schemes is designed to offer duty free access to international supplies. The second category offers preferential import of capital goods subject to export obligation. It is felt that in future there should not be multiplicity of schemes. There should be an absolutely irreducible number of export specific schemes. The emphasis should be on continuously upgrading the operational efficiency of the schemes than on introduction of new schemes. Continuation of a scheme over a longer time frame with efforts towards continuous improvement enable the user community to appreciate its operation more effectively and transact export business more efficiently. The need for skill development to utilise the schemes at the corporate level will to that extent get minimised. The tasks of the servicing agencies such as the EPCs and the trade industry bodies will also concurrently be less in this regard and have opportunities to focus more on providing professional marketing expertise to their members and advise them on aspects of product and market development, quality consciousness etc.

RECOMMENDATIONS

1. PROPOSED CHANGES IN POLICY AND PROCEDURES

1 The encouraging growth trend in the country's exports indicates that we should aim at achieving around \$ 100 billion of exports by the end of Ninth Five Year Plan. Import will also rise to a level little above \$ 100 billion in the same period. We have, therefore, to plan for putting in place an Exim Policy which facilitates foreign trade of the order of around \$ 210-220 billion. The essence of such an approach would be further simplification, reduction in number of schemes and agencies, transparency and efficiency.

2 It is proposed that the forthcoming policy should concentrate essentially on the following three categories of schemes for export promotion:

- one category of scheme designed to offer duty free access to international inputs, in advance, subject to export obligation
- second category of scheme designed to offer replenishment benefits or rebate of duties, post -exports
- third category of scheme designed to offer import of Capital Goods at concessional /zero rate of duty subject to export obligation.

The Duty Exemption Scheme including the Pass Book Scheme and the Duty Drawback Scheme, therefore, need to be simplified. Further, the operational aspects of the same need to be fine tuned so as to alleviate any hardship to the exporters. A single window approach is desirable both for the duty free scheme as well as for replenishment benefits or rebate of duties be it Duty Free Replenishment or Pass Book credit or Duty Drawback.. This would obviate the problem of differing even contradictory interpretations between different authorities. Moreover, the single window system would put an effective end to the multiplicity of procedures and departments involved in the operation of the scheme, involved in neutralising the duty incidence.

3. The advantages of single-window system for export promotions are obvious. Presently, the exporters and export activities suffer on account of different interpretation and perception of different agencies involved in the execution of the same scheme. A number of export promotion schemes announced under Exim Policy have remained non-starter for years as the enabling notifications of other agencies have not been issued.

4. A variety of Export Promotion Schemes under the Duty Exemption Scheme that have come into existence in the current policy would require remodelling into one single scheme for duty free access to international inputs. The different schemes containing a variety of flexibilities/options have created problem in effective administering of the schemes as well as monitoring. The present policy for DES stipulates that import of raw materials etc. required for the product to be exported, should be allowed. The principle behind this is that a broad nexus should be there between the imported inputs and export products. However, in the actual

implementation of the scheme it has been observed that the various implementing arms of Customs and DGFT have insisted on nexus between the imported inputs and the resultant products to the minutest extent leading to absurd situations e.g. calling for nexus between various grades of carbon black and dyes, denierage of textile products, GSM of paper products, thickness of engineering items etc.. Consequently the problem of nexus has turned out to be a major hindrance for DES exporters. The Group felt that the concept of nexus should be on a very broad basis subject to the condition that the duty incidence on the imported inputs should be same. The implementing arm of the Ministry of Commerce and Department of Revenue namely regional officers of DGFT and Customs House find it difficult to cope up with the complexities of the schemes. The exporters, too, are baffled as to which scheme they should adopt. The single scheme for duty free access inputs at international prices should be simple to operate wherein an exporter need to visit the designated agency only twice; first while applying for the scheme along with Legal Undertaking /Bond/Bank Guarantee as applicable and then at the time of redemption of the bond on completion of exports. This would put an end to the duplication of work as well as the wasteful expenditure involved in the execution of bond as well as submitting proof of fulfillment of export obligation both at the end of DGFT as well as the Customs authorities. At present exporters operating under DES are required to visit two agencies i.e. DGFT and Customs a number of times for filing of an application, for the execution of BG/LUT, registration of DEEC, filing of shipping bill or bill of entry, logging of DEEC, getting certificate of discharge of EO from the Licencing Authority, final discharge of BG/LUT from the Customs. Exporters have time and again complained of delay at each of the above stages which has ultimately resulted in increased transactional cost and on account of lack of transparency and complexity involved. The simplified scheme suggested by the group should not only be transparent but also to be implemented within a time frame. The vital ingredients of the scheme should be transparency, simplicity quick servicing and effective administration. The details of such a scheme could be worked out by the Government in consultation with the representatives from the trade and industry. In this context, Department of Revenue has already suggested replacement of present QBAL scheme with a revised concept of Pass Book Scheme which is not based on replenishment benefit but is meant to allow access to duty free imported inputs in advance. Basic principle underlying the Scheme is to provide the exporter all the inputs required for export products duty free. It was felt by the Department of Revenue that this scheme has an advantage over the present DES which is operated through individual licences. However, this suggestion did not find favour with the members of the Group, since the proposed scheme again emphasises nexus between imported inputs and export products to the minutest details and does not give any flexibility to the exporter. It was further felt that the proposed Scheme is a modified version of the existing QBAL on production program basis.

5. Since the liberalisation of imports, there is an increasing demand for the opening up of the consumer goods sector. However, keeping in view the apprehensions of certain domestic manufacturers as well as some economists, it is proposed that import of consumer goods may be allowed with certain quantitative restrictions to be phased out over a period of time. For this purpose, a broad approach can be adopted by taking a time frame of five years broken into two equal phases. In the first phase, items currently in the SIL list can be made freely importable and an equal number of restricted items can simultaneously be placed on the SIL list. During this phase dual use items could also be made freely

importable. In the second phase the items with domestic sensitivities could be considered. After studying the trends in import in respect of certain class of consumer goods, the quantitative ceiling may be lifted. The present position of restrictions / regulation of items are given at Annexure - D.

6 The Export Policy also needs to be rationalised further. The restriction on exports of any item should be limited only to giving effect to International Treaty/Convention or because of environmental, ecological or purely social and cultural considerations. The export of agricultural commodities should also be allowed freely when exported as value added products in consumer packs. The present system of a stop-go arrangement for agro-based commodities, is not conducive to the exporters for developing and sustaining an export market for a particular product. There is also a need to review the system of exporting certain products through a canalising agent. Except for the items of strategic importance, all the items should be decanalised.

7. One reason for procedural complexity and substantial documentary requirements is the administrative view that all export-import transactions need to be scrutinised, to ensure that there are no violation of rules and the trading community does not appropriate illegally what is due to the State. The anticipated increase in foreign trade transactions will obviously make such an approach unrealistic. What is required is a changeover from a 100% checking of consignment to a sample-based strategy which will be effectively complimented by deterrent punishment to the violators. It will, therefore, be necessary to develop an appropriate legal machinery if a 'green channel approach' has to be implemented. It was felt that the government should analyse the profiles of exporters/importers and consignment of firms with good track record should be cleared on the basis of a sample approach.

8. The present Exim Policy has a number of objectives but the provision for meeting these objectives have not been reflected in the Policy. The incorporation of so many objectives enlarge the focus of Exim Policy but in absence of clear-cut provisions the focus itself remains unclear. Therefore, the new Exim Policy, co-terminus with Ninth Five Year Plan, should have narrow focus but clear objectives with backing of provisions to meet those objectives. In the current Exim Policy, the following objectives (d), (e) and (f) are most relevant :

(d) to stimulate India's exports by facilitating access to required raw materials, intermediates, components, consumables and capital goods from the international market;

(e) to encourage efficient and internationally competitive import substitution within the liberalised framework of foreign trade;

(f) to impart greater transparency in the export-import policies and eliminate or minimise quantitative restrictions , licensing and other discretionary controls.

9: Since the aim of the Exim Policy is the development of International Trade, it should be rechristened as "**TRADE DEVELOPMENT POLICY**". There are a number of schemes which may lose their relevance with the liberalisation of economy and the reduction of the tariff in tune with "**General Agreement on Trade and Tariff**" and therefore, some of the present schemes need complete remodeling /scrapping

in the changed scenario. The point regarding replacement of the multiple duty exemption schemes by a single simple and transparent scheme has already been discussed in the report. The other schemes in the Trade Development Policy would be as follows :

a) REPLENISHMENT SCHEME : The traditional Duty Drawback Scheme and the existing Passbook Scheme introduced in the EXIM Policy in 1995 get covered under this category. The trade has welcomed the new Pass Book Scheme because of the simplicity of the procedure involved in it. Though there are some difficulties being observed in implementation of this scheme at the initial stage particularly the verification of the international price of inputs on the basis of which credits are calculated, the scheme has the necessary ingredients to become the most effective scheme for replenishment benefits or rebate of duties as it dispenses the requirement of licences for availing duty benefits. However, for pricing of the inputs some scientific method may be adopted so that the Pass Book holder knows beforehand how much credit he is likely to get and accordingly do his costing while approving an export order on competitive terms. A working group may be formed which can go into the detail of finding ways for scientific and acceptable method of verification of international price of inputs which does not involve discretion or a multiple approach and the system itself becomes transparent. The Group could also go into the relative merits and demerits of the various replenishment / rebate schemes and suggest the most simple and transparent scheme for availing replenishment benefits/ rebate of duties. The suggestion to reintroduce Duty Free REP Scheme was made by the representative of FIEO. It was felt by them that introduction of such a scheme would enable the exporter to overcome the difficulty faced by the exporters operating under the DES namely filing of application to Licencing Authority before starting exports, enormous delays in logging of DEEC books, visiting the licencing/ Customs authorities a number of times for licencing/ post licencing work. The Group, appreciating the need for a simpler DES, however, recalled the problems associated with the implementation of the Duty Free REP Scheme and on account of which the scheme was scrapped. It therefore, felt that as discussed in para 6.4, if a simple and transparent DES can be put in place, there will not be a need to reintroduce a Duty Free REP Scheme.

b.) E.P.C.G SCHEME : The EPCG Scheme has served as a very effective tool of export promotion as borne out by the data given in Annexure C1 . Annexure C2 additionally shows that an efficient monitoring of the export obligation by the DGFT has resulted in over 90% of the export obligation of licence issued in 1990 -91 and 1991-92 much before the expiry of the export obligation period. These schemes, therefore, designed to offer import of Capital Goods at concessional /zero rate of duty subject to export obligation, should be continued in the next policy. With the general reduction in the duty structure pertaining to Capital Goods, the concessional duty available under EPCG, may have to be correspondingly reduced so that the export obligation thrust on the EPCG licence holder could be correlated to the extent of duty saved while importing under EPCG. The policy should also increasingly encourage EPCG licence holders to source their Capital goods indigenously from domestic Capital Goods manufacturers who in turn could be allowed to import components, spares and even raw materials at concessional/zero rate of duty. Taking into view the concern of the DoR that raw materials under EPCG could not be allowed as it was difficult to monitor or account for such raw materials in the resultant product, it was felt that duty free raw materials could be allowed only in such cases where Standard Input Output norms could be fixed. The proposal of

FICCI to reduce export obligation of the EPCG licence holder to the extent the capital goods are sourced indigenously may not be feasible because the policy recognises the supplies made by indigenous capital goods manufacturers to EPCG licence holder as deemed exports only because the EPCG licence holder has undertaken an export obligation. And the domestic supplier is eligible for benefits of deemed exports as per para 122 (c) & (d) of the EXIM Policy. If the overall value of capital goods gets reduced due to some part of it being sourced domestically the policy already provides a pro-rata reduction in the export obligation to the extent of the reduced CIF value on the EPCG licence.

C) EXPORT ORIENTED UNITS (EOUs)/EXPORT PROCESSING ZONES (EPZs)

SCHEMES : The Policy relating to EOU/EPZ would require simplification of procedures and policy guidelines, modification of the single-window concept and reduction in the number of schemes by merger of parallel schemes. Manufacturers and export in bonded premises, whether from EPZs or from stand alone EOUs forms a special component in the export efforts of the country. Important policy initiatives undertaken since 1991 have, by and large, succeeded in providing a broadly liberal framework for EOU/EPZ units. However, representations have been received from the trade and industry on some outstanding issues, mostly relating to Customs/Central Excise matters. Suggestions have mostly been received for introduction of a simple comprehensive and separate framework in regard to customs/central excise policy and procedures for governing the functioning of EOU/EPZ units as the present arrangement does not adequately cover all aspects of the concept of duty free export oriented production. The present system of physical bonding will have to be gradually replaced by a system of fiscal bonding. It will also be necessary to make a detailed study of the policy and procedures being followed by the Export Processing Zones/Special Economic Zones in other countries with a view to adopting some of the successful and practical aspects of their schemes. It is proposed to further improve the EOU/EPZ scheme on the above lines during the Ninth Five Year period.

d.) GEM & JEWELLERY SCHEMES : Since Gem & Jewellery items except gold cannot be kept as an asset, there is no need to put these items under the Negative List of Imports and their clearance against Gem & Jewellery Licences. As Gold is already in the restricted list, the whole Gem & Jewellery Scheme except for precious metals be scrapped. Gem & Jewellery exporters may be allowed to operate like any other duty free licence holder.

e.) DEEMED EXPORTS : As mentioned in Chapter IV of this report, the policy of deemed exports on one hand encourages the exporter to source his input requirements from the indigenous market giving a boost to the domestic industry while on the other hand serves as an import substitution strategy saving precious foreign exchange. The Group recognised the importance of deemed exports and felt that the next EXIM Policy should propose treating deemed exports to be at par with physical exports. It was also felt that the scope of deemed exports should be widened to include capital intensive supplies made for the development of infrastructure like ports, railways, roads etc. in addition to the present scheme which includes supplies to fertiliser, power, oil and gas sectors. It was further felt that deemed export suppliers should be exempted from payment of terminal excise duty (TED) and should be allowed to supply against LUT/ Bond/BG.

f.) EXPORT PROMOTION COUNCILS (EPCs) : Chapter XIII of the Exim Policy relating to Export Promotion Councils be shifted from the policy to Handbook of Procedures. The EPCs should be entrusted with a more pro-active role in export promotion, development of new export markets and adoption of electronic commerce by their member exporters and Market Development Assistance provided to them strictly on the basis of their performance and success in these areas.

g.) NEGATIVE LIST OF IMPORTS AND EXPORTS: Under the Economic Policy regime as we move progressively from restrictions to freedom, more goods and services would have to be made freely exportable and importable which amounts to pruning of the negative lists. Most inputs for export production are to be made available at zero or low rate of duty. Procedures must be simplified and to the extent feasible automacity should be introduced in the procedures. Restrictions which have outlived utility should be abolished over a period of time.

h.) SPECIAL IMPORT LICENCE (SIL) : Since consumer goods imports should be liberalised only in a phased manner preferably through the Special Import Licence (SIL) route, SIL as an additional incentive for Export House/Trading House/Star Trading House/Super Star Trading House, export of goods with international quality certification, deemed exports and exports of certain specified high value added/ hi-tech products and services and exports to specified destinations as a promotion measure should continue in the next policy. The small scale sector have continuously complained that while they account for 30 - 40% of the total export proceeds, SIL is not available to them as most of their exports is made through the export/ trading houses, and if they export directly they do not qualify for the Export House status. Hence, while not diluting the eligibility criteria for achieving Export House status or losing sight of the objective of creating specialised trading houses that have the necessary professionalism and infrastructure to negotiate better market deals on behalf of the SSI sector, it would be necessary to encourage the SSI sector by way of enhanced SIL benefits (equivalent to EH status holders) to such SSI manufacturers who have acquired quality certification like ISO 9000 series , on the FOB value of exports (excluding deemed exports) of products made with the aforesaid quality certification during the preceding licencing year.

i.) QUALITY: The present Exim Policy gives marginal incentives in the form of SIL to the exporters who have attained international standards of quality production. The forthcoming policy should aim at providing substantial incentives for exports of high quality products with indigenous labels and R&D exports. The forthcoming policy should also be effectively equipped to take deterrent action against exporters of sub-standard quality as this lowers the image and credibility of the export community and of the country.

II. ORGANISATIONAL STRUCTURE AND ADMINISTRATIVE SUPPORT SYSTEM

1. There is a general impression that because of lack of inter-departmental co-ordination in the different wings of government, particularly, between DGFT and DoR, exporters tend to suffer. Better co-ordination would ensure proper monitoring of export promotion schemes and would reduce the response time of various government department. It would also act as deterrent on dubious exporters.

One possible mechanism for creating inter-departmental co-ordination is through structured policy of deputation. Officers from DGFT may be deputed in Customs House to implement Export Promotion Schemes. Separate wings for Export Promotion and Revenue matter may be created in Central Board of Excise & Customs. The step would reduce the response time of clearance of exports and export-related imports. Officers from Revenue department may also be posted in the office of the Director General of Foreign Trade, to provide a better understanding of Customs matters and Exim policy matters.

2. ROLE OF DIRECTORATE GENERAL OF FOREIGN TRADE : The DGFT should continue to be the apex body for policy formulations, administration and monitoring of its regional offices. It may also continue to deal with the issuance of licences under negative list/restricted list of imports and exports. In the recent years, the DGFT has delegated most of the licensing functions to the regional offices. This delegation should be accelerated for EPCG scheme and the Duty Exemption Scheme. Possibility of defining parameters for granting licences under negative list/restricted list may be studied so that delegation of such powers to Regional offices could be made. In the present set-up, the exportersÆ need for clarification on various policy and procedural points is more because of the multiplicity of schemes and multiple implementing agencies. With the proposed concept of single window for most of the export promotion schemes the number of clarifications to be sought by the exporters would come down . However, because of the fast paced nature of the international trade, clarifications should be provided on almost immediate basis by the DGFT. The organisation may gear up its response mechanism to reduce the time-lag in this regard.

3. It is also felt that a large number of amendments by way of Public Notices and Circulars create difficulties for the exporters to keep updating their knowledge of system and procedures. It is, therefore, proposed that amendments to the policy/procedures should be done only on a quarterly basis, except in exceptional circumstances where the reason for making such amendment should also be spelt out. The enabling Customs Notification and Circulars making the DGFT Notifications and Circulars operative should also be issued concurrently without any time lag and should be in line with the provisions of the EXIM Policy to broadly achieve the twin objectives of simplification and export promotion.

4. Electronic Commerce is now-a-days very much relevant in the international trade. Developed countries have progressed to the extent that their Revenue Departments can have the manufacturing details of the exporters on EDI. From the same monitor, they can also know the export and domestic performance of the exporters. It is an unstated fact that if any buyer /seller is not on EDI, he cannot exist in the international trade. The EDI network can serve both, the exporters and the Government in many ways. The exporters can have access to the marketing information and trade opportunities available in international market. Proper linkages between different government departments can ensure monitoring of export obligation , correct issuance of licences and timely inward remittance. A beginning can be made in this direction by networking the Revenue Department, DGFT, Port Trust and the RBI. The present may be the most opportune time for the connectivity to be made operational because the biggest Custom House of the country-the Bombay Custom House, is phasing out its old computer system and installing the new computer system. However, a few points need to be observed to make the connectivity give desired effects.

(a) Before providing the connectivity, there should be systems study with a view to eliminate the unnecessary procedures. A joint study group consisting of officers from DoR and DGFT should analyse the requirement and relevance of different formats prescribed by DGFT, Central Excise and Customs to see the possibility of reduction in paper work and streamlining the procedures. This will cut cost and reduce response time.

(b) Inputs and Outputs required by various department should be defined clearly before designing the system. It would help in procuring the proper inter-phases. To this effect, the Commerce Ministry has set a target to have submission and processing of customs declarations throughout the country made electronically on the "Indian Customs EDI Systems" (ICES) by January 1998. The Ministry has also established a National Council for EDI for co-ordinating among various departments and associating all concerned so as to introduce EDI in all transactions from January 1998.

ANNEXURE - I

DATA RELATING TO EPCG SCHEME

<u>PERIOD</u>	<u>NO. OF CASES</u>	<u>CIF VALUE</u> (RS. CRORES)	<u>EO IMPOSED</u> (RS. CRORES)
1990-91	270	289.39	868.17
1991-92	310	403.91	1211.73
1992-93	1652	2220.25	9947.04
1993-94	1653	1938.27	8701.13
1994-95	1214	3176.84	13107.01
1995-96	774	11521.88	59945.61
1996-97 (upto 31.5.96)	90	1236.52	5945.46
TOTAL	5963	20787.06	99726.15

ANNEXURE-II

EXPORT MONITORING - EPCG AS ON 31.5.96

(RS. CRORES)

<u>PERIOD</u>	<u>EO IMPOSED</u>	<u>EO FULFILLED</u>	<u>%EO FULFILLED</u>
1990-91	868.17	782.16	90.09
1991-92	1211.73	1096.47	90.48
1992-93	9947.04	5326.31	53.54
1993-94	8701.13	2496.82	28.69
1994-95	13107.01	1895.31	14.46
1995-96	59945.61	0	-

ANNEXURE-III

DETAILS OF THE CLASSIFICATION OF IMPORT ITEMS

<u>SL. NO.</u>	<u>LISTS</u>	<u>NO. OF ITEMS</u>	<u>%GE</u>
1.	Prohibited	59	0.58
2.	Restricted	3689	36.57
3.	(SIL - included in Restricted list)	(771)	(7.64)
4.	Canalised	178	1.76
5.	Free	6161	61.07
	Total	10087	

II - INDUSTRIAL POLICY AND EXPORT PROMOTION LINKAGES

ISSUES

The crisis situation being faced by the economy in early 1991 demonstrated our vulnerability on the external payment front, and brought into focus the need for improving our balance of payments, and reducing the dependence on borrowed funds. Increasing the export base thus became one of the central objectives of the reform programme. Attracting foreign capital and technical know-how were also accepted as being of critical importance in the development strategy. Recognising the need to promote foreign investment for strengthening the production base, several initiatives have been taken in the New Industrial Policy since July, 1991 viz., opening up of foreign investment to all manufacturing industries except areas reserved for the public sectors, automatic approval for foreign investment up to 51% equity and automatic approval for technical agreements in 35 high priority industries (Annex III of the statement of Industrial Policy) subject to certain conditions, allowing 100% ownership in 100% EOUs and export processing zones, full ownership in certain high priority areas including power generation and distribution, hydro-carbon/oil and natural gas exploration and electronic hardware technology parks, amendments made in FERA in January 1993 which have inter alia further liberalised the foreign investment regime and have made FERA companies at par with domestic companies. There is clearly lack of thrust for foreign direct investment in export related activities which is vital to achieve sustained growth in exports. The basic reasons for relatively low interest in export oriented activities is the inadequate policy framework and inward oriented policies. The policy framework for FDI should be made more conducive to export oriented foreign investment than what it is today.

Reservation of items in the small scale sector is inhibiting flow of investment technology and capacity creation in the export related activities. Most of the export related activities like textiles, leather, leather products, footwear, rubber and plastic products and other items covered in the Export strategy worked out by the Ministry of Commerce are reserved for development in the small scale sector. Further, most of the items which are in the export basket of China and other countries which are competing with India in the external sector, are reserved for small scale sector.

In the Export and Import Policy, restrictions on import of raw materials, intermediates and capital goods have been substantially removed. With

rationalisation and restructuring of tariff structure attempted since 1992, there has been significant reduction in import duty on most of these items. These policy initiatives are intended to bring about reduction in costs, improvement in efficiency and thereby make indigenous industry competitive. The policy for import of consumer goods and consumer durables has remained restrictive both due to physical restrictions on import and high protective tariffs. The items attract an import duty of 80% under the Baggage Rules and the general peak tariff of 50% basic plus CVD. The Scheme for Special Import Licences as an instrument for relaxation in the import of consumer goods and consumer durables is limited both in its coverage and scope. Imports of passenger cars in CKD/SKD condition require an import licence from the office of Directorate General of Foreign Trade. Imports of components required for cars are freely importable under the Policy.

RECOMMENDATIONS

Restrictions on automatic approval access for foreign investment in export related activities may be removed. The automatic approval list of industries (Annex III of the Statement of Industrial Policy) may be expanded to include all sub sectors with high export potential and which are in need of technological improvement and global market access. In fact, apart from a small negative list, all industries should be permitted automatic approval.

The conditions of royalty payments and lumpsum payments also have a bearing on export promotion. There is a need to raise the ceiling for automatic approval of lumpsum payments from the present Rs.1 crore to Rs.10 crores.

Subsequent to the announcement of the New Industrial Policy in July 1991, White Goods (Domestic Refrigerators, Domestic Dish Washing Machines, Programmable Domestic Washing machines, Microwave Ovens and Air-conditioners) have been delicensed. There is no specific reason for subjecting Entertaining Electronics to capacity restraints and this sector should also now be delicensed. All these sectors should be included in Annex III Industries as they have high export potential.

All items restricted for production in the small scale sector should be de-reserved and the decisions relating to the size of the unit and the level of

investment should be left to the entrepreneurs, investors and the financiers, with the expectation that the appropriate level would be arrived at on techno-economic considerations. The experience of several developed economies, including Germany, USA and Japan has shown that even with a policy of reservations, the small and medium enterprises have established an important place in these economies.

Alternatively, a phased approach may be followed. The first phase may include the following :

- Dereservation of all items in which there has been nil or very low production in the SSI sector.
- Dereservation of all items of production which are deemed to have a strong export potential, or which are on the priority list of export promotion strategy, with a view to making them financially and technologically capable of meeting the requirements of other Industries in India or buyers abroad.
- The policy be modified to permit investments of more than the limits prescribed for SSI, provided the items to be manufactured are :
 - to become parts of substantially higher value items, like straps and bracelets for wrist watches;
 - to become components in finished products of export oriented industry, like zip fasteners for garments;
 - of a substantially higher unit value than even the highest price range of the goods currently manufactured in the domestic SSI sector. An example would be the writing instruments industry where the local industry will not be affected if a non-small scale unit were to be set up to manufacture fountain pens/ball pens with a minimum ex-factory unit value of, say, US\$ 50, compared to the market price of an SSI made pen of no more than Rs.200 or 250 (\$5-7) for a fancy gift set.
 - items whose import is either freely allowed or is being done under some special schemes, or where substantial smuggling/import as personal baggage takes place. Examples are office stationery items, computer peripherals, some electrical items, scissors, blades, nail clippers, and the like.
- In the first phase all consumer goods and consumer durables and their components in CKD/SKD conditions including items currently reserved for small scale sector may be allowed freely at the peak tariff of 50% plus applicable CVD. Similarly, other items currently on the Restricted List except

- for items related to safety, security considerations, hazardous wastes, hazardous chemicals and aircraft and helicopters may be allowed freely without restrictions subject to applicable tariff - Basic plus CVD.
- In the second phase all consumer goods, consumer durables including their components in CKD/SKD condition and the Restricted Items with the exception of those which have specific considerations may be allowed freely without restrictions subject to reduced level of applicable duty plus applicable CVD.
- In the case of the automobile sector also, in the first phase fully built up cars should be allowed freely at the current peak duty of 50% + 40% CVD (Total 110%). Similarly, the import of components in CKD/SKD condition may be allowed freely at the same rate of duty as applicable to passenger cars. In the second phase both fully built up cars and components in CKD/SKD condition may be allowed freely at the reduced level of applicable duty plus CVD. This approach will provide incentives for indigenisation, discourage setting up of sub-optimal capacity and induce necessary competition to the foreign players who have set up capacities for automobiles in India.

III - STRATEGY FOR AGRO-EXPORTS

ISSUES

PRODUCTION

- Weak Production Base : Low productivity high per unit cost
- No nexus between demand and supply. Varieties in demand globally are usually not grown in India.
- Non-availability of high yielding hybrid seeds/planting material.
- Short seasons for large number of fruits and vegetables.
- Immense post-harvest losses:(Adds up to the cost of production)
- Food Processing the industry largely reserved for the small sector.
- High cost of packaging.

POLICY

- Items like onion still canalised.
- Large number of products including wheat, coarse grains, milk products are subject to quantitative ceilings.
- Restricted inter state movements.
- High local taxes and duties (which make products price non-competitive).
- Land Ceiling Acts prohibit large scale holdings which disables achieving of economics of scale.

R&D

- Important link between the farm and the lab missing.
- Research efforts not attuned to the demand.
- R&D largely concentrated in the public sector.
- Proper technology transfer has not taken place.

FISCAL

- Credit availability is difficult.
- High interest rates on credit.
- Inclusion of sale value of REP/EXIM script while assessing sales turnover.

- State levies is a constant impediment.
- Export of fruits largely done on consignment basis. Banks extend no export credit for non-L/C consignments.

INFRASTRUCTURE

- Farm level infrastructure like cold chains missing.
- Production centres not linked with exit points.
- Specialised transport for conveying perishables unavailable.
- Railway rakes inadequate to transport bulk commodities.
- Sea ports heavily congested.
- Lack of mechanised cargo handling facilities cause further delays.
- Airports are equally ill-equipped.
- High air and sea freights.

QUALITY

- Unawareness of producers/exporters of Quality Parameters of importing countries.
- Nonavailability of adequate good quality basic raw material.
- Nonavailability of good quality packaging material.
- Unavailability of adequate quality testing facilities.
- Lack of quality environment in the domestic market.

RECOMMENDATIONS

- The growers/manufacturers/exports may be provided with the attractive incentives to switch over to export oriented production. The schemes of promotion agencies like APEDA, MPEDA, NHB etc. should be tailor made in such a way that they provide a particular direction to the sector.
- The level of financial assistance extended through various schemes should be sufficiently high to have a distinct impact and to induce private enterprise into the export.
- Equity participation by the promotional agencies rather than grants out to be the financial assistance pattern.

R&D

- Technology transfer should be allowed liberally.
- Industries sponsored research should be induced.
- In-house labs should be encouraged.
- Technologies for sustained horticulture should be developed.

QUALITY

- Exporters should be given a rating subject to a constant review.
- Disbursement of Government assistance should be linked to Quality Assurance.
- The issue of pesticide residue should be tackled at war footing.
- A network of quality labs may be set up.
- Penal action should be initiated against the defaulting exporters.
- Efficient pre and post harvest management should be followed.
- Automated grading and sorting to be established.
- Improvement in packaging should be taken at fast pace.
- Special incentives to induce quality upgradation should be given.
- Special protocols to be developed for the focussed products.
- Standards of importing country to be adopted.
- Codex ISO standards may be followed.

INFRASTRUCTURE

- More incentives to be provided for establishment of 'freshness chain'.
- Subsidies to be provided to partially underwrite the high freight cost.
- Priority berthing for perishable export cargo.
- Rakes may be provided by the Railway on priority for export consignments.
- Cargo handling at the international airports may be privatised.
- Dedicated air cargo handling facilities may be provided for perishables atleast at Delhi, Bombay and Madras/Bangalore airports.
- Mechanised cargo handling facilities may be provided for bulk commodities.
- Roads may be provided to link production centres with the exit points (ports).

AGGRESSIVE MARKETING

- Marketing should be focussed. Guiding principle being retaining rather enhancing the present share in the major markets and achieving a break through in the emerging markets.
- Since India as a country itself does not enjoy very enviable reputation of a quality agro-product exporters, more and more funds and efforts should be dedicated towards India Brand Equity.
- Exporters should be given soft loans to establish brand names.
- Commodity Boards should be given more freedom and autonomy in sending...

FISCAL MEASURES

- Export goods should be free from all local taxes, levies, etc.
- Future trading be permitted for agro commodities specially rice, wheat etc.
- Agri processing complexes put up near the production zones should be free from income tax atleast for 10 years.

POLICY ISSUES

- Most of the Government programmes are related to supply side inputs. Rather the strategy should be demand induced growth.
- Development of land, increase in productivity, field infrastructure development require only cause open appears to be private investment. At present Government allows very limited private sector investment (through corporate sector, national or multinational). It needs a policy change.
- To facilitate captive farming land ceiling act may be suitably amended.
- Cashew, fruits and vegetables and flower cultivation should be treated at par with plantation crops.
- Seed import should be further liberalised.
- Presently, agro based EOUs are allowed 50% DTA sales. However, agriculture as an activity is not conducive to custom bonding. Agro-based EOUs should be allowed without custom bond, subject only to an export obligation. The concerned Commodity Boards/Export Promotion Councils should be empowered to give the requisite permissions.

Doing away with reservations in the small scale sector to attract 'state of the art technology' in agri-processing. Moreover, there should be no reservation for agricultural implements and machinery for the small scale sector.

Exports of superfine non-basmati rice and sugar should be exempted from levy on mills.

Phyto-sanitary procedures need to be liberalised for importing planting material and export inspection procedures for horticulture also need to be simplified. Specific recommendations have already been sent to the Department of Agriculture.

Inter-State restrictions on the movement of groundnuts and groundnut oil in Gujarat be removed and cashewnuts in Kerala and cotton in Maharashtra.

IV - EXPORT MARKETING AND INFORMATION NETWORKING

ISSUES

Aggressive, well coordinated and systematic export marketing is of crucial importance for increasing exports of our country and reaching the higher target envisaged for them by the turn of the century. While the main burden and responsibility of increasing exports has to be borne by the individual companies, whether in the private or public sector, the role of the Government and trade promotional agencies is no less important. The key to success in export marketing is making available the requisite on line information and promoting the image of our country. Institutional arrangements need to be made to see that information is easily available to exporters and potential exporters in regard to the happenings in the international markets, import demands, potential buyers etc. Simultaneously, we have to also strengthen the data base relating to the profiles and strengths of the domestic industry, exporters and potential exporters in different sectors and other relevant information about our own country.

RECOMMENDATIONS

- Suitable leaders for export marketing efforts should be chosen amongst industry and institutions. Target market and products be identified for focussed attention.
- It is believed that about 5000 exporters account for 80% of the total exports, while rest 20% is shared by a 300000 odd exporter. Thus, an unison is needed to avoid inter-se competition and a strong case for the strenthened role of Super Trading Houses/Export Houses and Trading Houses etc.who may be encouraged to increase sales of Indian products through their network by supplementing their outputs with products from smaller units.
- The volume of exports to specific markets has increased significantly. To give "off the shelf" delivery and "on time" delivery there is a need for Warehousing facilities in developing countries. While working out warehousing agreements it should be kept in mind that wherever possible some association with Government Body or even a public sector company is favourably considered as the perception of importers in most countries is greatly enhanced wherever a government agency is involved.

- In order to tackle some damaging non-tariff barriers like discrimination in GSP scheme, restriction on entry visa, super 301, embargo on products on grounds of subsidy, government should provide a subsidy out of MDA to exporters to fight them in courts of law. Quick decisions has to be taken to finalise ways of tackling these barriers.
- In order to maintain or increase market share of consumer products continuous updating of design and product specifications is required. Government should facilitate or itself get information collected about individuals or companies and provide inputs to institutions to help, improve and update the Indian products for overseas markets.
- The patenting of Indian products/services and their promotion overseas would not only help in building the image but also provide an alternative methods of marketing Indian products in potential markets. For this Government should provide subsidy or MDA grant to Indian companies to register their patents abroad. The scheme of creating a fund for Brand Promotion in overseas markets needs to be put in operation at the earliest so as to enable Indian companies to have the requisite expertise and products to embark on the exercise of establishing brand names in overseas markets.
- As agricultural products are going to play a very vital role in the future export product-mix of the country, it is essential that áour marketing policies in regard to them are in conformity with the market place. A continuity in supply is essential to give confidence to buyers.
- The two major drawbacks in the perception of India need to be addressed viz. procedural hurdles and delayed decision making.
- Display and retail of Indian products, currently being sold the world over, (specially branded product) need to be made at most international airports. The presentation of products has to be world class. This method will earn revenue and at the same time provide exposure to the products of the country.
- ITPO/NCTI should act as a Nodal agency for creating data base in promotional agencies and selected commercial sections of Indian Missions abroad.
- Information base and publicity should be strengthened by using Internet Web Page which has become very popular and useful medium of publicity. Another area is use of Online Networking for regular flow of information and feedback in regard to emerging business opportunities

overseas, product development, appraisal of quality and variety of other related matters.

- There is an urgent need for quick action on companies exporting sub-quality merchandise which is damaging the image of the country.
- A new thrust to marketing of Indian Agricultural, Textile and Apparel products will be needed following dismantling of multifibre agreement as a result of setting of World Trade Organisation (WTO). For effective marketing of Pharmaceutical products in the international markets, it is essential to support them in registering themselves in those markets.
- Government should set up a venture capital fund which will cover the products which are technology intensive in a focussed manner and will create new niches for export milieu.
- The current policy of the Government allows retention of 25% of export earnings of selected exporters for export promotion. There should be no limit on the amount of expenditure that is spent on export promotion work.

V - INFRASTRUCTURE REQUIREMENTS FOR EXPORT

The various infrastructure requirements for exports namely Road Transport, Railways, Air Transport and Ports have their own peculiar problems and issues. The Sub-group on infrastructure requirement for exports has dealt with each of them separately except for Railways in which case the details are yet to be finalised by the Ministry of Railways.

ROAD TRANSPORT

ISSUES

The density of Indian roads is far higher than in many developing countries, however, only 4% of the two lane roads and none of the intermediate and single lane roads have internationally accepted quality of structural conditions and payments formation. The road quality standards have also not kept pace with the changes in vehicle and freight technologies. Indian roads are designed for single axle vehicles with axle load up to 8.2 tonne. The road network has come under tremendous pressure because of the rapid growth in vehicle population as well as in cargo and passenger traffic. Between 1950-51 and 1994-95, the share of road transport in passenger traffic increased from 28% to 87%. The situation is further accentuated by the fact that while the vehicle population has increased 90 times in the last years (from 3 lakhs in 1950 to 270 lakhs in 1994), the road length has increased only 5 times from 4,00,000 kms to 21,00,000 kms in 1994. Obviously the road capacities have been stretched beyond limits.

Most of the traffic on roads is concentrated in the national highway network. About 40 per cent of the total volume of the traffic is estimated to be handled by the national highways which constitutes only about two per cent of the total road length. The deficiencies of the road network result in heavy loss of human lives and competitive advantage.

Heavy traffic of roads result in faster degradation of road quality which adds to congestion on roads. Poor quality of roads and heavy congestion result in longer turnaround of vehicles. These also result in very high energy consumption and wear and tear. These lead to higher transportation costs.

Checkposts are also points of harassment and lead to avoidable delays. The undue delays on roads also lead to high freight rates. If the check posts are removed, there is scope for bringing down freight rate in the road sector considerably.

An expert study commissioned by the Central Road Research Institute and the World Bank has shown that because of bad pavements and because of poor maintenance of roads, the Indian economy is losing Rs. 15,000 crores p.a. because of the increased vehicle operating costs. Continued economic growth of around 5-6% accompanied by 8-10% growth in industrial output and 20-25% growth in exports would result in considerable growth in the demand for freight movements.

RECOMMENDATIONS

Introduction of super highways will take at least seven to ten years to materialise. In the meantime, a strategy should be adopted to undertake four laning national and State highways. Four laning and road maintenance could be also done on the basis of tolls or through a fund generated by tax on fuels. A crash programme for four laning could be undertaken by involving the private sector through the offer of substantial auxiliary incentives such as opportunities for real estate development and provision of auxiliary services. At present, maintenance expenditure on National Highways is only about Rs. 5,000 per km as against a requirement of Rs. 35,000 to 50,000 per km.

In order to support industrial growth and facilitate accelerated exports, mere augmentation of capacities and removal of physical deficiencies will not be enough. Management innovations are required in policies and procedures to facilitate the most optimal utilisation of the road infrastructure.

Octroi, entry tax and other tax instruments that hinder free flow of traffic must be abolished.

A Green Card system needs to be introduced for loaded trucks/containers to move without checking en route. Whatever checking is required may be done at the starting point and a certificate issued which may be verified only at the destination.

Traffic management needs to be vastly improved with the adoption of modern systems. Private agencies may be engaged to use video cameras to track road down offenders. A part of the fines collected therefrom could be used to meet the costs.

Bus and truck stops should be created outside the pavement area of roads at all places and particularly in villages and towns that fall on the highways. All round efforts should be made to improve the average speed of vehicles on roads. Special attention needs to be paid to widening road intersections and building railways over-bridges.

Considerable delays occur when vehicles move through cities, towns and villages. Financial assistance may be extended to Panchayats and local bodies to police traffic movement effectively and efficiently on the highway segments.

Steps should be taken to introduce energy-efficient, less-polluting and move safe vehicles including multi-axle vehicles. Vehicles must be subjected to stringent testing to ensure that they are road-worthy and safe.

From the point of view of promoting exports, it is important that highest priority is given to the creation of link road infrastructure to ports, airports and ICDs with the primary road network consisting of National and State Highways.

Though the Government has rendered full support to the private sector initiatives by:

- Declaring a five year tax holiday for all firms engaged in highway projects.
- Also announcing that 40% tax relief will be given to those financial institutions which invest in infrastructure projects provided they keep this income in a separate account.
- Declaring roads as an industry to enable private parties to take loan from financial institutions

Key areas which need urgent attention for publication private sector participation are:

- Government to enumerate in clear terms transparent guidelines concerning private sector participation. Innovative incentive packages such as permission for real estate development in adjacent land area must be permitted

- Setting up of a Special Infrastructure Investment Board which can act as a single nodal point for approvals. The evaluation of the bids and the final approval may be done by the Board itself.
- It is necessary to set up an independent regulatory authority for the Infrastructure sector which can deal with all disputes arising out of the private sector operations in infrastructure vis-a-vis government regulations as well as competition with existing operators either in the public or private sector.
- A special project committees be formed with the participation of the central, state and local authorities which can clear the land from all zoning angles and also undertake the availability of support infrastructure such as water, link roads, etc.

AIR TRANSPORT

ISSUES

The air transport has the advantage of taking least time for carriage; and handling high valued or perishable goods. The demand for air transport services are estimated to increase at a higher rate than in the past keeping with the increased tempo of Industrial and economic growth.

However, comparatively high transportation cost, and unsuitable for transportation of bulk commodities are its disadvantages

The share of exports by air to the total export for the year 1994-95 was about 31% while the share of imports by air to total import during the year was 19%.

Cargo operations constitute only about 8 to 10% of the revenue earned by Airports in India. Because of this, creation of cargo handling facilities do not always receive the prime attention it deserves from the point of promoting exports

RECOMMENDATIONS

In order to correctly assess air cargo transport facilities required as well as for construction of new air cargo complexes a permanent system is required for collection, compilation and analysis air cargo data. The system should be adequately equipped to make forecasts for various commodities/airports for planning of air cargo capacities and for development of commodity specific nodal airports.

Export Promotion Councils (EPCs) and exporters should be required to file advance information about air cargo evacuation requirements in terms of nature, volume and routes with a nodal agency for proper planning. This would help the Airports and the Air Cargo Complexes to plan their operations better.

For setting up of new air cargo complexes/setting up of temporary facilities in the interim period/nodal complexes for specific commodities, permission must be given to both private and public agencies,

Private sector entry should be facilitated with the help of transparent guidelines.

Flexible approach should be adopted regarding the actual location of cargo complexes (on the port and off the port facilities).

All Clearances should be given through a single point. At present there are about 22 agencies from whom either a clearance or co-ordinated action is required. Some of the key areas where timely clearance will be required are:

- Land acquisition/lease by AAI
- Nomination of custodian by customs
- Sanction of additional customs staff/other clearance agency staff
- EDI linkage with Airport/Customs/Airlines
- Link road infrastructure by local authorities
- Security and escort arrangements
- Quarantine facilities wherever required
- Simplified procedures for import of equipment and systems and tariff
- Environment Clearance
- Land use clearances

Besides development of new terminal and freight complexes immediate steps are required to augment existing facilities in terms of more x-ray machines, handling machinery, shortage facilities etc.

Measures should also be taken to improve the security to cargo by providing Closed Circuit TV and Special security area for theft prone cargo. Security of Cargo needs also to be ensured through clear demarcation of security responsibility between custodian and airlines/agents it will also be necessary to regularly screen and frisk all personnel moving in and out of the complex.

Most of the air cargo facilities do not have adequate approach facilities, Approach roads, parking facilities, vehicles handling systems and earmarked area for unhindered loading & unloading require only small investments. These need to be provided immediately.

Lack of pre-planning for loading and unloading together with cumbersome procedures result in very long dwell time at air cargo terminals in case of import cargo the average dwell time in our air cargo complexes is about 21 days as compared to less than a day in most of advanced and mechanised terminals abroad. Loading of cargo could be expedited by immediate unitisation of cargo cleared for loading by Airlines as well as by use of Euro Pallets. Clearance of import cargo can be facilitated by advance filing of Bills of Entry and timely action by customs and banks.

Detailed brochures on Air Cargo facilities at different airports and dedicated commodity specific cargo terminals as well as User manuals (standardised) on procedures and customs and other clearance processes should be prepared to help shippers. Electronic Bulletin Board facilities should be introduced to indicate cargo/customs clearance status. A consolidated schedule for freighter operations from all airports will also be helpful to the exporters and importers.

A transparent and independent regulatory frame work will facilitate greater flow of investment into the civil aviation sector. As in the case of many other areas of infrastructure, regulatory and operational functions in the civil aviation sector are with the same set of authorities it will be necessary to create an independent regulatory body and subject all operators both private and public to well defined regulatory mechanisms and operational quality parameters

EDI should be adopted for documentation at all airports, so that international cargo can be booked at any airport. The custom clearance however may be carried out at the notified airports with the help of agents nominated by exporters.

PORTS

ISSUES

The existing major ports are not in a position to handle a trade turn over of the order of \$ 180 billion by the end of 2001 -02. There is a lack not only of berthing facilities and handling equipment but also a host of other auxiliary support facilities such as transit sheds, warehousing and storage, stockyards, container freight station, port railways etc. There would also be severe strain on customs inspection facilities and available resources with the customs authorities. The existing major ports specially that of Bombay and Calcutta do not offer any scope for expansion. The existing style of management/administration of ports is also not conducive to major capacity expansion.

RECOMMENDATIONS

The ports should be given total autonomy and freed from administrative control of Ministry of Surface Transport.

The existing Major Port Trust Act should be replaced by a suitable act that would favour optimal utilisation of resources available with the ports, freedom of investment decision for port authorities and large private sector participation in development of ports. Focus should be on corporatisation of ports.

Evolving uniform policy guidelines applicable across the board for all ports for private sector participation.

- There is a need for two clear sets of guidelines, one pertaining to privatisation policy and other pertaining to private sector participation.
- The private investors should be encouraged to invest as freely as they do in the case of any other industry/commercial service.

- A market based pricing policy should be allowed. This would increase efficiency and assure better facilities.
- Competition must be introduced among the ports and government should stop providing cargo support.

The Sub-group has also given specific recommendation on issues relating to major ports. It is suggested that certain minor /intermediate ports in the West Coast be developed for exclusive handling of liquid bulk cargo. The Eastern Coast ports be developed for additional general bulk cargo. There is also an imperative of massive capacity creation for handling containerised cargo.

A sizeable amount of surpluses exists with each of the port authorities and they should be allowed to freely invest them for purpose of capacity of addition /facility creation without the requirement of any approval.

The trend in growth of coastal cargo is rather alarming. A mechanism has to be found to relieve the major ports from the burden of handling such cargo.

Systematic distribution of cargo according to facilities (available as well as new ones to be created) can lead to optimal and efficient cargo handling.

With respect to capacity addition and/or creation of new capacities, the focus should be on (a) creation of new facilities where the draft is good so that large vessels can call at and (b) development of intermediate/minor ports having all weather berthing facilities.

Emphasis has to be laid on productivity improvement. To improve labour productivity, there should be elimination of Dock Labour Board and the system of dock workers. The surplus labour can be profitably re-deployed in various non-handling operations/activities.

There is need to provide active encouragement to multi-modal transport system with adoption of house-to-house, house-to-pier, pier-to-house clearance system.

Facility of movement of customs-bonded consignments across the country and by different modes of transport has to be introduced with necessary amendment in the Customs Act.

Customs Department itself has to be strengthened with automation and use of latest information technology. Modernisation of customs clearance mechanism is an essential pre-requisite for efficient handling of large volume of traffic.

In the face of growing volume of traffic, it may be worthwhile introducing a system of automatic clearance on the basis of self-declaration, with necessary safeguard provisions.

VI - EXPORT FINANCE

ISSUES

The export finance mechanism is instituted to help exporters to have credit arrangements for financing export business and to provide insurance cover to mitigate the risks involved in export ventures. Export finance schemes have been planned as part of monetary policy with a view to providing export credit at more attractive terms than normal commercial credit and to provide guarantee against financial, political risks.

The basic issues to be looked into are -

- (i) to review the existing policy relating to trade finance and fiscal incentives for supporting exports;
- (ii) constraints being faced by the exporting community and bankers in meeting the demand for credit and competitiveness of credit;
- (iii) the export projection envisaged during the Ninth Plan period and the consequent credit requirements to support realisation of these projections;
- (iv) the composition of exports to ensure availability of credit by specified sectors;
- (v) major policy recommendations to enable availability of adequate credit at competitive rates and special schemes for sunrise sectors in exports, services exports, etc.; and
- (vi) the need for long term credit policy for exports including special schemes to facilitate raising adequate credit by the corporate sector and institutions.

RECOMMENDATIONS

A GDP growth at 6-7 per cent, agricultural production growth at 4-5 per cent, industrial growth at 10 per cent and export growth at 20 per cent has been envisaged during the Ninth Plan period. Given the export projection for 20 per cent growth in dollar terms steadily by the year 2002, it seems necessary that export credit will have to grow at a satisfactory rate. The question is should export credit grow at 20 per cent to meet export projection. For export finance, various schemes are available. However, due to the increasing importance of the export sector and development of exports in the post liberalisation phase of the economy, it is desirable to strengthen and make the entire set-up

more effective and responsible towards the need of the Indian exporters. Therefore, it is recommended that the commercial banks be urged to increase the share of export credit to net bank credit from existing around 12% to 17% gradually till the end of the Ninth Plan.

On the procedural aspect of commercial banks, there is a need to speed up the credit risk assessment process, specially for the exporters as this activity is time bound and gets affected due to delays in shipment. Therefore, it is suggested that there may be a separate queue for processing the exporters requirement which is faster and time bound.

The credit risk assessment process can be speeded up by maintaining Central Registry of background information of the exporters by the RBI with commercial banks having access to it.

There is also a need to develop speedy transmission of export proceeds within the internal bank net work system similar to the Swift System.

To enable adequate supply of export credit through the banking system the deposit mobilisation rate should also be increased steadily. Available indications are that domestic savings rates may go up by 15 - 16 per cent during the Ninth Plan. Other measures to encourage deposit growth (removal of TDS, fiscal incentives for savings) need to be considered.

Due to the low level of inventory or capital in services export, it is necessary to evolve separate norms and criteria for exports from this sector. ECGC could also work out a system for providing cover to services export with low premium to enable flow of funds as working capital to the services sector at the pre-shipment stage.

Investments in industries having an export orientation (export obligation for a minimum period of 5 years) should not require approval of Department of Company Affairs under Section 372 if such investment has been approved by the shareholders of the investor company.

To support services exports and availability of credit for this sector which has potential in the WTO regime, there is need to evolve a new policy package to encourage services export. India's potential lies in software services, operations and management

services, consultancy services, hospital services and other business services besides constructive services. Given the low level of inventory or capital in the services sector and the predominant share of human services and value addition, it is necessary to evolve norms and criteria for banks on the basis of which banks can provide credit to services sector similar to the manufacturing industry. It would be useful to consider separate norms and criteria for merchandise and services exports during the Ninth Plan period since the current asset ratio may not be relevant to the services industry.

As part of the medium term financial sector reform CRR and SLR are expected to be brought down to 10 per cent or lower which could release funds for providing export credit.

Export community supports that funds released from reduction in CRR and SLR be earmarked for export credit.

Interest rates is still an issue affecting competitiveness for agricultural exports (rice, wheat). A special scheme to provide pre-shipment credit against warehouse receipt could be considered provided a higher margin is available to the banks similar to a scheme for oilseeds prevalent now. While normal bank margins against such credit are higher, it is suggested that a lower margins by banks can be stipulated for export credit against warehouse receipts.

RBI suggests that higher export growth is achieved by focussing on export products having a lower credit intensity; while this would reduce the quantum of export credit required, commodity focussed for exports would depend on India's competitiveness in sectors, growing international demand and market forces and not credit intensity factor.

Currently money to credit ratio for production is put at 1.7 or 1.8. This implies that higher industrial growth and GDP growth would require higher volume of credit which could preempt export sector. In our movement towards full convertability to be achieved in about 3 years concessional schemes of finance may not be required except schemes for making credit adequately available. A savings-investment balance needs to be restored; investment intention should not raise higher than savings and current asset deficit. If the level of savings is lower than required by high rates of economic growth, other than the credit requirement will have to be made by new schemes or by opening up cross border financing.

Cross border financing facility is required with flexibility to raise loans/equity abroad viz. (i) easier flow of loan/equity from abroad to supplement domestic saving investment balance (ii) private corporate sector to be allowed to raise loans abroad based on calculation of dollar cash flows required to repay FE loan; (iii) institutions like ICICI need to have greater flexibility to raise loans abroad and lend competitively.

Special financing scheme needs to be considered during the Ninth Plan period to promote a gradual movement towards full convertability. Cross border financing would be an important step towards achieving full convertability. Currently GOI approval for arranging loans is required which causes delay and difficult in negotiating lines of credit/loans. A special scheme to promote cross border financing by private corporate sector, institutions and foreign investors needs to be introduced which would ease the flow of credit besides allowing close to international interest rates.

Exim Bank could tap lines of credit given by ECA backed credit by export credit agencies. Exim Bank and IDBI could tap this credit for import of machinery for medium term up to 5 years which would be helpful to industry.

Exim Bank needs to go for forfeiting in a large way. Currently the facility is available to a limited number of countries. There is a need to propogate information available on this facility and to popularise this scheme.

Credit could be obtained from multilateral funded projects like ADB, EBRI, OECF which seems to have a 50 billion dollar opportunity and where international competitive bidding is required. Currently approximately 75 companies are already bidding on and off under the scheme through Exim Bank. The scheme is useful for both merchandise service exports as also industrial turnkey projects and could be a major earner of foreign exchange. This is the only route for Africa, CIS countries and the East Europe especially when ECGC cover is not available. EBRD funds could be tapped for private sector investment and exports to CIS countries.

To facilitate services export Exim bank has introduced new schemes to promote training of software professional institutions and firms at reasonable cost owing to low finance from Exim Bank. Working finance could be provided to software sector based on cash flow projects of six months. ECGC could work out a transparent system for providing

cover to services exports with low premium based on the discussion with Banks which would enable flow of funds as working capital to the services sector at the pre-shipment stage.

The other schemes which need to be strengthened during the Ninth Plan period are product liability insurance finance for major engineering items, product development in the software industry to develop software package for marketing abroad, marketing finance support and training institutes to train professional engineers and software professionals.

Special lines of credit for achieving environment standards by Exim Bank.

VII - QUALITY ASPECTS IN EXPORT PROMOTION

ISSUES

Indian manufactured/processed goods have often been found to be of poor/inferior quality as they sometimes do not meet the consumers safety/hygiene requirements such as presence of pesticide residues in levels higher than those permitted, microbial contamination, high levels of metallic impurities, pest and insects infection etc. The quality supplied by the exporters is also inconsistent as it varies from consignment to consignment. The major reasons identified for inferior quality products are as under:

- Unawareness of producers/exporters of Quality parameters of importing countries.
- Non-availability of adequate quality of basic raw material, components and packaging material at competitive rates.
- Non-installation of Quality Assurance System to ensure that the finished product produced is of assured quality required by the buyer.
- Non-availability of adequate testing facilities/internationally recognised certifying agencies which deprives the manufacturers/exporters of getting its produce tested before being shipped.
- No mechanism of Quality Rating exist by which an entrepreneur can know in clear terms the extent of quality gap between his product and that of his competitors.

RECOMMENDATIONS

- Upgradation of quality of Indian manufactured/processed goods.
- Upgradation of Quality of Packaging material & systems.
- Creation of awareness of the environmental issues among the entrepreneurs.
- Promotion of quality image of Indian goods.

The following action plan to place the manufactured/processed goods at par with the advance countries like USA, Japan, European Union were suggested by the Group:

- Harmonisation of Standards for domestic and international trade.
- Creation/Upgradation of testing facilities and accreditation of the same with importing countries.

- Promotion of Organic Farming & Processing.
- Evolution of a National Quality Council as an apex organisation for Quality Control Measures.
- installation of Total Quality Management System.
- To facilitate industry to adopt internationally recognised product safety and compliance marks.
- Development of packaging to promote export of manufactured/processed goods.
- Quality rating system.
- To devise mechanism for restrictions export of sub standard goods.
- To protect Indian trade interest through close co-ordination with international institution formulating international standards/systems..
- To create awareness among the processors about the environmental issues in processing and packaging.
- Addressing sanitary and phyto sanitary issues for developing export of Agro based products.
- Improving image of Indian products in International market.

VIII - ROLE OF STATES IN EXPORT PROMOTION

ISSUES

The role of the States in the development of exports has assumed crucial importance in the context of the redefined role of State Governments in the new economic policy. The State Governments are involved in the subjects covered in the State list, which impinge upon exports and would cover areas like Infrastructure, Labour, Welfare, industrial disputes, Factory safety, pollution control etc. The State Governments can also extend support to export oriented industrial units by way of concessions in Sales tax, capital subsidy, allotment of industrial plots etc.

RECOMMENDATIONS

Infrastructure:

- Reservation of 10% of its industrial plots for allotment to EOUs on priority basis by all States.
- Setting up and enlargement of EPIP in all States. Private sector should also be encouraged for EPIP.
- Setting up of Export Intensive Areas by bearing 50% cost upto a limit of 20 Crores by the Central Government and adoption of Cluster approach.
- Financial support for carrying out feasibility studies for setting up International Airport, EPIP, Export Intensive Centres, CFS be provided.
- Ear-marking and special scheme needs to be devised for priority allotment of rakes to State Exporting units.
- Berthing should be ear-marked in a port town depending upon the volume of trade from each of the States.
- Permission should be accorded to State Governments to set up International Air ports and Cargo complexes in collaboration with the Private Sector in areas which are far away from the existing International Air Ports and land should be provided to share 25% of the total cost subject to a maximum of Rs. 50 crores.
- Establishment of State Cargo complexes for promotion of trade with neighbouring countries from Border States & Reimbursement @ 20% on the total expenditure incurred with a ceiling upto Rs. 1 crores

- Regional cooperation among the neighbouring States in the matter of sharing common infrastructure.

Industrial Policy

- The State Government should formulate and integrate export policy as part of its Industrial Policy.
- Incentives like abolition of Purchase Tax, levies in inputs used for purpose of export goods.
- Abolish octroi, municipal tax for facilitation of free and unhindered movement of goods.
- Give uninterrupted power supply to 100% EOUs.
- Reimbursement of part or full amount for getting accreditation with ISO-9000.
- Transfer of licences be exempted from sales tax.
- Introduction of Green cards for exporters to accord top priority in dealing with different departments.
- Redefine EOUs as those units are exporting more than 25% of their products.
- Turnover for indirect exports should be reflected in their direct export performance to take into account the State's contribution for direct as well as indirect exports. The relative contribution of the State be considered by the Central Government while determining the share of a State in the funds being allocated in developing critical infrastructure on model lines for the benefit of exporters.

Regulatory mechanism under labour laws and other acts :

- The State should announce that all export oriented units would be free from Inspector Raj and would have self regulation. Public utility status given to 100% EOUs be extended to all EOUs as per their definition.

Financial Support through State Agencies:

- State level financial institutions like IDCs and SFCs be encouraged to lend to Export Oriented Units and an annual credit plan be finalised in consultation with the State level banks.
- One Export Corporation from each state should be given the status of Export House for a period of five years in onego.

Marketing Support:

- State Government should consider setting up of exhibition complex in each state so that each state could display the products in the exhibition. The Government should also be reimbursed 50% expenditure incurred by the State Governments for participation in ITPO exhibition abroad.
- A memorandum of understanding should be signed with the nodal agency for export of each State along with STC/MMTC to provide information for strengthening linkages for increase in exports from the respective states.

Human Resources Support:

- The State Government should introduce courses in universities/ Polytechnics/ITI to develop manpower suited to the needs of the Export Houses as there is a huge shortfall of trained manpower in different states.
- IIFT may also be persuaded to open their branches in different states for training to refreshers.
- Suitable awards be given to leading exporters for promoting exports from the States.

Information Dissemination:

- Information highway to be set up by NICNET in all the states to disseminate the business information and regular seminars/workshops for Export Awareness be organised to inculcate export culture.

ANNEXURE-1

LIST OF MEMBERS OF WORKING GROUP ON EXPORTS

1.	Shri Tejendra Khanna Secretary Ministry of Commerce	..	Chairman
2.	Ms. Tarjani Vakil Chairperson & MD. Exim Bank	..	Member
3.	Dr. Rakesh Mohan Economic Adviser Ministry of Industry	..	Member
4.	Shri S K Tuteja Secretary (Industry) Govt. of Punjab	..	Member
5.	Shri RV Choudhury Secretary (Industry) Govt. of Kerala	..	Member
6.	Shri G. Patnaik/S M Acharya Chairman, APEDA	..	Member
7.	Shri P K Shah President, FIEO	..	Member
8.	Shri S Gupta Vice Chairman and M.D. Tata Exports Ltd.	..	Member
9.	Dr. Amit Mitra Secretary General FICCI	..	Member
10.	Shri Tarun Das DG, CII	..	Member

11.	Shri P K Shah President, EEPC	..	Member
12.	Shri K L Madan Chairman, AEPC	..	Member
13.	Dr. R Mandal Joint Adviser (MIE) Planning Commission	..	Member
14.	Shri Shymal Ghosh DGFT	..	Member
15.	Shri K K Mathur CMD, ITPO	..	Member
16.	Dr. (Mrs.) V S Bharucha Economic Adviser Ministry of Commerce	..	Member-Secretary

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Working Group on Exports for the Ninth Five Year Plan

Section II . 1

**Sub-Group Report on
Exim Policy and Procedure
and better organisational
co-ordination**

93-144

Convenor : Shyamal Ghosh

**Director General of Foreign Trade
Ministry of Commerce
Government of India**

II.1

PREFACE

Planning Commission has constituted a **'Working Group on Exports during the Ninth Five Year Plan'** to be chaired by Commerce Secretary.

In the first meeting of this Working Group, it was decided to constitute seven sub-groups to focus on specific areas pertaining to exports. Accordingly, a **'Sub-group on Procedural Simplification and Improved Inter-ministerial Coordination'** was constituted with the Director General of Foreign Trade as its convenor. The other members of the Sub-group were:

1. Shri B.C. Rastogi, Member Customs, CBEC
2. Dr. Rakesh Mohan Economic Adviser Ministry of Industry
3. Dr. R.K. Dhawan, Director General, FIEO
4. Shri Tarun Dass, Secretary General, CII
5. Dr. Amit Mitra, Secretary General, FICCI
6. Shri. V. Raghavan, Secretary General, ASSOCHAM
7. Dr. B. Bhattacharya, Dean, IIFT
8. Shri S. Nigam, Jt. DGFT, (Policy)

The first meeting of the sub-group was held on 8th March, 1996 wherein it was decided that the report should cover:

1. The future relevance of duty free/ concessional duty import schemes
2. Simplification of procedures by identifying redundancy in current procedures.
3. Implementation of a computerised inter-ministerial message transfer system to be linked with EDI.

Since the first meeting had decided to go into the continuance of the duty exemption / concessional duty import schemes which form an integral part of the EXIM Policy, the second meeting held on 11th April, 1996 decided that the Sub-group should also consider suggestions for the forthcoming Policy and Procedures which would run contiguously with the Ninth Five Year Plan. Therefore, the Sub-group was re-designated as **'Sub-group on Export - Import Policy and Procedures, for the Ninth Plan'**.

The Sub-Group thereafter met on 14.5.96, 20.6.96 and 27.6.96. The Members of the Sub-group gave valuable suggestions on Policy and Procedures, which were discussed at length in these meetings. The present report is the outcome of these detailed deliberations.

An attempt has been made in the report to incorporate ideas and suggestions on which there was broad consensus. Although, there was unanimity among the Members of the Sub-group, regarding reduction in the number of schemes and having a single window approach to export promotion, it was felt that a Study Group may be constituted to suggest the most effective schemes which should be transparent and easy to administer and operate. The Sub-group also felt that the Government while constituting

the proposed Study Group, should also associate the representatives from trade, industry and academia.

It is my privilege to convey my deep appreciation and sincere thanks to all the members of the Sub-group who have whole heartedly provided valuable inputs in the formulation of this report. I am sure that their suggestions regarding the next Policy and Procedures will enable us to achieve the \$100 Billion target in exports by the end of the Ninth Plan or may be even earlier.

sd/—
(SHYAMAL GHOSH)
DIRECTOR GENERAL OF FOREIGN TRADE

CHAPTER - I

BACKGROUND

1.1 Throughout the post-independence years, India's economic planners implicitly believed that exports would essentially be a derivative of economic growth and that as the country's technological capabilities and industrial base were strengthened, using an import substitution strategy, the country would emerge as a major exporter of manufactured goods. Planners more or less chose to ignore the option of foreign trade as an engine of India's economic growth, primarily due to the highly pessimistic view taken on the potential for export earnings. Further impetus to the inward orientation was provided by the existence of a vast domestic market. In the first two five-year plans, the international trade of the country, therefore, continued generally on a trial and error basis. The foundation of a systematic and scientific foreign trade policy was actually laid down during the 3rd five-year plan when some changes in the attitude towards export became perceptible.

1.2 In the face of what was then seen as an unprecedented deterioration in the current account in the mid-1960s, the government resorted to a devaluation of the rupee in a bid to improve the country's export competitiveness. The 1966 devaluation, while not resulting in the expected improvement in trade deficit due to a combination of circumstances, brought out the problems stemming from an overvalued exchange rate. The export growth through 1960s averaged just 4% in value and volume.

1.3 The 4th plan period stressed on “Import more and Export more” philosophy. The national commitment to exports manifested itself for the first time in the export policy resolution of 1970. The resolution aimed at expanding and reorienting the export production. The scheme of Export House was also introduced during the 4th plan period. The international market also experienced conditions of boom and the Indian export sector was able to take advantage by realizing higher unit values for a wide variety of export items. The emergence of Bangladesh, Middle East and Gulf as market provided opportunities for diversification of trade.

1.4 The oil price hike in 1973 and the resultant heavy import, considerably thwarted the economic development and industrialisation process. Even the Industrialized economies suffered from balance of payment problem and squeeze in imports leading to restrictionist practices known as protectionism, The General Scheme of Preferences (GSP) provided some encouragement to exports but it was eroded by non-tariff barriers and protectionism adopted by developed countries.

1.5 During the 6th plan a new dynamism was injected into our export efforts. Developmental policies were geared to export promotion strategies in relation to products, projects, consultancy services and market. New schemes and the enlargement of the scope of ongoing schemes such as Cash Compensatory Support, Duty Drawback, Duty Exemption Scheme, support provided in market exploration and market exploitation by MDA, Free Trade Zone, 100% Export Oriented Units, Joint Venture and counter-trade resulted in generating and diversifying export production in various export sectors. The view gained ground that a more liberal policy of import of

capital goods and technology would enable India to reap the benefits of international division of labour. The attempt was, therefore, to move away from import substitution per se towards efficient import substitution, so that considerations relating to cost and efficiency were incorporated in the overall policy frame-work. It also became increasingly clear that production for export could not be isolated from production for the home-market and that trade policy has to be integrated with the policy for domestic industrialisation.

1.6 The focus since 1985 has been to improve the competitiveness of Indian exports, as the policy framework aimed at introducing a structural approach to export strategy. Because indigenous basic raw materials and intermediate inputs were considered uncompetitive on price and quality, exporters were given access to imported raw materials at international price. The import policies, at the same time, were significantly liberalised to accommodate the capital goods requirement of exporters. Thereafter, fiscal incentives, including income-tax exemptions, higher import replenishment licences and access to foreign exchange for sales promotion, were provided. This was in order to remove the bias against exports in favour of production of the highly protected and relatively profitable domestic market. A degree of continuity and stability was introduced in the import Export Policy, extending its validity from usual annual basis to three years. The streamlining of procedures, reduction in licensing and decentralisation of decision making were some of the other objectives of the policy.

1.7 The Exim Policy announcement of April 1992 brought the long awaited stability as it was made coterminous with the 8th Five Year Plan 1992-97. The thrust of the new

export import policy was clearly to jettison the protectionism of the past. The policy implicitly accepted that the country's export possibilities had been grossly underestimated and that the strategy of import substitution had not been adequately understood. This policy announcement was preceded by an initial package of trade policy reforms on 4th July, 1991 wherein several changes were introduced aimed at strengthening export incentives, eliminating a substantial volume of import licensing and optimal import compression in view of the Balance of Payments situation. Essential imports of sensitive items such as POL and fertilisers were fully protected, but other imports of raw materials and components were linked to export performance, through an enlargement and restructuring of the replenishment licensing system. The system of cash compensatory support for exports was abolished consequent upon the change in the exchange rate and other measures of reform which provided substantial incentives for exports across the board. On 13rd August, 1991, some more radical changes were announced by the Government such as :-

- replacing of the replenishment system by a new instrument named Exim Scrips where by the system of issuing supplementary licences for raw materials, components and spares list were discontinued ;
- abolition of the category of unlisted OGL by shifting the items to Appendix 3;
- strengthening and simplifying the system of Advance Licensing Scheme, EOU/EPZ Scheme, import of capital goods as an instrument of export promotion;
- decanalisation of number of items;
- re-orientation of public sector trading organisations like STC and MMTC who were earlier dependent heavily on canalised trade;

- substantial reduction in the extent of licensing and in the number of types of licences etc.

With these changes, the Policy for import of raw materials components and other inputs needed for production were simplified and capital goods and most raw materials and other inputs were allowed to be imported freely.

1.8 The fundamental feature of the Exim Policy, 1992-97, was freedom and elimination/substantial reduction of licensing, quantitative restrictions and other regulatory and discretionary controls.

1.9 LEGAL FRAME WORK :

In August, 1992, Imports and Exports (Control) Act, 1947, was replaced by the Foreign Trade (Development & Regulation) Act, 1992, and the Chief Controller of Import and Exports was re-designated as Director General of Foreign Trade. The provisions of the new Act and the new designation reflect in more clear terms the objectives and the thrust of the current Trade Policy towards promotion and development of Foreign Trade instead of administering controls and regulations.

1:10 ANNUAL REVIEWS :

At the time of announcement of the current policy for 1992-97, it was indicated that changes will have to be made in the direction of further liberalisation and as a response to emerging situations, annual reviews of Exim Policy & Procedures have been successfully carried out during the last four years within a stable Policy Matrix, to phase out quantitative restrictions in the form of licensing and other discretionary

controls on exports and imports and make the Policy progressively more domestic supplier-friendly. The effect of these measures is amply borne out by the fact that export have sharply risen from \$ 17.87 billion in 1991-92 to nearly \$32 billion in 1995-96. Export earnings now cover more than 85% of the foreign exchange needs for imports. Exports are also more diversified both country-wise and commodity-wise.

CHAPTER - II

OBJECTIVES OF EXPORT AND IMPORT POLICY,1992-97

2.1 The main emphasis of the current EXIM Policy have been on transparency, simplification and de-subsidisation. All the items have been made freely importable except those appearing in the three category Negative List of Imports, namely, prohibited list, restricted list and canalised list. In other words, the items not appearing in the Negative List of Import are importable without any condition. All capital goods have been made freely importable. The emphasis of the policy, therefore, is to regulate imports primarily by way of fiscal adjustment and not by quantitative restrictions. The major objectives of the Policy are as follows :

- (a) To accelerate the country's transition to an internationally oriented economy.
- (b) To augment the productivity, modernisation and competitiveness of Indian agriculture, industry and services.
- (c) To encourage the attainment of internationally accepted standards of quality.
- (d) To stimulate India's exports by facilitating access to inputs.
- (e) To encourage efficient and internationally competitive import substitution.
- (f) To impart greater transparency in the export-import policies and eliminate or minimize quantitative restrictions, licensing and other discretionary controls.
- (g) To strengthen and stimulate (R & D) capabilities.

CHAPTER - III

SALIENT FEATURES OF CURRENT EXIM POLICY

3.1 EXIM Policy for 1992-97 and the annual updating thereof are an integral part of the overall macro-economic management strategy. Against the backdrop of expanding world trade, highly competitive conditions in the international markets and imperative need for rapid growth in the country's exports performance, a number of schemes have been envisaged in the present Exim Policy. Procedural simplification is also one of the corner stones of the liberalised Exim Policy. The Hand Book of Procedures incorporate changes and refinements necessitated by the accelerating pace of liberalisation and globalisation of the Indian Economy. The EXIM Policy aligns and streamlines the procedure to facilitate greater trade efficiency and effective integration of the Indian Economy with global economy.

3.2 The current policy has a number of Schemes for Export Promotion. These are as follows :

3.2.1 *PRIVATE BONDED WAREHOUSE:*

The EXIM Policy provides for setting up of Private Bonded Warehouses in Domestic Tariff Area. Any person may import goods which are freely importable or which may be imported against freely transferable Special Import Licences and warehouse them in such Private Bonded Warehouses. Goods from such warehouses

may be cleared for home consumption in accordance with the provisions of the policy and against a licence wherever required, subject to payment of Customs Duty as applicable.

This scheme has helped the manufacturers in getting the required raw material in time. Further, manufacturers having small requirement of raw materials have been spared from going through the details of formalities of imports. This scheme facilitates imports in bulk quantity which in turn results in lower price of raw materials due to economy of scale.

3.2.2 EXPORT PROMOTION CAPITAL GOODS (EPCG) SCHEME :

To enable the exporter to import capital goods at a concessional rate of duty, two windows have been made available for import of capital goods under the Export Promotion Capital Goods (EPCG) Scheme. As per the first dispensation, the exporter can import capital goods at 15% concessional duty with an obligation to export four times the CIF value of the capital goods in the next five years while maintaining his past average level of exports of the same product. In the second, where the exporter is eligible to import at 'Zero' Duty (in case CIF value of capital goods is Rs.20 crores or more) he is under obligation to export goods produced from the imported capital goods equivalent to six times the CIF value of the capital goods in eight years. Even second hand capital goods have been allowed under the scheme provided the residual life of the capital goods is at least five years. The export obligation under the scheme can be discharged by way of direct exports or third party exports. Deemed exports also qualify for fulfillment of export obligation under the scheme. The EPCG licence holder has been

given the option to source the capital goods from domestic manufacturers instead of importing the same. The domestic supplier in that case may apply under the scheme to import components required for manufacture of the said capital goods at a concessional rate of Customs duty. The domestic manufacturers in such cases are also entitled for refund of Terminal Excise Duty and Special Import Licences.

3.2.3 DUTY EXEMPTION SCHEME :

The Duty Exemption Scheme covered under the Exim Policy provides for exemption from Basic Customs Duty for import of inputs subject to fulfillment of export obligation. The Duty Exemption Scheme can be broadly classified under the following headings

1. Advance Licence
2. Advance Intermediate Licence
3. Special Imprest Licence
4. Pass Book Scheme

(I) **ADVANCE LICENCE** : Under the advance licence, import of inputs are allowed without payment of Basic Custom duty for making exports out of the country. Such licences carry export obligation to be fulfilled within a specified period.

The Advance Licences are broadly of two types :

- (a) Value based advance licence (**VABAL**)
- (b) Quantity Based Advance Licence (**QBAL**).

VABAL : Under the Value Based Advance Licence (VABAL) any of the inputs specified in the licence may be imported without any quantitative restriction within the total cif value of the licence except the inputs which are specified as sensitive items. A sensitive item may be imported only to the extent of the quantity or value specified in the licence subject to the flexibility to import in excess of the quantity or value limit indicated against it upto an extent of 20% of the quantity or value indicated, as the case may be, subject to the overall cif value of the licence.

However, the export obligation under VABAL shall be both in terms of quantity as well as the fob value of the exports.

QBAL : Under Quantity based advance licence (QBAL), the quantity of each item of import is a limiting factor within the overall cif value of the licence. The export obligation is to be discharged both in terms of quantity as well as fob value of exports.

(ii) **ADVANCE INTERMEDIATE LICENCE** : This scheme has been framed to encourage and facilitate domestic sourcing of intermediate inputs as an alternative to direct imports whereby an Advance Licence holder instead of directly making the imports under the Advance Licence sources his inputs from a domestic manufacturer. The domestic manufacturer who is an Advance Intermediate Licence holder is allowed to import basic raw materials for making the intermediate product which is an input for the Advance Licence holder.

Another option open to the Advance Licence Holder is to get the input sourced from the Domestic Tariff Area. The supplier in DTA, supplies the material under an Advance Release Order (ARO) which is issued after invalidating the Advance Licence to the extent the item is being supplied under ARO. The supplier becomes eligible for deemed export benefit like Duty Drawback, refund of Terminal Excise Duty and Special Import Licence against supplies so effected.

(iii) *SPECIAL IMPREST LICENCE* : Special Imprest Licence is granted for the duty free import of inputs for the manufacture and supply of goods within the country to specified projects and to 100% EOU/EPZ units. The Scheme is basically to save valuable foreign exchange.

(iv) *PASS BOOK SCHEME* : With a view to mitigate the hardship of the exporters who have to obtain repetitive licence from the licensing Authority and other exporters who wish to diversify their export products., a scheme known as the Pass Book Scheme has been launched recently. The said scheme presently covers all manufacturer exporters and those exporters who have achieved the coveted status of Export House/Trading House/Star Trading House/Super Star Trading House. Under the Pass Book Scheme, the Pass Book Holder gets duty credit of Basic Customs Duty on the inputs which have gone into the exported product, which is calculated on the basis of the quantity arrived at as per input output norms and the international price of such inputs.

The said credit accrued to the Pass Book holder may be used for import of any input not necessarily linked with the exported item provided the item of import does not

fall under the Negative List of Import. Such credit may also be utilised for payment of duty against a item imported under freely transferable Special Import Licence.

3.2.4 DIAMOND GEM AND JEWELLERY :

Under this scheme, following types of licences are issued.

(i) *DIAMOND/DTC IMPREST LICENCE* : Rough diamond is part of the Negative List of Imports. Therefore, it requires a licence to import rough diamonds. India has expertise in cutting and polishing of rough diamonds. In order to promote export of cut and polished diamonds, the policy provides for import of rough diamonds by way of Diamond Imprest Licences and DTC Imprest Licences. Under these licences, rough diamonds are allowed for import subject to fulfillment of export obligation by exporting cut and polished diamonds within a specified period.

A DTC Imprest licence is given to those exporters who are 'sight holders' of DTC London which has a virtual monopoly in the world diamond trade. A DTC Imprest Licence is issued to an exporter on an annual basis which allows him to clear the rough diamonds supplied by DTC London on a monthly basis.

(ii) *BULK LICENCE FOR ROUGH DIAMONDS* : In order to help the small diamond exporters to get rough diamond within the country without going through the detailed procedure of imports, a scheme of Bulk Licences for Rough Diamonds is incorporated in the Policy. Under this scheme, specified category of diamond exporters and specified

Public Sector Undertakings are allowed to import rough diamonds which they supply to the exporter of cut and polished diamonds against a valid licence.

(iii) *REP LICENCES* : Exporters of cut and polished diamond may also export cut and polished diamonds and replenish their stock of rough diamonds by way of import subsequent to making of exports. Such exporters are allowed REP Licences for import of rough diamonds.

(iv) *DIAMOND CREDIT PASS BOOK SCHEME* : Under this scheme, exporters of cut and polished diamonds have been given a blanket licence to make imports of rough diamonds for export of cut and polished diamonds. This facility is given to specified category of exporters. This scheme helps the exporters in getting a single entitlement for import and export instead of approaching the Licensing Authority frequently for issuance of REP/Diamond Imprest Licences.

This scheme has been introduced in the Policy but due to absence of a parallel Customs Notification the scheme is yet to take off.

(v) *PRIVATE BONDED WAREHOUSE FOR ROUGH DIAMONDS* : This scheme has been introduced in the latest edition of the EXIM Policy. It allows import of rough diamonds for keeping in warehouse. The rough diamonds so imported may be exported to the third country or may be supplied within the country against a valid import licence.

This scheme is not operational as the parallel Customs Notification is yet to be issued.

(vi) *EXPORT OF JEWELLERY* : Under this scheme, the exporters of jewellery are allowed to either replenish or procure in advance the precious metal like gold/silver/platinum without payment of Customs Duty.

3.2.5 EXPORT ORIENTED UNITS (EOU)/EXPORT PROCESSING ZONES (EPZ):

Units undertaking to export their entire production of goods may be set up as EOU or EPZ units. These units may import, free of duty, all types of goods including capital goods required for manufacture, production or processing provided they are not prohibited items for import. These units have to achieve a minimum value addition of 20% except in respect of units engaged in manufacture of items specified in Appendix IV of EXIM Policy where they have to meet the value addition norms indicated therein. These units have to export their entire production except rejects upto 5% or higher percentage as approved by Board of Approval, which are allowed to be sold in DTA subject to payment of applicable duties. These units can also make DTA sale upto 25% of the production in value terms. However, an EOU/EPZ engaged in Agriculture, Aquaculture, Animal Husbandry, Floriculture, Horticulture, Pisciculture, Viticulture, Poultry and Sericulture may sell upto 50% of production in value terms in the DTA. The units in EPZs are eligible for concessional rate both for plot and building. These units as well as EOUs are exempted from payment of corporate income-tax for a block of five years in the first eight years of operation. Foreign equity upto 100% is permissible in the case of EOU and EPZ units. The EOU/EPZ units which have acquired IS/IS 9000 (series) or

any other similar internationally recognised certification of quality are entitled for Special Import Licence as well.

3.2.6 A supplier from DTA to EOU/EPZ unit is eligible for deemed export benefits under Para 122 of Exim Policy and in addition is also eligible for (a) refund of Central Sales Tax; (b) Exemption from payment of Central Excise Duty on capital goods, components and raw materials and (c) Discharge of export obligation, if any.

3.2.7 DEEMED EXPORTS :

Deemed Exports means those specified supplies in which the goods supplied do not leave the country and the payment for the goods is received by the supplier in India. However, there are specified categories of deemed exports eligible for specified benefits under the Exim Policy, which include the following benefits :

- (a) Duty Exemption Scheme
- (b) Deemed Export Duty Drawback.
- (c) Refund of Terminal Excise Duty
- (d) Special Import Licence @ 6% of the FOR value

3.2.8 EXPORT HOUSE/TRADING HOUSE/STAR TRADING HOUSE/SUPER STAR TRADING HOUSE :

Recognising the contribution made by units in promoting India's exports, the coveted status like Export House/Trading House/Star Trading House/Super Star Trading House is being conferred on units who achieve certain level of export performance.

3.2.9. These Export Houses/Trading Houses/Star Trading Houses/Super Star Trading Houses are eligible for Special Import Licence which is allowed upto certain percentage of either the fob value of export or the NFE value. In addition, these Houses are eligible for the benefit of execution of Legal Undertaking in lieu of Bond/Bank Guarantee in respect of imports made under Duty Exemption Scheme as well as Diamond/DTC Imprest Licence. Further, manufacturer exporters and other Houses are eligible for Green Channel facility and expeditious assessment of Bill of Entry by a separate group of appraisers and Asstt. Commissioner of Customs specially ear-marked for this purpose. Facilities of de-stuffing of import cargo are also provided at the factory premises of the above categories of manufacturers/importers.

3.2.10 *QUALITY :*

One of the important features of the policy is to promote export of quality products. In order to achieve this the exporters who have achieved quality status of ISO/9000 (series) or IS/ISO 9000 (series) are entitled for Special Import Licence which allows Import of certain items appearing in the Negative List of Imports.

CHAPTER - I V

PERFORMANCE OF DES, EPCG AND DEEMED EXPORT SCHEMES

4.1. DUTY EXEMPTION SCHEME:

The Export-Import Policy, 1992-97, has provided impetus for the growth of exports by providing domestic manufacturing sector an access to international inputs relatively easily and also providing duty free access to inputs under various export promotional schemes. The exports registered a growth of 21.4% during 1995-96 over 1994-95 period. The contribution of each commodity in exports during 1995-96 is given at Annexure "A3". Annexure "A2" shows the import data for 1995-96.

4.1.1 Duty Exemption Schemes have turned out to be popular schemes for the promotion of exports. Under this scheme, inputs of international quality at International Price are allowed duty free for exports or replenishment of the stock. This has helped the exporters in manufacturing goods of International quality which helps them in competing in the world market.

4.1.2. In the year 1990-91, the total CIF value of the licences issued under the Duty Exemption Scheme was CIF Rs.2693 crores against which export obligation worth Rs.5890 crores have been imposed. In the year 1992-93, value based advance licences have been introduced in the policy. Under the Value Based Advance Licence

the limiting factor for the purpose of import was only the value and not quantity except for the sensitive items. The Value Based Advance Licence provided much needed flexibility to the exporters. In the year 1992-93 , Value Based Advance Licence for cif Rs.3317 crores with export obligation of fob Rs.9582 crores was issued. As against this Quantity Based Advance Licence for cif Rs.5078 crores was issued against export obligation of fob Rs.9322 crores. The popularity of the scheme can be seen from the fact that both the number of licences as well as the value of the licences and export obligation kept on increasing over the years. In the year 1995-96 cif value of the Advance Licences issued was Rs.14677 crores against an export obligation of fob Rs.38422 crores. The data on Duty Exemption scheme is given at Annexure "B1". From the year 1990-91 to 1995-96, a total number of 157503 licences have been issued with cif Rs 66816 crores and fob of Rs 151810 crores.

4.2. EPCG SCHEME:

Under the EPCG scheme, import of capital goods are allowed at Zero duty/15% Duty subject to the condition that the importer undertakes additional export obligation to be fulfilled within a specified period. The features of the scheme are already given in Chapter III of the report.

4.2.1 In the year 1990-91, EPCG licences for CIF Rs.289 crores were issued against which the exporters have undertaken an export obligation equivalent to fob Rs 868 crores which is over and above the export obligation to be fulfilled while maintaining the average level of exports achieved by the exporter in the preceding three years. There has been a steady growth in the value of the EPCG licences and consequently the

additional export obligation undertaken by the exporters. In the year 1995-96 EPCG licences of cif Rs.11,572 crores were issued against which the exporters have undertaken additional export obligation of fob Rs.60,145 crores. Even if the value of the EPCG licences surrendered unutilised are not taken into account, the total value of the EPCG licences for the period 1995-96 was cif Rs.11,522 crores which would account for an additional export obligation of fob Rs.59,946 crores to be realised in the next five to eight years. Data in this regard is given at Annexure 'C1'

4.2.2. The scheme has been very popular in promotion of exports. It is encouraging to know that the performance of the exporters in fulfilling the export obligation is very high. Against the licences issued in the year 1990-91 and 1991-92 export obligation above 90% have been fulfilled. For the licences issued for the period 1992-93, 54% of export obligation have already been fulfilled although the export obligation period is valid upto 1997-98. The data relating to export obligation fulfillment of EPCG licenses are given at Annexure 'C2'.

4.3. DEEMED EXPORTS

The policy of Deemed Exports on the one hand encourages the exporters in sourcing their requirement from indigenous market and on the other serves as an import substitution strategy. The supplies under the Deemed Exports are granted the benefit of refund of Terminal Excise Duty and Duty Drawback. An additional incentive in the form of special import licenses is also granted for the deemed export supplies. For the period 1995-96 a provision of Rs 300 crores had been made for refund of Terminal Excise Duty and payment of Duty Drawback which turned out to be inadequate as a large number of

refund claims remained undisbursed for want of funds. This shows the popularity of the scheme. The scheme of Deemed Exports needs to be continued in the next policy with the modification that instead of being asked to pay the Terminal Excise Duty and claim the refund, a mechanism may be evolved whereby the deemed export supplier need not pay the Terminal Excise Duty at all and move his goods, may be, under a bond.

CHAPTER - V

CONCEPTUAL FRAMEWORK

5.1 The commitment of the Government to further liberalise Exim Policy as well as to bring down the average rate of protection to the domestic industry will necessarily create a situation where the ability of the Exim Policy to provide preferential advantages to the export sector at the cost of non-tradeable sector will become marginal.

5.2 The reforms process have started a movement away from the QR regime to a tariff based regime which may get accelerated during the Ninth Plan. This will automatically imply a shift in terms of controls on export-import trade from the Ministry of Commerce to the Ministry of Finance.

5.3 In the past, there has not been any consistent policy relating to controls on exports in the event of conflicts between domestic and export requirements. However, if a consensus is achieved on the desirability of maintaining the export market either at the cost of the domestic consumers or through import or third country trade, the need for export controls will be much less felt in future.

5.4 In this scenario, the relative importance of Exim Policy in its traditional form will be of little significance. The really important instrument will be other macro-economic

policies such as exchange rate management, maintenance of domestic price level, policies relating to privatisation, infrastructure development etc.

5.5 . The real threats to the country's export development will come in future from the new types of neo-protectionist instruments such as social clauses and environment related non-tariff barriers. There is also a perception that the use of anti-dumping and countervailing duties by the developed countries will become increasingly frequent. The other major threats originate in the increasing regionalisation of the world trade due to which India may face with a problem of reduced market access.

5.6 It is clear that the Exim Policy as designed today focusing narrowly on export-import transactions will become totally inadequate to counter these threats. What will, therefore, be required is a much greater co-ordination among the various economic policies to work out suitable responses to these developments.

5.7 Due to substantial expansion in foreign trade in the last few years, the trade/GDP ratio has already increased to about 18 percent. If the present growth rates continue, the proportion will rise to a still higher level. The rising level of foreign direct investment is also increasing the integration of the Indian production system with the rest of the world. In this situation, the strategic thrust of the trade policy measures should be to help the Indian economy to attain global competitiveness as a whole and not aim at creating only artificial export price competitiveness or higher export profitability.

5.8 Given the anticipated reduced importance of the traditional Exim Policy, it is clear that the focus, so far as the traditional component is concerned, will have to be on the systematic improvements of the regime controlling export-import transactions. Any complicated procedural system can increase the uncompetitiveness of the export sector in a variety of ways :

- i) It can increase the transactions cost.
- ii) It can increase the transactions time.
- iii) It can reduce transparency.
- iv) It can influence rent seeking behaviour .

5.9 Since in future, the country has to achieve a much higher level of operating efficiency to compete globally, it is clear that the systems and the procedures must be suitably amended. One component of this thrust towards systematic improvement will be to ensure stability both in the policy and the procedural regimes.

5.10 Second is the appreciation that overall operating efficiency can only be achieved if a holistic approach is followed since Exim Policy and the Procedures are only a small part of the totality of systems and procedures governing foreign trade transactions.

5.11 Third, if there is no corresponding qualitative improvement in the human and infrastructural resources, in line with the increase in the country's trade volume, it is inevitable that even a simple, transparent policy and procedural regime will become complex and time consuming.

5.12 Fourth, the need for an increase in the number of staff and officers in the regulatory agencies can only be mitigated to some extent with the increased use of EDI which all the government departments connected with trade promotion have been exhorted to adopt from January 1998 and can, therefore, result in a substantial improvement in the operating efficiency.

5.13 **5.13.** Despite the perceived reduction in the importance of the role of the Exim Policy in future, there is no doubt that in the near term especially during the initial years of the Ninth Plan, some of the existing features of the current Exim Policy will continue to be of interest and importance to the Indian trade and industry. The thrust in this segment should be on the stability and transparency of the export promotion schemes. There are essentially two categories of schemes that are in operation : one category of schemes is designed to offer duty free access to international supplies. The second category offers preferential import of capital goods subject to export obligation. It is felt that in future there should not be multiplicity of schemes. There should be an absolutely irreducible number of export specific schemes. The emphasis should be on continuously upgrading the operational efficiency of the schemes than on introduction of new schemes. Continuation of a scheme over a longer time frame with efforts towards continuous improvement enable the user community to appreciate its operation more effectively and transact export business more efficiently. The need for skill development to utilise the schemes at the corporate level will to that extent get minimised. The tasks of the servicing agencies such as the EPCs and the trade industry bodies will also concurrently be less in this regard and have opportunities to focus more on providing professional marketing expertise to their members and advise them on aspects of product and market development, quality consciousness etc.

CHAPTER - VI

PROPOSED CHANGES IN POLICY AND PROCEDURES

6.1 The encouraging growth trend in the country's exports indicates that we should aim at achieving around \$ 100 billion of exports by the end of Ninth Five Year Plan. Import will also rise to a level little above \$ 100 billion in the same period. We have, therefore, to plan for putting in place an Exim Policy which facilitates foreign trade of the order of around \$ 210-220 billion. The essence of such an approach would be further simplification, reduction in number of schemes and agencies, transparency and efficiency.

6.2 It is proposed that the forthcoming policy should concentrate essentially on the following three categories of schemes for export promotion:

- one category of scheme designed to offer duty free access to international inputs, in advance, subject to export obligation
- second category of scheme designed to offer replenishment benefits or rebate of duties, post -exports.
- third category of scheme designed to offer import of Capital Goods at concessional /zero rate of duty subject to export obligation

The Duty Exemption Scheme including the Pass Book Scheme and the Duty Drawback Scheme, therefore, need to be simplified. Further, the operational aspects of the same need to be fine tuned so as to alleviate any hardship to the exporters. A single window approach is desirable both for the duty free scheme as well as for replenishment benefits or rebate of duties be it Duty Free Replenishment or Pass Book credit or Duty Drawback.. This would obviate the problem of differing even contradictory interpretations between different authorities. Moreover, the single window system would put an effective end to the multiplicity of procedures and departments involved in the operation of the scheme, involved in neutralising the duty incidence.

6.3. The advantages of single-window system for export promotions are obvious. Presently, the exporters and export activities suffer on account of different interpretation and perception of different agencies involved in the execution of the same scheme. A number of export promotion schemes announced under Exim Policy have remained non-starter for years as the enabling notifications of other agencies have not been issued.

6.4. A variety of Export Promotion Schemes under the Duty Exemption Scheme that have come into existence in the current policy would require remodelling into one single scheme for duty free access to international inputs. The different schemes containing a variety of flexibilities/options have created problem in effective administering of the schemes as well as monitoring. The present policy for DES stipulates that import of raw materials etc. required for the product to be exported, should be allowed. The principle

behind this is that a broad nexus should be there between the imported inputs and export products. However, in the actual implementation of the scheme it has been observed that the various implementing arms of Customs and DGFT have insisted on nexus between the imported inputs and the resultant products to the minutest extent leading to absurd situations e.g. calling for nexus between various grades of carbon black and dyes, denierage of textile products, GSM of paper products, thickness of engineering items etc.. Consequently the problem of nexus has turned out to be a major hindrance for DES exporters. The Group felt that the concept of nexus should be on very broad basis subject to the condition that the duty incidence on the imported inputs should be same. The implementing arm of the Ministry of Commerce and Department of Revenue namely regional officers of DGFT and Customs House find it difficult to cope up with the complexities of the schemes. The exporters, too, are baffled as to which scheme they should adopt. The single scheme for duty free access inputs at international prices should be simple to operate wherein an exporter need to visit the designated agency only twice; first while applying for the scheme along with Legal Undertaking /Bond/Bank Guarantee as applicable and then at the time of redemption of the bond on completion of exports. This would put an end to the duplication of work as well as the wasteful expenditure involved in the execution of bond as well as submitting proof of fulfillment of export obligation both at the end of DGFT as well as the Customs authorities. At present exporters operating under DES are required to visit two agencies i.e. DGFT and Customs a number of times for filing of an application, for the execution of BG/LUT, registration of DEEC, filing of shipping bill or bill of entry, logging of DEEC, getting certificate of discharge of EO from the Licencing Authority, final discharge of BG/LUT from the Customs. Exporters have time and again complained of delay at each

of the above stages which has ultimately resulted in increased transactional cost and on account of lack of transparency and complexity involved. The simplified scheme suggested by the group should not only be transparent but also to be implemented within a time frame. The vital ingredients of the scheme should be transparency, simplicity quick servicing and effective administration. The details of such a scheme could be worked out by the Government in consultation with the representatives from the trade and industry. In this context, Department of Revenue has already suggested replacement of present QBAL scheme with a revised concept of Pass Book Scheme which is not based on replenishment benefit but is meant to allow access to duty free imported inputs in advance. Basic principle underlying the Scheme is to provide the exporter all the inputs required for export products duty free. It was felt by the Department of Revenue that this scheme has an advantage over the present DES which is operated through individual licences. However, this suggestion did not find favour with the members of the Group, since the proposed scheme again emphasises nexus between imported inputs and export products to the minutest details and does not give any flexibility to the exporter. It was further felt that the proposed Scheme is a modified version of the existing QBAL on production program basis.

6.5. Since the liberalisation of imports, there is an increasing demand for the opening up of the consumer goods sector. However, keeping in view the apprehensions of certain domestic manufacturers as well as some economists, it is proposed that import of consumer goods may be allowed with certain quantitative restrictions to be phased out over a period of time. For this purpose, a broad approach can be adopted by taking a time frame of five years broken into two equal phases. In the first phase, items

currently in the SIL list can be made freely importable and an equal number of restricted items can simultaneously be placed on the SIL list. During this phase dual use items could also be made freely importable. In the second phase the items with domestic sensitivities could be considered. After studying the trends in import in respect of certain class of consumer goods, the quantitative ceiling may be lifted. The present position of restrictions / regulation of items are given at Annexure - D.

6.6 The Export Policy also needs to be rationalised further. The restriction on exports of any item should be limited only to giving effect to International Treaty/Convention or because of environmental, ecological or purely social and cultural considerations. The export of agricultural commodities should also be allowed freely when exported as value added products in consumer packs. The present system of a stop-go arrangement for agro-based commodities, is not conducive to the exporters for developing and sustaining an export market for a particular product. There is also a need to review the system of exporting certain products through a canalising agent. Except for the items of strategic importance, all the items should be decanalised.

6.7. One reason for procedural complexity and substantial documentary requirements is the administrative view that all export-import transactions need to be scrutinised, to ensure that there are no violation of rules and the trading community does not appropriate illegally what is due to the State. The anticipated increase in foreign trade transactions will obviously make such an approach unrealistic. What is required is a changeover from a 100% checking of consignment to a sample-based strategy which will be effectively complimented by deterrent punishment to the violators. It will,

therefore, be necessary to develop an appropriate legal machinery if a 'green channel approach' has to be implemented. It was felt that the government should analyse the profiles of exporters/importers and consignment of firms with good track record should be cleared on the basis of a sample approach.

6.8. The present Exim Policy has a number of objectives but the provision for meeting these objectives have not been reflected in the Policy. The incorporation of so many objectives enlarge the focus of Exim Policy but in absence of clear-cut provisions the focus itself remains unclear. Therefore, the new Exim Policy, co-terminus with Ninth Five Year Plan, should have narrow focus but clear objectives with backing of provisions to meet those objectives. In the current Exim Policy, the following objectives (d), (e) and (f) are most relevant :

- (d) to stimulate India's exports by facilitating access to required raw materials, intermediates, components, consumables and capital goods from the international market;
- (e) to encourage efficient and internationally competitive import substitution within the liberalised framework of foreign trade;
- (f) to impart greater transparency in the export-import policies and eliminate or minimise quantitative restrictions , licensing and other discretionary controls.

6.9. Since the aim of the Exim Policy is the development of International Trade, it should be rechristened as **"TRADE DEVELOPMENT POLICY"**. There are a number of schemes which may lose their relevance with the liberalisation of economy and the

reduction of the tariff in tune with "General Agreement on Trade and Tariff" and therefore, some of the present schemes need complete remodeling /scrapping in the changed scenario. The point regarding replacement of the multiple duty exemption schemes by a single simple and transparent scheme has already been discussed in the report. The other schemes in the Trade Development Policy would be as follows :

a) REPLENISHMENT SCHEME :

The traditional Duty Drawback Scheme and the existing Passbook Scheme introduced in the EXIM Policy in 1995 get covered under this category. The trade has welcomed the new Pass Book Scheme because of the simplicity of the procedure involved in it. Though there are some difficulties being observed in implementation of this scheme at the initial stage particularly the verification of the international price of inputs on the basis of which credits are calculated, the scheme has the necessary ingredients to become the most effective scheme for replenishment benefits or rebate of duties as it dispenses the requirement of licences for availing duty benefits. However, for pricing of the inputs some scientific method may be adopted so that the Pass Book holder knows beforehand how much credit he is likely to get and accordingly do his costing while approving an export order on competitive terms. A working group may be formed which can go into the detail of finding ways for scientific and acceptable method of verification of international price of inputs which does not involve discretion or a multiple approach and the system itself becomes transparent. The Group could also go into the relative merits and demerits of the various replenishment / rebate schemes and suggest the most simple and transparent scheme for availing replenishment benefits/ rebate of duties. The suggestion to reintroduce Duty Free REP Scheme was made by

the representative of FIEO. It was felt by them that introduction of such a scheme would enable the exporter to overcome the difficulty faced by the exporters operating under the DES namely filing of application to Licencing Authority before starting exports, enormous delays in logging of DEEC books, visiting the licencing/ Customs authorities a number of times for licencing/ post licencing work. The Group, appreciating the need for a simpler DES, however, recalled the problems associated with the implementation of the Duty Free REP Scheme and on account of which the scheme was scrapped. It therefore, felt that as discussed in para 6.4, if a simple and transparent DES can be put in place, there will not be a need to reintroduce a Duty Free REP Scheme.

b.) E.P.C.G SCHEME :

The EPCG Scheme has served as a very effective tool of export promotion as borne out by the data given in Annexure C1 . Annexure C2 additionally shows that an efficient monitoring of the export obligation by the DGFT has resulted in over 90% of the export obligation of licence issued in 1990 -91 and 1991-92 much before the expiry of the export obligation period. These schemes, therefore, designed to offer import of Capital Goods at concessional /zero rate of duty subject to export obligation, should be continued in the next policy. With the general reduction in the duty structure pertaining to Capital Goods, the concessional duty available under EPCG, may have to be correspondingly reduced so that the export obligation thrust on the EPCG licence holder could be correlated to the extent of duty saved while importing under EPCG. The policy should also increasingly encourage EPCG licence holders to source their Capital goods indigenously from domestic Capital Goods manufacturers who in turn could be allowed to import components, spares and even raw materials at concessional/zero rate of duty.

Taking into view the concern of the DoR that raw materials under EPCG could not be allowed as it was difficult to monitor or account for such raw materials in the resultant product, it was felt that duty free raw materials could be allowed only in such cases where Standard Input Output norms could be fixed. The proposal of FICCI to reduce export obligation of the EPCG licence holder to the extent the capital goods are sourced indigenously may not be feasible because the policy recognises the supplies made by indigenous capital goods manufacturers to EPCG licence holder as deemed exports only because the EPCG licence holder has undertaken an export obligation. And the domestic supplier is eligible for benefits of deemed exports as per para 122 (c) & (d) of the EXIM Policy. If the overall value of capital goods gets reduced due to some part of it being sourced domestically the policy already provides a pro-rata reduction in the export obligation to the extent of the reduced CIF value on the EPCG licence..

c.) EXPORT ORIENTED UNITS (EOUs)/EXPORT PROCESSING ZONES(EPZs)
SCHEMES :

The Policy relating to EOU/EPZ would require simplification of procedures and policy guidelines, modification of the single-window concept and reduction in the number of schemes by merger of parallel schemes. Manufacturers and export in bonded premises, whether from EPZs or from stand alone EOUs forms a special component in the export efforts of the country. Important policy initiatives undertaken since 1991 have, by and large, succeeded in providing a broadly liberal framework for EOU/EPZ units. However, representations have been received from the trade and industry on some outstanding issues, mostly relating to Customs/Central Excise matters. Suggestions have mostly been received for introduction of a simple comprehensive and separate

framework in regard to customs/central excise policy and procedures for governing the functioning of EOU/EPZ units as the present arrangement does not adequately cover all aspects of the concept of duty free export oriented production. The present system of physical bonding will have to be gradually replaced by a system of fiscal bonding. It will also be necessary to make a detailed study of the policy and procedures being followed by the Export Processing Zones/Special Economic Zones in other countries with a view to adopting some of the successful and practical aspects of their schemes. It is proposed to further improve the EOU/EPZ scheme on the above lines during the Ninth Five Year period.

d.) GEM & JEWELLERY SCHEMES :

Since Gem & Jewellery items except gold cannot be kept as an asset, there is no need to put these items under the Negative List of Imports and their clearance against Gem & Jewellery Licences. As Gold is already in the restricted list, the whole Gem & Jewellery Scheme except for precious metals be scrapped. Gem & Jewellery exporters may be allowed to operate like any other duty free licence holder.

e.) DEEMED EXPORTS :

As mentioned in Chapter IV of this report, the policy of deemed exports on one hand encourages the exporter to source his input requirements from the indigenous market giving a boost to the domestic industry while on the other hand serves as an import substitution strategy saving precious foreign exchange. The Group recognised the importance of deemed exports and felt that the next EXIM Policy should propose treating deemed exports to be at par with physical exports. It was also felt that the

scope of deemed exports should be widened to include capital intensive supplies made for the development of infrastructure like ports, railways, roads etc. in addition to the present scheme which includes supplies to fertiliser, power, oil and gas sectors. It was further felt that deemed export suppliers should be exempted from payment of terminal excise duty (TED) and should be allowed to supply against LUT/ Bond/BG.

f.) EXPORT PROMOTION COUNCILS (EPCs) :

Chapter XIII of the Exim Policy relating to Export Promotion Councils be shifted from the policy to Handbook of Procedures. The EPCs should be entrusted with a more pro-active role in export promotion, development of new export markets and adoption of electronic commerce by their member exporters and Market Development Assistance provided to them strictly on the basis of their performance and success in these areas.

g.) NEGATIVE LIST OF IMPORTS AND EXPORTS :

Under the Economic Policy regime as we move progressively from restrictions to freedom, more goods and services would have to be made freely exportable and importable which amounts to pruning of the negative lists. Most inputs for export production are to be made available at zero or low rate of duty. Procedures must be simplified and to the extent feasible automacity should be introduced in the procedures. Restrictions which have outlived utility should be abolished over a period of time.

h.) SPECIAL IMPORT LICENCE (SIL) :

Since consumer goods imports should be liberalised only in a phased manner preferably through the Special Import Licence (SIL) route, SIL as an additional incentive

for Export House/Trading House/Star Trading House/Super Star Trading House, export of goods with international quality certification, deemed exports and exports of certain specified high value added/ hi-tech products and services and exports to specified destinations as a promotion measure should continue in the next policy. The small scale sector have continuously complained that while they account for 30 - 40% of the total export proceeds, SIL is not available to them as most of their exports is made through the export/ trading houses, and if they export directly they do not qualify for the Export House status. Hence, while not diluting the eligibility criteria for achieving Export House status or losing sight of the objective of creating specialised trading houses that have the necessary professionalism and infrastructure to negotiate better market deals on behalf of the SSI sector, it would be necessary to encourage the SSI sector by way of enhanced SIL benefits (equivalent to EH status holders) to such SSI manufacturers who have acquired quality certification like ISO 9000 series , on the FOB value of exports (excluding deemed exports) of products made with the aforesaid quality certification during the preceding licencing year.

I.) QUALITY :

The present Exim Policy gives marginal incentives in the form of SIL to the exporters who have attained international standards of quality production. The forthcoming policy should aim at providing substantial incentives for exports of high quality products with indigenous labels and R&D exports. The forthcoming policy should also be effectively equipped to take deterrent action against exporters of sub-standard quality as this lowers the image and credibility of the export community and of the country.

CHAPTER - VII

ORGANISATIONAL STRUCTURE AND ADMINISTRATIVE SUPPORT SYSTEM

7.1. There is a general impression that because of lack of inter-departmental co-ordination in the different wings of government, particularly, between DGFT and DoR, exporters tend to suffer. Better co-ordination would ensure proper monitoring of export promotion schemes and would reduce the response time of various government department. It would also act as deterrent on dubious exporters.

One possible mechanism for creating inter-departmental co-ordination is through structured policy of deputation. Officers from DGFT may be deputed in Customs House to implement Export Promotion Schemes. Separate wings for Export Promotion and Revenue matter may be created in Central Board of Excise & Customs. The step would reduce the response time of clearance of exports and export-related imports. Officers from Revenue department may also be posted in the office of the Director General of Foreign Trade, to provide a better understanding of Customs matters and Exim policy matters.

7.2. ROLE OF DIRECTORATE GENERAL OF FOREIGN TRADE :

The DGFT should continue to be the apex body for policy formulations, administration and monitoring of its regional offices. It may also continue to deal with the issuance of licences under negative list/restricted list of imports and exports. In the recent years, the DGFT has delegated most of the licensing functions to the regional offices. This delegation should be accelerated for EPCG scheme and the Duty Exemption Scheme. Possibility of defining parameters for granting licences under negative list/restricted list may be studied so that delegation of such powers to Regional offices could be made. In the present set-up, the exporters' need for clarification on various policy and procedural points is more because of the multiplicity of schemes and multiple implementing agencies. With the proposed concept of single window for most of the export promotion schemes the number of clarifications to be sought by the exporters would come down . However, because of the fast paced nature of the international trade, clarifications should be provided on almost immediate basis by the DGFT. The organisation may gear up its response mechanism to reduce the time-lag in this regard.

7.3. It is also felt that a large number of amendments by way of Public Notices and Circulars create difficulties for the exporters to keep updating their knowledge of system and procedures. It is, therefore, proposed that amendments to the policy/procedures should be done only on a quarterly basis, except in exceptional circumstances where the reason for making such amendment should also be spelt out. The enabling Customs Notification and Circulars making the DGFT Notifications and Circulars

operative should also be issued concurrently without any time lag and should be in line with the provisions of the EXIM Policy to broadly achieve the twin objectives of simplification and export promotion.

7.4. Electronic Commerce is now-a-days very much relevant in the international trade. Developed countries have progressed to the extent that their Revenue Departments can have the manufacturing details of the exporters on EDI. From the same monitor, they can also know the export and domestic performance of the exporters. It is an unstated fact that if any buyer /seller is not on EDI, he cannot exist in the international trade. The EDI network can serve both, the exporters and the Government in many ways. The exporters can have access to the marketing information and trade opportunities available in international market. Proper linkages between different government departments can ensure monitoring of export obligation , correct issuance of licences and timely inward remittance.

A beginning can be made in this direction by networking the Revenue Department, DGFT, Port Trust and the RBI. The present may be the most opportune time for the connectivity to be made operational because the biggest Custom House of the country-the Bombay Custom House, is phasing out its old computer system and installing the new computer system. However, a few points need to be observed to make the connectivity give desired effects.

- (a) Before providing the connectivity, there should be systems study with a view to eliminate the unnecessary procedures. A joint study group consisting of

officers from DoR and DGFT should analyse the requirement and relevance of different formats prescribed by DGFT, Central Excise and Customs to see the possibility of reduction in paper work and streamlining the procedures. This will cut cost and reduce response time.

(b) Inputs and Outputs required by various department should be defined clearly before designing the system. It would help in procuring the proper inter-phases.

To this effect, the Commerce Ministry has set a target to have submission and processing of customs declarations throughout the country made electronically on the "Indian Customs EDI Systems "(ICES) by January 1998. The Ministry has also established a National Council for EDI for co-ordinating among various departments and associating all concerned so as to introduce EDI in all transactions from January 1998.

STATEMENT OF IMPORTS, EXPORTS AND BALANCE OF TRADE

1990-91 to 1995-96

YEAR	IMPORT		EXPORT		BALANCE OF TRADE
	US\$ Mill.	(% Change)	US\$ Mill.	(% Change)	US\$ Mill.
1990-91	24073	13.2%	18143	9.1%	-5930
1991-92	19411	-19.4%	17865	-1.5%	-1549
1992-93	21725	12.05%	18420	3.61%	-3305
1993-94	23212	6.84%	22173	20.37%	-1039
1994-95	28251	21.71%	26223	18.27%	-2027
1995-96	36369	28.74%	31830	21.39%	-4538

	Rs.Crores	(% Change)	Rs.Crores	(% Change)	Rs.Crores
1990-91	43193	22%	32553	17.6%	-10640
1991-92	47851	10.8%	44042	35.3%	-3809
1992-93	69923	31.64%	53350	21.73%	-9572
1993-94	72806	15.71%	69546	30.36%	-3259
1994-95	89970	21.84%	82673	18.39%	-3367
1995-96	121646	37.14%	106464	29.30%	-15181

IMPORT OF PRINCIPAL COMMODITIES APRIL-MARCH1995-96

(Rs. Crores)

COMMODITIES	APRIL (1994-95)	APRIL 1995-96	%age Growth
I. BULK IMPORTS	35165.26	47154.15	34%
1. Cereals & preparation	92.33	79.13	-14%
a) Rice	8.55		
b) Wheat	0.38		
c) Other Cereals	0.34	0.23	-32%
d) Preparations	83.06	78.90	-5%
2. FERTILIZERS	3304.29	5383.67	63%
A) Crude	479.19	499.64	4%
B) Sulpher & Unroasted Pyrites	426.51	462.14	8%
c. Manufactured	2398.59	4421.89	84%
3. Edible Oil	624.24	2183.04	250%
4. Sugar	2283.12	185.97	-92%
5. Pulp and Waste paper	635.35	919.36	45%
6. Paper Board and Mfg.	499.37	860.85	72%
7. News Print	186.78	1005.22	438%
8. Cude Rubber	370.77	716.06	93%
9. Non-Ferrous Metals	2254.09	3036.63	35%
10. Metalic ferrous ores	2348.97	2627.18	12%
Metal scrap			
11. Iron and Steel	3653.40	4946.31	35%
12. Petroleum crude & Products	18612.55	25210.73	35%
II. PEARLS, PRECIOUS & SEMI- PRECIOUS STONES	5116.97	6971.64	36%

III. MACHINERY	13521.70	19379.67	43%
1. Machine Tools	670.66	1215.67	81%
2. Machinery other than electricals	8565.00	13242.49	55%
3. Electrical machinery	789.36	1272.31	61%
4. Transport equipment	3496.68	3619.20	4%
IV. PROJECT GOODS	5820.19	7528.28	29%
V. OTHERS	30346.58	40612.85	34%
1. Cashew Nuts	691.29	749.18	8%
2. Fruits and Nuts	313.60	331.41	6%
3. Wool raw	350.78	481.73	37%
4. Silk raw	326.12	301.80	-7%
5. Synthetic & reg. fibres	443.86	496.06	12%
6. Pulses	592.73	630.67	6%
7. Raw hides and skins	142.56	161.87	14%
8. Leather	225.10	277.73	23%
9. Coal, Coke&briquettes	2221.21	3010.70	36%
10. Non-metallic mnl.mfgs	412.85	526.33	27%
11. Other crude minerals	294.65	356.05	21%
12. Organic & inorg chem.	6710.35	8612.00	28%
13. Dyeing, tanning mtrl.	438.70	580.80	32%
14. Medicinal &pharma prd.	937.21	1217.06	30%
15. Artfl. resins etc.	1903.50	2726.12	43%
16. Chemical products	633.80	807.61	27%
17. Textile Yarn,fabric etc.	1034.98	1195.91	16%
18. Manufactures of metals	647.57	657.39	2%
19. Profl.Instruments etc	1544.54	2214.91	43%
20. Electronic goods	3855.98	5840.65	51%
21. Wood and wood prods.	703.29	815.98	16%
22. Gold and Silver.	2237.55	2720.21	22%
Grand Total	89970.70	121646.59	35%

Export of Principal Commodities April - March 1995-96

(Rs. Crores)

COMMODITIES		APRIL	APRIL	%
		1994-95	1995-96	Growth
I.	PLANTATION	2028.41	2680.83	32%
	1. Tea	975.48	1171.66	20%
	2. Coffee	1052.93	1509.17	43%
II.	AGRI & ALLIED PRODTS	7515.77	14015.93	86%
	1. Cereal	1276.16	4931.07	286%
	a) Rice	1205.79	4553.02	278%
	b) Wheat	42.34	360.90	752%
	c) Others	28.03	17.15	-39%
	2. Pulses	90.41	131.79	46%
	3. Tobacco	254.75	365.82	44%
	a) Unmanufactured	184.13	297.31	61%
	b) Manufactured	70.62	68.51	-3%
	4. Spices	612.24	785.89	28%
	5. Nuts & Seeds	1490.14	1714.63	15%
	a) Cashew incl. CNSL	1247.09	1232.13	-1%
	b) Sesame & Niger seed	141.73	258.15	82%
	c) Groundnut	101.32	224.35	121%
	6. Oil Meals	1797.84	2350.55	31%
	7. Guar gum Meal	142.82	227.10	59%
	8. Caster Oil	441.28	733.77	66%
	9. Shellac	46.86	63.32	35%
	10. Sugar & Mollasses	62.16	503.55	710%
	11. Processed Foods	820.89	1474.03	80%
	a) Fresh Fuits & Vegetables	436.73	542.51	24%
	b) Fruits/Vegetable seeds	22.98	40.26	75%
	c) Processed & Misc.	361.18	891.26	147%
	Processed items			
	12. Meat & Meat Products	402.73	627.00	56%
	13. Poultry & Dairy Products	48.83	54.53	12%
	14. Floriculture Products	30.84	57.80	87%
	15. Spririt & Beverages	46.65	49.61	6%
III.	MARINE PRODUCTS	3536.64	3384.25	-4%
IV.	ORES & MINERALS	3103.20	3959.08	28%
	1. Iron ore	1297.19	1734.61	34%
	2. Mica	22.24	24.67	11%
	3. Processed Minerals	828.12	1038.77	25%

	4. Other ores & Minerals	867.51	1055.71	22%
	5. Coals	88.14	105.32	19%
V.	LEATHERS & MFRS	5057.14	5762.15	14%
	1. Footwear	1725.27	1951.32	13%
	2. Leather & mfrg.	3331.87	3810.83	14%
VI.	GEMS & JEWELLERY	14130.54	17644.97	25%
VII.	SPORTS GOODS	206.68	244.70	18%
VIII.	CHEMICALS & RELATED PRODUCTS	10096.35	12621.17	25%
	1. Basic chemls., Pharma & cosmetics	5535.26	7235.63	31%
	2. Plastics & Linoleum	1501.67	1945.72	30%
	3. Rubber, glass & other products	2454.79	2819.31	15%
	4. Residual chemls. & allied products	604.63	620.51	3%
IX.	ENGINEERING GOODS	9479.61	12105.73	28%
X.	ELECTRONIC GOODS	1467.67	2433.87	66%
	1. Electronics	1294.21	2174.23	68%
	2. Computer Software	173.46	259.64	50%
XI.	PROJECT GOODS	67.47	80.06	19%
XII.	TEXTILES	20590.39	24995.77	21%
	1. Readymade garments	10304.81	12302.72	19%
	2. Cotton, yarn, fabrics, made-ups, etc.	7013.71	8645.31	23%
	3. Manmade textiles made-ups, etc.	2008.03	2561.11	28%
	4. Natural silk textiles	427.73	442.91	4%
	5. Wool & Woollen mfrs.	190.48	210.46	10%
	6. Coir & coir mfrs.	172.77	210.51	22%
	7. Jute mfrs.	472.86	622.75	32%
XIII.	HANDICRAFTS	1212.98	1443.06	19%
XIV.	CARPETS	1758.19	1867.01	6%
	1. Hand-made	1386.19	1399.12	0%
	2. Mill-made	331.67	410.43	24%
	3. Silk Carpets	40.33	57.46	42%
XV.	COTTON RAW incl waste	139.76	206.10	47%
XVI.	PETROLEUM PRODUCTS	1308.98	1517.75	16%
XVII.	UNCLASSIFIED EXPORTS	973.62	1502.43	54%
	GRAND TOTAL	82673.40	106464.86	29%

LICENCES ISSUED UNDER DUTY EXEMPTION SCHEME 1990-91 TO 1995-96

Sl. No.	Year	No. of Licences issued	CIF Value (Rs. Crores)	FOB Value (Rs. Crores)
1.	1990-91	8095	2693	5890
2.	1991-92	13551	4336	12164
3.	1992-93	22910	18090	39282
4.	1993-94	33636	12552	24811
5.	1994-95	44257	14468	31241
6.	1995-96	35054	14677	38422
	TOTAL	157503	66816	151810

Data relating to EPCG Scheme

Period	No. of Cases	CIF Value (Rs. Crores)	EO imposed (Rs. Crores)
1990-91	270	289.39	868.17
1991-92	310	403.91	1211.73
1992-93	1652	2220.25	9947.04
1993-94	1653	1938.27	8701.13
1994-95	1214	3176.84	13107.01
1995-96	774	11521.88	59945.61
1996-97 (upto 31.5.96)	90	1236.52	5945.46
Total	5963	20787.06	99726.15

Export Monitoring - EPCG as on 31.5.96
(Rs. Crores)

Period	EO imposed	EO Fulfilled	% EO Fulfilled
1990-91	868.17	782.16	90.09
1991-92	1211.73	1096.47	90.48
1992-93	9947.04	5326.31	53.54
1993-94	8701.13	2496.82	28.69
1994-95	13107.01	1895.31	14.46
1995-96	59945.61	0	

Details of the Classification of Import items

Sl. No.	Lists	No. of items	% age
1.	Prohibited	59	0.58%
2.	Restricted	3689	36.57%
3.	(SIL - included in Restricted list)	(771)	(7.64%)
4.	Canalised	178	1.76%
5.	Free	6161	61.07%
Total		10087	

II.2

WORKING GROUP ON EXPORTS IN THE CONTEXT OF FORMULATION OF NINTH FIVE YEAR PLAN

SUB GROUP ON INDUSTRIAL POLICY AND EXPORT PROMOTION LINKAGES

The Sub-group on Industrial Policy and Export Promotion Linkages was formed in the first meeting of the Working Group on Exports constituted for the Ninth Five Year Plan by the Planning Commission. The Working Group on Exports met under the chairmanship of the Commerce Secretary, Government of India on February 1, 1996. Shri P. G. Mankad, Director General, National Productivity Council is the Chairman of the Sub-Group on Industrial Policy and Promotion and Export Promotion Linkages. The constitution of the Sub-Group is as follows:

1. Shri P. G. Mankad Director General National Productivity Council	Chairman
2. Dr. Rakesh Mohan Director General National Council of Applied Economic Research	Member
3. Shri Dipak Chatterjee Additional Secretary Ministry of Commerce	Member
4. Shri K. M. Lal Adviser Planning Commission	Member
5. Smt. V. S. Bharucha Economic Adviser Ministry of Commerce	Member
6. Shri Ashok Kumar Joint Secretary Ministry of Industry	Member

7. Shri R. Nath Vice President Tata Exports Ltd.	Member
8. Smt. P. Anuradha Balaram Dy. Director O/O Economic Adviser to the GOI Ministry of Industry	Member
9. Shri B. D. Seth Dy. Economic Adviser O/O Economic Adviser to the GOI Ministry of Industry...	Member-Secretary

The Sub Group also had the advantage of wide ranging discussions with Shri Shyamal Gupta of Tata Exports Ltd. in Bombay.

The Sub Group held six meetings between February 1, 1996 and May 30th, 1996 to finalise its report. Its recommendations are as follows:

- (A) **Restrictions on automatic approval access for foreign investment in export related activities may be removed. The automatic approval list of Industries (Annex ii) of the Statement of Industrial Policy) may be expanded to include all sub sectors with high export potential and which are in need of technological improvement and global market access. In fact, apart from a small negative list, all industries should be permitted automatic approval.**
- (B) **The conditions of royalty payments and lumpsum payments also have a bearing on export promotion. There is a need to raise the ceiling for automatic approval of lumpsum payments from the present Rs. 1 crore to Rs. 10 crores.**
- (C) **Subsequent to the announcement of the New Industrial Policy in July 1991, White Goods (Domestic Refrigerators, Domestic Dish Washing Machines, Programmable Domestic Washing Machines, Microwave Ovens and Air-conditioners) have been delicensed. There is no specific reason for subjecting Entertainment Electronics to capacity restraints and this sector should also now be delicensed. All these sectors should be included in Annex-III Industries as they have high export potential.**

- (D) All items restricted for production in the small scale sector should be de-reserved and the decisions relating to the size of the unit and the level of investment should be left to the entrepreneurs, investors and the financiers, with the expectation that the appropriate level would be arrived at on techno-economic considerations. The experience of several developed economies, including Germany, USA and Japan has shown that even without a policy of reservations, the small and medium enterprises have established an important place in these economies.**

Alternatively, a phased approach may be followed. The first phase may include the following:

- (i) Dereservation of all items in which there has been nil or very low production in the SSI sector.**
- (ii) Dereservation of all items of production which are deemed to have a strong export potential, or which are on the priority list of export promotion strategy, with a view to making them financially and technologically capable of meeting the requirements of Mother Industries in India or buyers abroad.**
- (iii) The policy be modified to permit investments of more than the limits prescribed for SSI, provided the items to be manufactured are:**
 - a) to become parts of substantially higher value items, like straps and bracelets for wrist watches;**
 - b) to become components in finished products of export oriented industry, like zip fasteners for garments;**
 - c) of a substantially higher unit value than even the highest price range of the goods currently manufactured in the domestic SSI sector. An example would be the writing instruments industry where the local industry will not be affected if a non-small scale unit were to be set up to manufacture fountain pens/ ball pens with a minimum ex-factory unit value of, say, US \$ 50, compared to the market price of an SSI made pen of no more than Rs.200 or 250 (\$ 5-7) for a fancy gift set.**

- d) **Items whose import is either freely allowed or is being done under some special schemes, or where substantial smuggling/import as personal baggage takes place. Examples are office stationery items, computer peripherals, some electrical items, scissors, blades, nail clippers, and the like.**
- (E) **In the first phase all consumer goods and consumer durables and their components in CKD/SKD conditions including items currently reserved for small scale sector may be allowed freely at the peak tariff of 50% plus applicable CVD. Similarly, other items currently on the Restricted List except for items related to safety, security considerations, hazardous wastes, hazardous chemicals and aircraft and helicopters may be allowed freely without restrictions subject to applicable tariff - Basic plus CVD.**
- (F) **In the second phase all consumer goods, consumer durables including their components in CKD/SKD condition and the Restricted items with the exception of those which have specific considerations may be allowed freely without restrictions subject to reduced level of applicable duty plus applicable CVD.**
- (G) **In the case of the automobile sector also, In the first phase fully built up cars should be allowed freely at the current peak duty of 50%+40% CVD (Total 110%). Similarly, the import of components in CKD/SKD condition may be allowed freely at the same rate of duty as applicable to passenger cars. In the second phase both fully built up cars and components in CKD/SKD condition may be allowed freely at the reduced level of applicable duty plus CVD. This approach will provide incentives for indigenisation, discourage setting up of sub-optimal capacity and induce necessary competition to the foreign players who have set up capacities for automobiles in India.**

WORKING GROUP ON EXPORTS IN THE CONTEXT OF FORMULATION OF NINTH FIVE YEAR PLAN

SUB GROUP ON INDUSTRIAL POLICY AND EXPORT PROMOTION LINKAGES

EXECUTIVE SUMMARY

ISSUES IN INDUSTRIAL POLICY:

1. The crisis situation being faced by the economy in early 1991 demonstrated our vulnerability on the external payment front, and brought into focus the need for improving our balance of payments, and reducing the dependence on borrowed funds. Increasing the export base thus became one of the central objectives of the reform programme. Attracting foreign capital and technical know-how were also accepted as being of critical importance in the development strategy. Recognising the need to promote foreign investment for strengthening the production base, several initiatives have been taken in the New Industrial Policy since July, 1991 viz., opening up of foreign investment to all manufacturing industries except areas reserved for the public sectors, automatic approval for foreign investment up to 51% equity and automatic approval for technical agreements in 35 high priority industries (Annex III of the statement of Industrial Policy) subject to certain conditions, allowing 100% ownership in 100% EOUs and export processing zones, full ownership in certain high priority areas including power generation and distribution, hydro-carbon/oil and natural gas exploration and electronic hardware technology parks, amendments made in FERA in January, 1993 which have inter alia further liberalised the foreign investment regime and have made FERA companies at par with domestic companies.

A. FOREIGN DIRECT INVESTMENT

2. Over the last twenty years, foreign direct investment into India has been slow. In contrast to foreign direct investment approvals given during 1981-1991 for a value of Rs.0.016 billion, the approvals for foreign investment proposals for a value of Rs.602.3 billion have been issued during April-January, 1996. The substantial approvals for foreign direct investment given augurs well

Working Group on Exports for the Ninth Five Year Plan

Section II . 2

**Sub-Group Report on
Industrial Policy and
Export Promotion Linkages**

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**Convenor : P G Mankad
Director General
National Productivity Council
Ministry of industry
Government of India**

for the economy, as when the proposals fructify, it would help to build a strong production base with improved technology.

3. Since the initiation of the reform process, product-wise analysis of foreign direct investment approvals reveals that the major share of foreign investment and technical collaboration project approvals are in the priority sector viz., machinery sector (44.08%), mineral fuel and petroleum refinery products (19.47%) and metallurgical industries (6.82%) together constituting 70% of the total FDI approvals. The pattern of FDI approvals thus reflect lack of thrust for investment in direct export oriented activities like textiles, leather and leather products, furskins, footwear, rubber and plastic products and consumer goods and consumer durables. The pattern of investment approvals in 100% EOUs which have the main objective of attracting FDI and foreign enterprise collaborations for direct export activities also reflects similar lack of thrust. The share of investment approvals for 100% EOUs during August 1991-February 1996 in the direct export oriented activities has been of the order of 0.8% for leather and leather products, furskins and footwear, 0.5% for rubber and plastic products, 13% for prepared food. Only textile sector has a large share of 33% in the total investment approvals. The remaining investment is accounted for by machinery and other intermediates. There is clearly lack of thrust for foreign direct investment in export related activities which is vital to achieve sustained growth in exports.

4. The basic reasons for relatively low interest in export oriented activities is the inadequate policy framework and inward oriented policies. The policy framework for FDI should be made more conducive to export oriented foreign investment than what it is today. The factors which inhibit substantial flow of foreign investment in export oriented activities are as follows:-

- (i) High priority industries eligible for automatic approval of foreign technology agreements and 51% foreign equity predominantly cover industrial machinery and equipment, metallurgical industries, machine tools, instruments, chemicals and intermediates, etc. These priority industries apparently imply the intention to obtain advanced technology for strengthening the production base predominantly for the domestic market rather than to achieve thrust in direct export effort.
- (ii) Initially in the New Industrial Policy white goods (Domestic Refrigerators, Domestic Dish Washing Machines, Programmable Domestic Washing Machines, Microwave Ovens, Air-conditioners) were subject to industrial licensing. White goods have since been delicensed and entrepreneurs are now free to start production merely on the basis of filing an IEM. As white goods are not covered in the list of High Priority Industries eligible for automatic approval of foreign equity of 51%, the vast potential for export of white goods can not be fully tapped.

- (iii) Entertainment electronics (VCRs, Colour TVs, CD players, tape recorders) continue in the list of industries subject to compulsory licensing. In case production base is allowed to be set up freely in these sectors without the requirement of an industrial licence and automatic approval for foreign investment in this sectors is allowed, there could be greater potential for accelerating exports of these products.
- (iv) List of High Priority Industries eligible for automatic approval to the extent of 51% foreign equity do not cover textiles, leather, leather products, furskins, footwear, rubber and plastic products and most of food processing products. Most of these products are reserved for development in the small scale sector. There are 836 items which are reserved for production in the small scale sector. The investment limit in fixed assets in plant and machinery is Rs.60 lakhs for a small scale unit and Rs.75 lakhs for ancillary units. A large scale unit intending to take up production of items reserved for small scale sector is required to take an industrial licence with an export obligation of 75% of the production. In case of ready made garments, the investment limit in plant and machinery is Rs.300 lakhs with a minimum export obligation of 50% of production. Foreign/ Domestic investment in small scale units is allowed to the extent of 24 per cent of the total equity.
- (v) The exports strategy with focus on country - commodity matrix worked out by the Ministry of Commerce has identified the product groups which are intended to have a major scope for exports. This includes (a) ready made garments, cotton and accessories, (b) cotton yarn fabric and made ups, (c) leather manufacturers, (d) leather footwear, (e) man made yarn fabrics and made-ups, (f) dyes and intermediates etc. (g) ready made garments of man-made fibres, (h) plastic and linoleum products. Most of these items are reserved for production in the small scale sector.
- (vi) The Ministry of Commerce have also identified 10 select emerging export products which include sports goods, cosmetics and toiletries, woolen yarn/ fabric/ made ups, ready made garments of silk, ready made garments of wool and electronic goods. Most of these items are reserved for production in the small scale sector.

5. The experience of East Asian Newly Industrialised Economies and now recently of China and Vietnam has demonstrated that foreign direct investment and joint ventures with foreign collaborators are very crucial for outward oriented development strategy. In view of the potential contribution of foreign investment in accelerating exports, a more concerted approach needs to be adopted to enhance incentives for exports. The foreign investment regime has remained restricted in comparison to countries that are competing with India such as Indonesia and Turkey for foreign investment and technical collaborations in export oriented activities. These countries have either more automatic approval access for a wide range of industries open to majority or

overhaul of the tax structure along with other institutional changes/ sectoral reforms.

9. The Eighth Five Year Plan articulated the medium term objectives "It should be the objective of the policy to move to a trade regime in which the average tariff level comes down to 25% within a period of three to four years and in the latter phases of reforms, the manufactured items should also be removed from the 'negative list' and by the end of the Eighth Plan the Negative List of imports should contain only items which would be banned for reasons such as environment and safety" (Vol.I page 86).

10. In the Export and Import Policy, restrictions on import of raw materials, Intermediates and capital goods have been substantially removed. With rationalisation and restructuring of tariff structure attempted since 1992, there has been significant reduction in import duty on most of these items. These policy initiatives are intended to bring about reduction in costs, improvement in efficiency and thereby make indigenous industry competitive.

11. The policy for import of consumer goods and consumer durables has remained restrictive both due to physical restrictions on import and high protective tariffs. The items attract an import duty of 80% under the Baggage Rules and the general peak tariff of 50% basic plus CVD.

12. The Scheme for Special Import Licences as an instrument for relaxation in the import of consumer goods and consumer durables is limited both in its coverage and scope.

13. In the New Industrial Policy most of consumer goods and consumer durables have been delicensed except for Entertainment Electronic Items and items reserved for small scale sector. There is need to relax physical restrictions on import of these items to generate competition so that existing and new industrial units bring about reduction in costs, improvement in quality of product and to ensure that flow of foreign investment in these sectors is accompanied by latest technology.

14. The protection to consumer goods and consumer durables production is as harmful from the efficiency point of view as protection to any kind of production as it diverts scarce resources to inefficient production. Undue protection results in higher prices, poorer quality, limited variety of goods, etc., which does not provide a basis for export oriented industries.

15. While tariffs have been reduced and physical restrictions on import has been eliminated on capital goods, raw material and intermediates, the consumer goods industry remains highly protected on both counts. This implies that while one sector of industry is forced to compete with the rest of the world, the other sector will benefit from high levels of protection. This could

result in diverting away investment from capital goods, intermediates, etc. to protected consumer goods sector and needs to be discouraged.

16. As exports gather momentum and the balance of payments situation improves in future, the shelter under Article XVIII of the GATT Rules will not be available and it would make deletion of items from the Restricted List of Imports (including consumer goods and consumer durables) mandatory. Hence, it is necessary to lift restrictions on import of consumer goods and consumer durables so that industry has sufficient time to adjust before protection is withdrawn.

17. The procedure being followed for clearance of Restricted items lacks consistency and uniformity as some of the applications are being cleared by issue of an import licence and others against surrender of Special Import Licences. In order to make Policy more transparent, it is necessary that the List of Restricted Items may be reviewed, the existing procedure for issue of Import Licence may be dispensed with and restrictions on imports may be relaxed with the exception of items related to safety, security considerations, hazardous waste, hazardous chemicals, etc.

18. Although in the New Industrial Policy the manufacture of passenger cars has been delicensed, passenger cars being consumer goods are not allowed to be imported freely as per Export & Import Policy 1992-97. Imports of passenger cars in CKD/SKD condition require an import licence from the office of Directorate General of Foreign Trade. Imports of components required for cars are freely importable under the Policy.

19. The Customs Duty on cars imported in CKD/SKD condition is the same as on passenger cars in the finished form i.e, basic 50% + CVD 40%. Parts and accessories of motor vehicles under Chapter 87 of the Customs Tariffs schedule attract a basic customs duty of 40-50% and CVD ranging from 15 - 25% . Parts and accessories of motor vehicles such as engines covered under Chapter 84 attract basic customs duty of 25% and CVD of 10 - 15%.

20. Other parts required for motor vehicles (passenger cars) like rubber parts, plastic parts and hardware items attract applicable tariff under the respective tariff headings.

21. When all parts required for motor vehicles (passenger cars) irrespective of the Tariff Chapter are imported in the form of CKD/SKD condition, they attract peak tariff of 50% plus 40% CVD. According to DGFT import of components in excess of 35% of the value of completely built up cars is considered as CKD/SKD imports.

22. The Government have approved foreign collaborations / joint ventures for establishment of production facilities for passenger cars. Based on

these collaborations, the manufacturers have to approach the Office of the Directorate General of Foreign Trade for import of CKD/SKD kits

23. Since the import of fully built up cars and of CKD/SKD units is in the restricted list of import policy, the new manufacturing units are being subjected to an ad hoc import licensing procedure requiring the signing up of MOUs with the Directorate General of Foreign Trade. The manufacturing units have to specify a programme of indigenisation in these MOUs in order to obtain import licences for the import of CKD/SKD kits for the manufacturing of cars. These licences are given for a year's imports at a time. This procedure subjects the car manufacturing units to phased manufacturing programme which has since been abolished in the New Industrial Policy. The custom department levies duty on CKD/SKD kits at the same level as of fully built up cars. At the same time, the import policy allows freely the import of "parts and components" of automobiles without the need for an import licence, which are then subject to different customs tariff rates as applicable to different parts and components.

24. Under this scheme there has been continuing discussion on what constitutes the definition of CKD/SKD kits. While the duty levied on CKD/SKD kits is treated as the same as that on completely built up cars (CBUs), there is divergence of opinion on what should be the appropriate cut off point for the value of CKD/SKD kits expressed as a proportion of a CBU. Even if there is an agreement on what this cut off point for proportion should be, the vital issue concerns the manner in which these imports should be governed.

25. Some car manufacturers wish to set up with small volumes and consequently this would result in low indigenisation. They propose to carry forward indigenisation as the market develops. Others wish to start with high volumes and their plans show high indigenisation. Anything below 100,000 cars a year rising to 200,000 is small volume. At the same time it is neither necessary to prejudge intent nor desirable to tie down investors in a market economy. Accordingly our proposals given below encourage high volume and discourage small volumes without physical restraints.

26. **In view of above, it is recommended as follows:-**

- (i) **In the first phase all consumer goods and consumer durables and their components in CKD/SKD conditions including items currently reserved for small scale sector may be allowed freely at the peak tariff of 50% plus applicable CVD. Similarly, other items currently on the Restricted List except for items related to safety, security considerations, hazardous wastes, hazardous chemicals and aircraft and helicopters may be allowed freely without restrictions subject to applicable tariff - Basic plus CVD.**

- (ii) **In the second phase all consumer goods, consumer durables including their components in CKD/SKD condition and the Restricted Items with the exception of those which have specific considerations may be allowed freely without restrictions subject to reduced level of applicable duty plus applicable CVD.**

- (iii) **in the case of the automobile sector also, in the first phase fully built up cars should be allowed to be imported freely at the current peak duty of 50%+40% CVD (total 110%). Similarly the import of components in CKD/SKD condition may be allowed freely at the same rate of duty as applicable to passenger cars. In the second phase both fully built up cars and components in CKD/SKD condition may be allowed freely at the reduced level of applicable duty plus CVD. This approach will provide powerful incentives towards progressive indigenisation, for those who are governed by the comparative advantage of production in India rather than through an administered regime. This would discourage the setting up of sub-optimal capacities in the car industry. The current system being followed, of signing MOUs with the Director General of Foreign Trade (which is inconsistent with the Industrial Policy) will no longer be necessary. This system would be a self-governing one and would also provide scope to foreign collaborations to make India a base for production of cars and its components for exports. When foreign investments in automobiles have been allowed to come in it stands to reason that imports of automobiles should be freely allowed to provide the necessary competition to the foreign players in India.**

even 100% foreign ownership. **The list of high priority industries (Annex III of the statement of Industrial Policy) has focused more on acquiring foreign technology predominantly for domestic market than on a commitment towards export orientation.**

6. In view of the above, it is recommended as follows :

- (a) **Restrictions on automatic approval access for foreign investment in export related activities may be removed. The automatic approval list of Industries (Annex III of the Statement of Industrial Policy) may be expanded to include all sub sectors with high export potential and which are in need of technological improvement and global market access. In fact, apart from a small negative list, all industries should be permitted automatic approval.**
- (b) **The conditions of royalty payments and lumpsum payments also have a bearing on export promotion. There is a need to raise the ceiling for automatic approval of lumpsum payments from the present Rs. 1 crore to Rs. 10 crores.**
- (c) **Subsequent to the announcement of the New Industrial Policy in July 1991, White Goods (Domestic Refrigerators, Domestic Dish Washing Machines, Programmable Domestic Washing Machines, Microwave Ovens and Air-conditioners) have been delicensed. There is no specific reason for subjecting Entertainment Electronics to capacity restraints and this sector should also now be delicensed. All these sectors should be included in Annex-III Industries as they have high export potential.**

B. SPECIAL INCENTIVES FOR SSI SECTOR

7.1 Reservation of items in the small scale sector is inhibiting flow of investment technology and capacity creation in the export related activities.

7.2 Most of the export related activities like textiles, leather, leather products, footwear, rubber and plastic products and other items covered in the Export strategy worked out by the Ministry of Commerce are reserved for development in the small scale sector. Further, most of the items which are in the export basket of China and other countries which are competing with India in the external sector, are reserved for small scale sector.

7.3 The investment limit of Rs. 60 lakhs in plant and machinery for a small scale unit and Rs.75 lakhs for ancillary unit provides little scope for technology upgradation to promote efficiency, productivity and reduction in costs to make production internationally competitive. It is apparently for this reason

that the investment limit in the garment sector has been increased from Rs. 60 lakhs to Rs. 300 lakhs. The limit of 24 per cent equity participation by other industrial undertakings including foreign collaborators also inhibits the scope for modernisation and technology upgradation which is vital to give thrust to exports.

7.4 Large scale units without restriction on investment limit in plant and machinery have the freedom to enter areas reserved for production in the small scale sector with obligation to export 75% of production. Such pre-conditions for export commitments do not result in exports. A strong base for export operations can rather be created by providing entrepreneurs a conducive environment, flexibility in operations and freedom to structure and organise their business so as to grow in a competitive environment.

7.5 A study of the Second All India Census of Small Scale Industrial units was undertaken by the National Informatics Centre at the instance of the Office of the DC (SSI). The results of this study are still to be fully confirmed. However, the broad conclusions that the study arrives at are the following:

- (i) Out of the 1076 items at the 9 digit NIC level (categorised into 836 product groups) that are reserved for SSI sector, 233 items were not being manufactured at all as per 1990-91 data.
- (ii) Only 60 items contribute 80% of the total value of production in the reserved list. This suggests that sharp pruning of the reserved list is valid for economic reasons i.e., economics of scale.
- (iii) Capacity utilisations in the SSI sector is even lower for reserved items than the overall capacity utilisation. A view can be taken that the benefits of reservations are rather limited.
- (iv) Less than 25% of the units in the SSI sector manufacture items from the reserved list.
- (v) Out of 2.1 lakh units manufacturing items in the reserved list, 80% are manufacturing only 39 products.

7.7 It is noted from the results of the study that out of 1076 items in the reserved list there are 233 items for which there is no production, 710 items contribute 10 per cent of production and another 73 items contribute 10% of production. There are 60 items which contribute 80% of total production of SSI sector. The results of this study do not justify continuation of reservation of items for the small scale sector. It is worth noting that 90% of total SSI units have investment up to Rs. 5 lakhs and the remaining 10% of the units have

investment above Rs.5 lakhs and upto Rs. 60 lakhs. This shows that SSI sector predominantly consists of tiny sector.

7.8 A major argument in favour of retaining the reservations for the SSI sector is the employment likely to be generated by such units. It has, however, not been established with any degree of certainty that the policy of reservations per-se has led to greater employment generation. Availability of capital at concessional rate, and the problems related with labour management have, in fact, led to many small scale units becoming capital intensive. If the SSI sector continues to employ more persons per unit of production than the large sector, it is mostly because of the relatively low technology levels, which in turn result in production which is not adequate in terms of volumes, quality or design to make a dent in the export market.

7.9 In considering any policy prescription relating to the SSI sector, it cannot be overlooked that India has a very large number of such units and their legitimate interests should not be overlooked. However, continuation of reservations in perpetuity, or to the extent done today, appears counter-productive as it has not given the desired results and has, on the contrary, created distortions and extensive sickness which are detrimental to the economy as well as exports.

7.10 **In view of the factors mentioned above, it is felt that all items restricted for production in the small scale sector should be de-reserved and the decisions relating to the size of the unit and the level of investment should be left to the entrepreneurs, investors and the financiers, with the expectation that the appropriate level would be arrived at on techno-economic considerations. The experience of several developed economies, including Germany, USA and Japan has shown that even without a policy of reservations, the small and medium enterprises have established an important place in these economies.**

7.11 Keeping, however, in mind that some breathing space may be required by the existing units to adjust themselves to a more open and competitive environment, a phased approach can also be considered, which may not be economically as ideal as total and immediate de-reservation, but can still meet with the basic objective of creating a healthier, technologically advanced and export-oriented small scale sector, without undue dislocation or even resistance.

7.12 The first phase may include the following:

- (i) **Dereservation of all items in which there has been nil or very low production in the SSI sector.**
- (ii) **Dereservation of all items of production which are deemed to have a strong export potential, or which are on the**

priority list of export promotion strategy, with a view to making them financially and technologically capable of meeting the requirements of Mother Industries in India or buyers abroad.

7.13 With a view to encouraging high technology oriented and high quality products in the small scale sector, the policy be modified to permit investments of more than the limits prescribed for SSI, provided the items to be manufactured are:

- a) to become parts of substantially higher value items, like straps and bracelets for wrist watches;**
- b) to become components in finished products of export oriented industry, like zip fasteners for garments;**
- c) of a substantially higher unit value than even the highest price range of the goods currently manufactured in the domestic SSI sector. An example would be the writing instruments industry where the local industry will not be affected if a non-small scale unit were to be set up to manufacture fountain pens/ ball pens with a minimum ex-factory unit value of, say, US \$ 50, compared to the market price of an SSI made pen of no more than Rs.200 or 250 (\$ 5-7) for a fancy gift set.**
- d) items whose import is either freely allowed or is being done under some special schemes, or where substantial smuggling/import as personal baggage takes place. Examples are office stationery items, computer peripherals, some electrical items, scissors, blades, nail clippers, and the like.**

Currently 90% of the total of SSI units have an investment of Rs.5 lakhs or less. This level could be raised to Rs.10 lakhs, designated as the "Tiny Sector" and it is for this category that greater protection and support through a special package may be given.

ISSUES IN TRADE POLICY

8. The Industrial and Trade Licensing controls cripple efficiency in industry and due to their reinforcing nature, the removal of one without removing the other is generally infructuous. Industrial delicensing is more effective if there is corresponding delicensing in the foreign trade regime and there is complete

WORKING GROUP ON EXPORTS IN THE CONTEXT OF FORMULATION OF NINTH FIVE YEAR PLAN

SUB-GROUP ON INDUSTRIAL POLICY AND EXPORT PROMOTION LINKAGES

1. A comprehensive stabilization and reform programme started in July 1991 aimed at correcting fiscal imbalances which had built up over the past several years and to undertake structural changes in the Industrial Policy, Foreign Investment Policy, Trade and Exchange Rate Policies, Fiscal and Taxation Policy, Financial sector and strengthening of its institutions, capital market and elimination of most of the public enterprises' privileges, i.e. protection from domestic and external competition, preferential access to budgetary and financial sector resources, etc.

2. The effect of these measures is amply borne out by the fact that industrial growth has shown significant recovery from 0.6% (1991-92), 2.3% (1992-93), 6.00% (1993-94), 8.6% (1994-95), to 12% in April-December 1995-96. The capital goods sector has shown strong recovery from a negative growth rate of 0.1% in 1992-93, -4.2% in 1993-94 to 25% in 1994-95 and 19.4% in April-December 1995-96. GDP growth which had dipped to 1.2% in 1991-92 has shown recovery to 5.1% in 1992-93, 5% in 1993-94, 6.3% in 1994-95 and is expected to be around 6.2% in 1995-96. As per Index of wholesale prices the rate of inflation on a point to point basis which had peaked at around 17% in August 1991 has come down steadily to 7% in 1992-93, 10.8% in 1993-94, 10.4% in 1994-95 and around 6% in 1995-96. Foreign Exchange Reserves excluding gold and SDR which had fallen to US \$ 2.2 Billion in March, 1991 recovered to US \$ 20.8 Billion in March 1995 and is currently at the level of US \$ 15.9 Billion in February, 1996. The macro-economic indicators show that the fundamentals of the economy are strong.

3. Exports have risen sharply from \$ 17.87 Billion in 1991-92 to \$ 26.22 Billion in 1994-95 and has reached the level of \$ 31.83 Billion in 1995-96.

Exports earning now cover more than 85% of the foreign exchange needs for import. The objective to achieve an annual export growth of at least 20% in Dollar terms in the next 5 years so as to reach the goal of \$ 100 Billion of exports by the year 2001 would require further deepening of the reform process, building up strong infrastructure support services like power, roads, ports, telecommunications, airlines and hydro-carbon, widening of the tax base and further overhaul of the tax structure by rationalising rates of customs and excise

duties and corporate tax, fiscal consolidation measures, further implementation of financial sector reforms, restructuring of public sector etc.

ISSUES IN INDUSTRIAL POLICY

4. The crisis situation being faced by the economy in early 1991 demonstrated our vulnerability on the external payment front and brought into focus the need for improving our balance of payments and reducing dependence on borrowed funds. Increasing export base thus became the central objective to the reform programme. Attracting foreign capital and technical know-how were also accepted as being of critical importance in the development strategy. Recognising the need to promote foreign investment for strengthening the production base both for domestic market and for exports, several initiatives have been taken since July, 1991 as follows:

- (i) Foreign investment is now open to all manufacturing industries except areas reserved for public sector viz., arms and ammunition, atomic energy, minerals for atomic energy, coal and lignite, mineral oils and railway transport.
- (ii) Automatic approval for foreign investment up to 51 per cent equity in 35 high priority areas. (Annexure III of Statement of Industrial Policy, 1991). Automatic approval for technical agreements in these areas is given if certain conditions are met like lump sum payment is under Rs. 1 crore and royalties do not exceed 5% of domestic sales and 8 per cent of export proceeds and the overall payments do not exceed 8% of sales over a period of ten years from the date of agreement or seven years from the start of production. Proposals involving equity up to 51 per cent in industries not covered in the High Priority Industries and for equity participation beyond 51% in all Industries and proposals for foreign investment in services sector are considered on merits by Foreign Investment Promotion Board.
- (iii) One Hundred per cent ownership is allowed in 100 percent export oriented units and export processing zones. Full ownership is also allowed in certain high priority areas including power generation and distribution, hydro carbon/oil and natural gas exploration and electronic hardware technology park scheme.
- (iv) Amendments made in the Foreign Exchange Regulation Act in January, 1993 have further liberalised the foreign investment regime. These amendments have the effect of removing discriminatory treatment against companies with foreign equity and FERA companies are now treated at a par with domestic companies. Repartition of profits is permitted except for 22 consumer goods industries which attract

Dividend balancing clause by way of exports of products. The remittances no longer require RBI approval and can be made through authorised dealers. The amendments have also removed regulations in hiring of foreign technicians and powers have been delegated to foreign exchange dealers for payments towards fees in routine cases.

5. Due to restrictive policy on foreign investment, the inflow of foreign capital has not been significant historically. Over the last 20 years FDI inflows into India has been slow and retarded. In the years 1981-1991 total approvals for Foreign Direct Investment were issued for a value of Rs.0.016 Billion. In contrast, since the initiation of the reform process in July, 1991 approvals for foreign investment proposals for a value of Rs.602.3 Billion (August 1991 - January 1996) have been issued as per details given below:-

Foreign Investment Approvals

	1991	1992	1993	1994	1995	1996 January	TOTAL
No. of foreign collaboration (Technical and investment Approvals)	950	1520	1476	1854	2377	197	8334
Total amount of Foreign Investment involved (Rs. Billions)	5.3	38.9	88.6	141.9	320.7	6.9	602.3

6. The substantial approvals for Foreign Direct Investment augurs well for the economy as when it fructifies it would help build a strong production base with improved technology, modern production techniques and better management practices both for the domestic market and exports.

7. Since the initiation of the reform process Foreign Direct Investment approvals product-wise is given in the table below:-

Product-wise Foreign Direct Investment
From August 1991 to January, 1996

S.No.	Name of Industry	DFI (Rs.crores)	% to total Investment
1.	Machinery	26506	44.08
	(a) Electrical	21206	35.26
	(b) Non-Electrical	2968	4.94
	(C)Transport Equipment	2332	3.88
2.	Mineral, Fuel and Petroleum Refinery products	11707	19.47
3.	Metallurgical Industries	4104	6.82
4.	Prepared foodstuffs	2448	4.07
5.	Textiles	1575	2.62
6.	Leather and Leather products, Furskins, Footwear	137	0.23
7.	Rubber, Plastic and their products	117	0.19
8.	Cosmetics, Toiletries and soap	83	0.14
9.	Services sector	3283	5.46
10.	Miscellaneous	10173	16.94
	Grand total	60133	100

8. It would be noted from above that the major share of Foreign Investment and technical collaboration project approvals are in the priority sector. FDI approvals in the Machinery Sector (44.08%), in Mineral Fuel and Petroleum Refinery Products (19.47%) and in Metallurgical Industries (6.82%) together constitute 70% of the total Foreign Direct Investment approvals. The pattern of FDI approvals does reflect lack of interest for investment in direct export oriented activities like textiles, leather and leather products, furskins, footwear, rubber and plastic products and cosmetics, toiletries and soap which together constitute 3.04% of total approvals. The prepared foodstuffs sector with 4.07% share in the total FDI approvals could only partly be considered as an export oriented activity. The pattern of investment approvals in 100% Exported Oriented Units (EOUs) which have the main objective of attracting FDI and other foreign enterprise collaborations for direct export activities reflect similar lack of interest. The share of value of investment approvals for 100% EOUs during August 1991-February, 1996 in the export oriented activities has been of the order of 0.8% for leather and leather products, furskins and footwear, 0.5% for Rubber and plastic products, 13% for Prepared Foodstuffs.

Only textiles have a large share of 33% in the total investment approvals. The remaining investment is accounted for machinery and other intermediates. While the large FDI approvals in the priority sector would no doubt help build sound production base ultimately paving the way for booking exports, there is clearly lack of thrust for Foreign Direct Investment in export related activities which is vital to achieve sustained growth in exports.

9. The basic reasons for relatively low interest in FDI in export oriented activities is the inadequate policy framework and inward oriented policies. The policy framework for FDI is not particularly conducive to export oriented foreign investment. The factors which inhibit substantial flow of foreign investment in export oriented industries are as follows:

- (i) High priority industries eligible for automatic approval of foreign technology agreements and 51% foreign equity predominantly cover industrial machinery and equipment, metallurgical industries, machine tools, instruments, chemicals and intermediates, etc. These priority industries apparently imply the intention to obtain advanced technology for strengthening the production base predominantly for the domestic market rather than to achieve thrust in direct export effort.
- (ii) In the New Industrial Policy initially white goods (Domestic Refrigerators, Domestic Dish Washing Machines, Programmable Domestic Washing Machines, Microwave Ovens, Air-conditioners) were subject to industrial licensing. The white goods have since been delicensed and entrepreneurs are now free to start production merely on the basis of filing an IEM. As the white goods are not covered in the list of High Priority Industries eligible for automatic approval of foreign equity of 51%, the vast potentiality for export of white goods can not be fully tapped.
- (iii) Entertainment electronics (VCRs, Colour TVs, CD players, tape recorders) continue in the list of industries subject to compulsory licensing. In case production base is allowed to be set up freely in these sectors without the requirement of an industrial licensing and automatic approval for foreign investment in this sectors is allowed, there could be potentiality for accelerating exports of these products.
- (iv) List of High Priority Industries eligible for automatic approval to the extent of 51% foreign equity do not cover textiles, leather, leather products, furskins, footwear, rubber and plastic products and food processing products reserved for small scale sector. Most of these products are reserved for development in the small scale sector. There are 836 items which are reserved for production in the small scale sector. The investment limit in fixed assets in plant and machinery is Rs.60 lakhs for a small scale unit and Rs.75 lakhs for ancillary units.

A large scale unit intending to take up production of items reserved for small scale sector is required to take an industrial license with an export obligation of 75% of the production. In case of ready made garments, the investment limit in plant and machinery is Rs.300 lakhs with a minimum export obligation of 50% of production. Foreign/ Domestic investment in small scale units is allowed limited to the extent of 24 per cent of the total equity.

- (v) The exports strategy with a focus on country - commodity matrix worked out by the Ministry of Commerce has identified the product groups which are intended to have a strong focus for exports. This includes (a) ready made garments, cotton and accessories, (b) cotton yarn fabric and made ups, (c) leather manufacturers, (d) leather footwear, (e) man made yarn fabrics and made-ups, (f) dyes and intermediates etc. (g) ready made garments of man-made fibres, (n) plastic and linoleum products. Most of these items are reserved for small scale sector.
- (vi) The Ministry of Commerce have also identified 10 select emerging export products which include sports goods, cosmetics and toiletries, woolen yarn/ fabric/ made ups, ready made garments of silk, ready made garments of wool and electronic goods. Most of these items are reserved for production in the small scale sector.

10. The experience of East Asian Newly industrialised economies and now recently of China and Vietnam has demonstrated that Foreign Direct Investment and Joint Ventures with foreign collaborators who have easy access to global markets, efficient management practices and modern production techniques are very crucial for outward oriented development strategy. Large supply of both skilled and unskilled labour in developing economies make it potentially very attractive for foreign collaborators interested in both domestic and export market. In view of the potential contribution of foreign investment in accelerating exports, a more concerted approach needs to be adopted to enhance incentives for exports. The foreign investment regime has remained restricted in comparison to countries that are competing with us such as Indonesia and Turkey for foreign investment and technical collaborations in export oriented activities. These countries have either more automatic approval access for a wide range of industries open to majority or even 100% foreign ownership. The list of High Priority Industries (Annex-III of Statement of Industrial Policy) has focused more on acquiring foreign technology predominantly for domestic market than on a commitment towards export orientation. To shift relative incentives for foreign investment in export oriented activities, there is need to eliminate any restrictions on automatic approval of foreign investment or technological agreements and royalty payments if foreign domestic enterprise collaboration is for export activities. The conditions of lumpsum payment of Rs. 1 crore and the overall royalty payment not exceeding 8 % of sales over a period of 7 years from the start of commercial production for automatic approval of technological agreements are restrictive in nature. If

these conditions are removed, particularly for export related activities, there is every likelihood that latest technology will become which is so vital to be competitive in exports. Further the automatic approval list of industries need to be expanded to include all such sectors with high export potential and which are very much in need of technological improvement and global market access. The Export strategy with focus on 15 country - commodity matrix and select ten emerging products for exports worked out by Ministry of Commerce would be more meaningful in contributing to exports if these are covered in the list of List of Industries eligible for automatic approval.

11. The export related items and most of the 15 items with focus on exports and the 10 select emerging export products identified by the Ministry of Commerce are reserved for production in the small scale sector. Most of the items reserved for production in SSI sector are in the export basket of China and other countries who are competing with India in the external sector. In regard to SSI sectors following observations are made:-

- (i) The investment limit of Rs. 60 lakhs in plant and machinery by a small scale unit and Rs.75 lakhs for ancillary units as also the limit of 24 per cent equity participation by Domestic and Foreign Collaborations limit the scope for achieving economies of scale and technology upgradation and modernisation which is vital for making production cost effective.
- (ii) Large scale units intending to take up production of items reserved for production in the small scale sector are required to undertake export obligation of 75% per cent of production. This restrictive condition was imposed in 1970 and has continued to exist despite several policy initiatives taken to reform the industrial sector. The pre-conditions for export commitment do not result in exports. If conditions are conducive and there is flexibility of operations, a unit may choose to set up production base to feed its facilities world wide and in the process develop the base for export operations. Domestic or foreign entrepreneurs who contribute equity must have the freedom to structure and organise their business to grow in a competitive environment. In this context, it is imperative to allow entrepreneurs to take up production of items reserved for small scale sector with freedom to operate without the pre-conditions for export.
- (iii) It is observed that 90% of the total SSI units have investment up to Rs.5 lakhs and the remaining 10% of the units with investment above Rs. 5 lakhs and up to Rs.60 lakhs are the modern small scale units.

(iv) A study of the Second All India Census of Small Scale Industrial units was undertaken by the National Informatics Centre at the instance of the Office of the DC (SSI). Although, the results of the study are still to be fully confirmed, the major findings are as follows:

- (a) Out of the 1076 items at the 9 digit NIC level (categorised into 836 product groups) that are reserved for SSI sector, 233 items were not being manufactured at all as per 1990-91 data. There is no reason for keeping these items on the reserved list.
- (b) Only 60 items contribute 80% of the total value of production in the reserved list. This suggests sharp pruning of list of reserved items.
- © Capacity utilisations in the SSI sector is even lower for reserved items than the overall capacity utilisation. A view can be taken that the benefits of reservations are rather limited.
- (d) Less than 25% of the units in the SSI sector manufacture items from the reserved list.
- (e) Out of 2.1 lakhs units manufacturing items in the reserved list, 80% are manufacturing only 39 products.

It is noted from the results of the study that out of 1076 items there are 233 items for which there is no production, 710 items contribute 10 per cent of production and an another 73 items contribute 10% of production. There are 60 items which contribute 80% of total production of SSI sector. The results of the study do not justify continuation of reservation of items for the small scale sector.

12. In view of observations made above it is suggested that items restricted for production in the small scale sector may be dereserved and the entrepreneurs may be allowed to set up capacity in these areas without any restriction. Small scale units enjoy the benefits of concessional excise duty. Full exemption from excise duty is avoidable up to turnover of Rs.30 lakhs. Excise duty at 10% below the normal rate of duty is allowed for turnover above Rs. 30 lakhs and up to Rs. 50 lakhs. Excise duty of 5 % below the normal rate of duty is available for turnover above Rs.50 lakhs and up to Rs.75 lakhs. Full rate of excise duty is applicable for turnover above Rs.75 lakhs. In addition Modvat credit on inputs is available for turnover above Rs.30 lakhs. The interests of small scale units with investment in plant and machinery up to Rs. 60 lakhs and ancillary unit with investment up to Rs. 75 lakhs can be continued to be promoted with the existing excise concessions. To strengthen the small scale sector, the Small Industries Service Institute, and the Regional Testing Centres need to provide more effective service to small scale sector for quality upgradation and by wider dissemination of results of research and development activities to SSI units. A package of incentives and support measures can be worked out to protect the interests of tiny units with investment up to Rs. 5 lakhs which constitute 90% of the small scale units.

13. A Committee has been set up under the chairmanship of Shri Abid Hussain to review policy issues pertaining to the small scale sector.

CONCLUSIONS AND RECOMMENDATIONS:

14. In brief, initiatives taken in the New Industrial Policy to promote foreign investment for strengthening production capacity has meant substantial increase in approvals for foreign investment proposals compared to approvals given in pre-reform period when restricted policy was in force. However, product-wise analysis of FDI approvals has revealed that major share of approvals to the extent of 70% is in the priority sector comprising of Machinery, Minerals, fuel and petroleum refinery products, etc. which is conducive to strengthen the production base predominantly for the domestic market rather than to achieve thrust in direct export effort. The foreign investment policy regime has focussed more on acquiring foreign technology predominantly for the domestic market than on a commitment towards export orientation. To shift relative incentives for foreign investment in export oriented activities, following measures are recommended:-

- (a) Restrictions on automatic approval access for foreign investment in export related activities may be removed. The automatic approval list of Industries (Annex III of the Statement of Industrial Policy) may be expanded to include all sub sectors with high export potential and which are in need of technological improvement and global market access.
- (b) The conditions of royalty payments providing for lump sum payment of Rs. 1 crore and overall royalty payment of 8% of sales over a period of 7 years from the start of commercial production for automatic approval of technological agreements are restrictive in nature and need to be removed to encourage import of latest technology in export related activities. These conditions were relevant when trade was not liberalised and domestic producers had the benefit of protected domestic market and it was feared that foreign technology suppliers would extract very high royalties involving large outgo of foreign exchange. As the trade has since been liberalised and the tariffs have been lowered paving the way for free flow of goods, there is little justification for keeping restrictive regime on royalty payments. In the first phase, we may consider enhancing the ceiling on lumpsum payments from Rs.1.00 crore to Rs. 10.00 crore.
- (c) Subsequent to the announcement of the New Industrial Policy in July 1991, White Goods (Domestic Refrigerators, Domestic Dish Washing

Machines, Programmable Domestic Washing Machines, Microwave Ovens and Air-conditioners) have been delicensed. There is no specific reason for subjecting Entertainment Electronics to capacity restraints and this sector should also now be delicensed and may be allowed automatic approval access for 51% foreign equity and technical agreements in Annex-III of the Statement of Industrial Policy so that the vast potentiality for export of these products can be fully utilised.

- (d) Reservation of items in the small scale sector is inhibiting flow of investment, technology and capacity creations in the export related activities.
- (i) Most of the export related activities like textiles, leather, leather products, footwear, rubber and plastic products and other items covered in the Export strategy worked out by the Ministry of Commerce are reserved for development in the small scale sector. Further, most of the items which are in the export basket of China and other countries which are competing with India in the external sector, are reserved for small scale sector.
 - (ii) The investment limit of Rs. 60 lakhs in plant and machinery for a small scale unit and Rs.75 lakhs for ancillary unit provides little scope for technology upgradation to promote efficiency, productivity and reduction in costs to make production internationally competitive. It is apparently for this reason that the investment limit in the garment sector has been increased from Rs. 60 lakhs to Rs. 300 lakhs. The limit of 24 per cent equity participation by other industrial undertakings including foreign collaborators also inhibits the scope for modernisation and technology upgradation which is vital to give thrust to exports.
 - (iii) Large scale units without restriction on investment limit in plant and machinery have the freedom to enter areas reserved for production in the small scale sector with obligation to export 75% of production. Such pre-conditions for export commitments do not result in exports. A strong base for export operations can rather be created by providing entrepreneurs a proper conducive environment, flexibility in operations and freedom to structure and organise their business so as to grow in a competitive environment.
 - (iv) The results of second All census of small scale industrial units undertaken by National Informatics Centre at the instance of office of the DC (SSI) also establishes a case for de-reservation of items currently restricted for production in the small scale sector.

15. A major argument in favour of retaining the reservations for the SSI sector is the employment likely to be generated by such units. It has, however, not been established with any degree of certainty that the policy of reservations per-se has led to greater employment generation. Availability of capital at concessional rate, and the problems related with labour management have, in fact, led to many small scale units becoming capital intensive. If the SSI sector continues to employ more persons per unit of production than the large sector, it is mostly because of the relatively low technology levels, which in turn result in production which is not adequate in terms of volumes, quality or design to make a dent in the export market.

15.1 In considering any policy prescription relating to the SSI sector, it cannot be overlooked that India has a very large number of such units and their legitimate interests should not be overlooked. However, continuation of reservations in perpetuity, or to the extent done today, appears counter-productive as it has not given the desired results and has, on the contrary, created distortions and extensive sickness which are detrimental to the economy as well as exports.

15.2 In view of the factors mentioned above, it is felt that all items restricted for production in the small scale sector should be de-reserved and the decisions relating to the size of the unit and the level of investment should be left to the entrepreneurs, investors and the financiers, with the expectation that the appropriate level would be arrived at on techno-economic considerations. The experience of several developed economies, including Germany, USA and Japan has shown that even without a policy of reservations, the small and medium enterprises have established an important place in these economies.

15.3 Keeping, however, in mind that some breathing space may be required by the existing units to adjust themselves to a more open and competitive environment, a phased approach can also be considered, which may not be economically as ideal as total and immediate de-reservation, but can still meet with the basic objective of creating a healthier, technologically advanced and export-oriented small scale sector, without undue dislocation or even resistance.

15.4 The first phase may include the following:

Dereservation of all items in which there has been nil or very low production in the SSI sector.

Dereservation of all items of production which are deemed to have a strong export potential, or which are on the priority list of export promotion strategy, with a view to making them financially and technologically capable of meeting the requirements of Mother Industries in India or buyers abroad.

15.5 With a view to encouraging high technology oriented and high quality products in the small scale sector, the policy be modified to permit investments of more than the limits prescribed for SSI, provided the items to be manufactured are:

- a) to become parts of substantially higher value items, like straps and bracelets for wrist watches;
- b) to become components in finished products of export oriented industry, like zip fasteners for garments;
- c) of a substantially higher unit value than even the highest price range of the goods currently manufactured in the domestic SSI sector. An example would be the writing instruments industry where the local industry will not be affected if a non-small scale unit were to be set up to manufacture fountain pens/ ball pens with a minimum ex-factory unit value of, say, US \$ 50, compared to the market price of an SSI made pen of no more than Rs.200 or 250 (\$ 5-7) for a fancy gift set.
- d) Items whose import is either freely allowed or is being done under some special schemes, or where substantial smuggling/import as personal baggage takes place. Examples are office stationery items, computer peripherals, some electrical items, scissors, blades, nail clippers, and the like.

15.6 The present restrictions on investment for a SSI unit by another industrial concern which is pegged at 24% requires reconsideration. In fact a small scale unit can gain substantially in technology, finance and marketing if the bigger units have a large equity stake in the SSI units.

15.7 Currently 90% of the total of SSI units have an investment of Rs.5 lakhs or less. This level could be raised to Rs.10 lakhs, designated as the "Tiny Sector" and it is for this category that greater protection and support through a special package may be given.

ISSUES IN TRADE POLICY

The Industrial and Trade licensing controls cripple efficiency in industry and are mutually reinforcing and the removal of one without removing the other is generally infructuous. There are complementarities in the reform process. The industrial delicensing is more effective if there is corresponding

delicensing in the foreign trade regime and there is complete overhaul of the tax structure along with other institutional changes. The Industrial sector has been substantially deregulated with delicensing of nearly 80% of the industrial sector except 15 industries subject to licensing due to social, security and strategic considerations. There are no restraints on capacity creation in the delicensed sector. In conformity with deregulation in the organised sector as suggested earlier, there is need to resort to dereservation of items currently restricted for small scale sector so that restrictions on capacity creation could be eliminated in the predominant export related activities to boost exports. **According to the Eighth Five Year Plan document "It should be the objective of the policy to move to a trade regime in which the average tariff level comes down to 25% within a period of three to four years and in the later phases of reforms, the manufactured items should also be removed from the 'negative list' and by the end of Eighth Plan the 'Negative list' of imports should contain only items which would be banned for reasons such as environment and safety" (Vol.I page 86). It is now to be seen as to how far restrictions in the Export and Import Policy act as barrier in the export development strategy and what further initiatives can be taken to make the policy environment in conformity with the reforms which are in place and the reforms in prospect in the industrial sector.**

17. In the Export and Import Policy 1992-97 raw materials, components, spare parts, intermediates and capital goods are freely allowed for import without actual user condition except for a short list of items covered in the Restricted List. According to para 156 of the Export & Import Policy 1992-97, the restricted items cover consumer goods, Precious, Semi-precious and other Stones; Safety, Security and related items, Seeds, Plants and Animals, Insecticides and Pesticides, Drugs and Pharmaceuticals, Chemicals and Allied items, Items relating to Small Scale Sector, Miscellaneous Items such as air crafts and helicopters, commercial and passenger automobile vehicles, Natural rubber, Radioactive Materials, special category items required by hotels, restaurants, travel agents and recreational bodies etc.

18. The above category of restricted items are not allowed for import except against a licence or in accordance with a public notice issued by the Directorate General of Foreign Trade. The other route which is available for import of these restricted items is the Special Import Licences issued as an incentive to exporters against physical exports or to provide Deemed Export benefits to the indigenous suppliers of goods against specific categories in the Export and Import Policy.

19. While we would need to continue with the physical restrictions on imports due to safety, security, environment and other strategic considerations, the restrictions which exist on import of consumer goods and consumer durables have far reaching implications in the export development strategy.

20. According to para 156 of the Export and Import Policy 1992-97, all consumer goods, howsoever described, of industrial, agricultural, mineral or animal origin, whether in SKD/CKD condition or ready to assemble sets or in finished form, are covered in the Restricted List of Imports and therefore are not freely importable.

21. Consumer goods and consumer durables which are covered in the Restricted List of Imports can be imported in the following manner:-

- (a) against an import licence issued by the Directorate General of Foreign Trade or in accordance with a public notice issued, if any, in regard to these items.
- (b) under the baggage rules;
- (c) against Special Import Licences.

22. Import Licences are normally not issued for import of consumer goods/ consumer durables covered in the Restricted List of Imports. The Government liberalised the import of consumer goods in a limited manner under the Baggage Rules In 1992-93 when tariff on consumer goods imported as baggage was reduced from 255% to 150% and subsequently to 100% in June 1993 and also by removal of restrictions on resale of baggage imports. Currently the duty under the Baggage Rules is 80% and nil CVD.

23. The Government also made relaxation in the import of consumer goods by introducing Special Import Licences Scheme in 1992. The Special Import Licences (SILs) are granted to exporters as a specified share of their export earnings and can be used to import a specified list of consumer goods. Apart from being an instrument for relaxation in the import of consumer goods in a limited way, the Special Import Licences are also designed to provide extra incentive to exporters as these licences are fully tradable. Since introduction of the scheme, there has been expansion of list of consumer goods importable under Special Import Licences. Simultaneously, the entitlement for issue of Special Import Licences which ranged between 2-4% of the FoB value of exports has also been increased to 4-11% of the FoB value of exports.

24. The Special Import Licences are granted to Export Houses, Trading Houses, Star Trading Houses and Super Star Trading Houses and the entitlement currently applicable for issue of Special Import Licences are as follows:-

Category	Entitlement Rate on FOB Value of exports in the Preceding licensing year
Export Houses	4%
Trading Houses	5%
Star Trading Houses	6%
Super Star Trading Houses	11%

As per data available from DIRECTORATE GENERAL OF FOREIGN TRADE, the Special Import Licences issued since 1991 have been as follows:-

YEAR (1)	Number (2)	Value of SIL (3)	Col.3 as % to total exports (4)
1992-93	1655	676	1.26
1993-94	2818	945	1.36
1994-95	1875	1504	1.83
1995-96 (April- September)	960	825	1.77

26. The Scheme of Special Import Licences as an instrument for liberalisation of import of consumer goods is limited both in its coverage and scope. Firstly, Special Import Licences are only granted to large exporters while small exporters who account for a large share of India's exports are not entitled to issue of such licences. Secondly, the number of items eligible for import against Special Import Licences through enlarged, is still restrictive. Thirdly, while both the number of items eligible for import against SIL and the entitlement for import has increased, the low premium which is currently at 6 to 8 per cent for SIL has meant that the Scheme has not been successful in providing extra

incentive to exporters. Lastly, the import of consumer goods under SIL is subjected to the peak level of tariff at 50% plus applicable CVD.

27. In the Export and Import Policy, restrictions on import of raw materials, intermediates and capital goods have been generally removed and their imports have been freely allowed. As a result of major rationalisation and restructuring of tariff structure attempted since 1992, there has been substantial reduction in import duties on most of the items of raw materials, intermediates and capital goods. These policy initiatives are intended to bring about reduction in cost, improvement in efficiency in order to make the indigenous industry competitive.

28. On the other hand, the policy for import of consumer goods and consumer durables has remained extremely restrictive. Almost all items of consumer goods and consumer durables attract peak tariff of 50% plus CVD. Under Baggage Rules the import of these goods attract 80% duty and Nil CVD. The existing units engaged in the manufacture of consumer goods and consumer durables unlike units in most other sectors are operating in a highly protective environment both due to physical restrictions on imports as well as highly protective tariffs. This could also push investment away from upstream sectors of capital goods and basic intermediates to consumer goods which needs to be discouraged.

29. The protection of consumer goods and consumer durables production is as harmful, from an efficiency point of view as the protection of any kind of production as it diverts resources to inefficient production. There is also loss to the consumers in terms of higher prices and limited variety of available goods that protection implies. The lack of quality and variety in imports also in turn leads to loss of quality upgrading that international competition provides which is essentially very vital for sustained export of manufactures.

30. The New Industrial Policy has taken initiative in opening up of the consumer goods and consumer durables to competition by generally delicensing this sector. Since the announcement of the New Industrial Policy in July 1991, White Goods (Domestic Refrigerators, Domestic Dish Washing Machines, Programmable Domestic Washing Machines, Microwave ovens and Airconditioners) have been delicensed. The Entertainment Electronics (VCRs, Colour TVs, CD players, Tape Recorders) alone continue to remain in the licensable list and our suggestion is that this sector may also now be delicensed. All food processing industries other than milk food, malted foods and flour and excluding the items reserved for small scale sector feature in Annex III of the New Industrial Policy and, therefore are eligible for automatic approval for foreign technology agreements and for 51% foreign equity participation. In the wake of initiatives taken in the New Industrial Policy,

several new domestic units will come up in production for manufacture of consumer goods and consumer durables. Like the existing units, the new units will be operating in a highly protective environment. Further, there is flow of both domestic and foreign investment into manufacture of consumer goods and consumer durables. Removal of physical restrictions on imports will generate competition and ensure that foreign investment is accompanied by latest technology and not obsolete technology. This will force the domestic units also to bring about reduction in costs and improvement in quality of products.

31. Article XVIII of the GATT Rules provides shelter to the developing countries facing Balance of payments crisis to continue physical restrictions on imports. Despite several pressures, we have been able to get further extension to retain physical restrictions on imports due to difficult balance of payments situation under Article XVIII of GATT Rules. With increase in exports and the likely easy balance of payments situation, this cover would not be available, which would require lifting of curbs on import of consumer goods and consumer durables and other items covered in the Restricted List of Imports. In course of time, import duty on consumer goods and consumer durables would also get further reduced from existing 50%. This would imply that the operations of all the existing units and the new units which start commercial production of consumer goods and consumer durables in a protective environment would become unviable. It is therefore necessary to lift the restrictions on the import of consumer goods and consumer durables so that the industry has sufficient time to adjust itself to the changed scenario when protection is withdrawn. With foreign exchange reserves at around us \$ 20 Billion and exports expected to record growth rates in excess of 20% on a sustained basis, there should be no cause for concern on the balance of payment side to the liberalisation of consumer goods.

32. The import of consumer goods and consumer durables attract peak tariff of 50%. The Tax Reforms Committee have recommended on import duty of 50% by 1997 on these goods. To start with, it recommended that import of consumer goods and consumer durables and components in CKD/SKD conditions including items reserved for the small scale sector, may be deleted from the Restricted List of Imports and their import may be allowed freely subject to a duty equivalent to the duty as applicable to imports under the Baggage Rules. The duty on baggage under Baggage Rules is 80% + Nil CVD. Currently excise duty/CVD on most consumer goods/ consumer durables is 20% or more e.g., Air conditioners (40%), Dish Washing and Washing Machines (20%) Refrigerators (20%) and other Electronic and Electrical Goods covered under Chapter 85 of the tariff such as TV, Video Recorders, Tape Recorders, Record Players, etc. (20%). If the consumer goods and consumer durables are levied basic import duty of 50% (as recommended by the Tax Reforms Committee) plus CVD equal to excise of 20%, the total import duty on most of consumer goods and consumer durables would work out to 80% which is the current applicable duty under the Baggage Rules. In the second phase all

consumer goods and consumer durables including components in CKD/SKD condition and other Restricted Items may be allowed freely without restrictions subject to reduced duty level plus applicable CVD.

33. As mentioned earlier, the import of restricted items is covered by the issue of an Import Licence or by issue of a public notice by the Directorate General of Foreign Trade . The importer intending to import the restricted items is required to apply for an import licence to the Directorate General of Foreign Trade. These applications are processed in the Directorate General of Foreign Trade and are considered by the Special Licensing Committee chaired by Directorate General of Foreign Trade. It has been observed that in some cases, an Import Licence is issued directly to the party and in some cases the Import Licence for issue of the restricted items is issued subject to the condition that the applicant surrenders the Special Import Licence. In case the applicant is not entitled to have a Special Import Licence issued, the applicant is required to obtain the Special Import Licence from the market for surrender to the Directorate General of Foreign Trade.

34. The procedure currently being followed for clearance of restricted items lacks consistency and uniformity in the sense that some importers are penalised by way of payment of premium on obtaining Special Import Licences from the market after approaching Directorate General of Foreign Trade for issue of an Import Licence and some importers are meeting the requirements for such items without payment of any premium. Further, in the existing system, the importers are required to follow the rigorous procedure of submitting an application and then wait for the clearance of Directorate General of Foreign Trade and the whole process can be time consuming.

35. In order to make the policy more transparent and to avoid the delays in the existing procedure of submitting an import application and its processing and final clearance by the Directorate General of Foreign Trade, it is suggested that the List of Restricted Items may be reviewed, the procedure for issue of Import Licence for Restricted Items may be dispensed with and the import of these items may be allowed freely. The exception could, however, be made to Restricted Items which are related to safety, security considerations, hazardous waste and hazardous chemicals, air crafts, helicopters, etc.

CONCLUSIONS AND RECOMMENDATIONS:

- (a) In the Export and Import Policy, restrictions on import of raw materials, Intermediates and capital goods have been substantially removed. With rationalisation and restructuring of tariff structure attempted since 1992, there has been significant reduction in import duty on most of these items. These policy initiatives are intended to bring about reduction in cost, improvement in efficiency and thereby make indigenous industry competitive.

- (b) The policy for import of consumer goods and consumer durables has remained restrictive both due to physical restrictions on import and high protective tariffs. The items attract an import duty of 80% under the Baggage Rules and peak tariff of 50% plus applicable CVD amounting to total duty of 80% or more.
- © The Scheme for Special Import Licences as an instrument for relaxation in the import of consumer goods and consumer durables is limited both in its coverage and scope.
- (d) In the New Industrial Policy most of the consumer goods and consumer durables have been delicensed except for Entertainment Electronic Items and items reserved for small scale sector. There is need to relax physical restrictions on import of these items including items reserved for small scale sector to generate competition so that existing and new industrial units bring reduction in costs, improvement in quality of product and to ensure that flow of foreign investment in these sectors is accompanied by latest technology.
- (e) The protection to consumer goods and consumer durables production is as harmful from an efficiency view point as protection to any kind of production as it diverts resources to inefficient production. Apart from loss to consumers in terms of higher prices and limited variety of goods available that protection implies, the lack of quality and variety in imports leads to loss of quality upgrades that international competition provides and which is essentially very vital for sustained export of manufactures.
- (f) While tariffs have been reduced and physical restrictions on import has been eliminated on capital goods, raw material and intermediates, the consumer goods industry remains highly protected on both the counts. This implies that one sector of industry is forced to compete with the rest of the world, the other sector will benefit from high levels of protection. This could result in pushing away investment from capital goods, intermediates, etc. to protected consumer goods sector which needs to be discouraged.
- (g) As the exports gather momentum and the balance of payments situation improves in future, the shelter under Article XVIII of the GATT Rules will not be available and it would make deletion of items from the Restricted List of Imports including consumer goods and consumer durables mandatory. Hence, it is necessary to lift restrictions on import of consumer goods and consumer durables so that industry has sufficient time to adjust before protection is withdrawn.
- (h) The procedure being followed for clearance of Restricted items lacks consistency and uniformity as some of the applications are being cleared

by issue of an import licence and others against surrender of Special Import Licences. In order to make Policy more transparent, it is necessary that the List of Restricted Items may be reviewed, the existing procedure for issue of Import Licence may be dispensed with and restrictions on imports may be relaxed with the exception of items related to safety, security considerations, hazardous waste, hazardous chemicals, etc.

In view of above, it is recommended as follows:-

- (i) In the first phase all consumer goods and consumer durables and their components in CKD/SKD conditions including items currently reserved for small scale sector may be allowed freely at the peak tariff of Basic 50% plus applicable CVD. Similarly, other items currently on the Restricted List except for items related to safety, security considerations, hazardous wastes, hazardous chemicals, aircraft and helicopters may be allowed subject to applicable tariff - Basic plus CVD.
- (ii) In the second phase all consumer goods, consumer durables including their components in CKD/SKD condition and the Restricted Items with the exceptions of those which have specific considerations may be allowed freely without restrictions subject to reduced level of basic duty plus applicable CVD.

AUTO SECTOR : IMPORTS OF CARS AND COMPONENTS

36. In the New Industrial Policy the manufacture of passenger cars has been delicensed, passenger cars being consumer goods are not allowed to be imported freely as per Export & Import Policy 1992-97. While imports of components required for cars are freely importable under the Policy, the import of components in CKD/SKD condition require an import licence from Directorate General of Foreign Trade.

37. The Customs Duty on cars imported in CKD/SKD condition is the same as on passenger cars in the finished form i.e, basic 50% + CVD 40%. Parts and accessories of motor vehicles under Chapter 87 of the Customs Tariffs schedule attract a basic customs duty of 40-50% and CVD ranging from 15 - 25% . Parts and accessories of motor vehicles such as engines covered under Chapter 84 attract basic customs duty of 25% and CVD of 10 - 15%. Other parts required for motor vehicles (passenger cars) like rubber parts, plastic parts and hardware items attract applicable tariff under the respective tariff headings.

38. When all parts required for motor vehicles (passenger cars) irrespective of the Tariff Chapter are imported in the form of CKD/SKD condition, the applicable tariff is peak basic of 50% plus 40% CVD. According to Directorate General of Foreign Trade import of components in excess of 35% of the value of completely built up cars is considered as CKD/SKD imports. There is however divergence of opinion on what should be the appropriate cut off point for the value of CKD/SKD kits as a proportion of completely built up cars.

39. The Government have approved foreign collaborations / joint ventures for establishment of production facilities for passenger cars. Based on these collaborations, the manufacturers have to approach the Office of the Directorate General of Foreign Trade for import of CKD/SKD kits. This issue of import of components in CKD/SKD kits was discussed in the meeting of the Cabinet Committee on Economic Affairs held on 26.6.1995 and it was decided that while granting import licences, Ministry of Commerce shall separately enter into a MOU with the Joint Venture Company specifying their programme of inward equity investment by the foreign joint venture partner, establishment of indigenous production facilities, achieving the level of indigenisation, achievement of projected export earnings from export of final products and projected outflow of foreign exchange by their projected imports. After considering these parameters and satisfying that the outgo of foreign exchange is neutralised by way of remittances on account of foreign equity/ projected exports, the MOU could be signed and import licences to cover the first year's requirement of CKD/SKD parts could be issued on the understanding that the Question of licensing of the import requirements of future years would be decided on a year-to-year basis keeping in view the progress made by the party in fulfilment of its project. Based on the said decision, the Office of the Directorate General of Foreign Trade have signed the Memorandum of Understanding with some of the units.

40. Import of CKD/SKD kits by prospective manufacturers under Joint Ventures are permitted by the Directorate General of Foreign Trade on the basis of licences. These import licences cover first year's requirements. While issuing licences, Directorate General of Foreign Trade have signed MOUs. The MOUs incorporate the commitment by the joint venture companies to successively reduce the import content. In other words, the present policy of allowing imports of passenger cars in CKD/SKD form to joint ventures is tantamount to the phased manufacturing programme. This is inconsistent with the Industrial Policy as the phased manufacturing programme regarding local content which was in existence has been abolished with the announcement of New Industrial Policy in 1991. The phased manufacturing programme of this kind is discretionary. Secondly, it has the effect of constraining investments. Thirdly, phased manufacturing programme results in a misallocation of resources. Therefore, the Export and Import Policy 1992-97 needs to consider an alternative course for allowing imports of cars in CKD/SKD form other than the current practice of signing MOUs. The alternative course must be based on

fiscal control and tariffs rather than physical controls or quantitative restrictions which are being currently used.

41. Most of the Joint Ventures approved are for initial setting up of production capacities for small number of passenger cars to the extent of 20,000 to 30,000. This implies that these Joint Ventures will be operating at sub-optimal capacity. Further, the restrictive policy currently being followed for allowing import of CKD/SKD kits based on signing of MOUs does not offer any inducement for taking up manufacturing at higher capacity. The operations for such Joint Ventures at sub-optimal capacity also provides little scope for indigenisation. As a result, in the existing scenario, the Joint Ventures would operate at lower capacity, taking recourse to avoidable higher import content in the form of CKD/SKD kits and there would be delay in indigenisation of components. In the process, the basic objective of the policy to enhance the domestic manufacturing base rapidly would be defeated. The ideal course would be to resort to fiscal controls instead of physical controls.

42. It is imperative to encourage investment in the passenger car sector at optimal capacity. This can be achieved by relaxing restrictions on import of passenger cars in finished form. By doing this the operators who are looking at India as a market for 20,000 - 30,000 cars will be dissuaded. The Table given below gives a comparison of the domestic price and the landed cost of passenger cars for which Joint Ventures/ Foreign Collaboration have been approved.

Model of car	Domestic Price Including Excise (Rs. in Lakhs)	CIF price of cars	Rate of exchange adopted	Landed cost (cif price + 110% Duty (Rs.in lakhs)
Opel Astra	6.03	US\$ 16,225	36.44	12.42
Mercedes	23.00	DM 57,383	24.75	29.82
Peugeot 309	3.80	FF 60,606	7.19	9.15
Uno	2.85	IL 10,120,000	2.30 (For 100 units)	4.89
Ceilo	4.75	US \$ 7,700	36.44	5.89

43. The comparison of the price data shows that the domestic manufacturers would be competitive and will remain protected against imports. This being the case, the domestic manufacturers will not be disadvantaged by relaxing restrictions on imports. In the first phase it is suggested that import of passenger cars may be allowed freely at the peak tariff of 50% plus 40% CVD (total 110%). Simultaneously, if restrictions on imports of parts and components in CKD/SKD condition are removed by allowing imports freely, indigenisation will benefit and higher capacity creation will be encouraged. In the first phase as in the case of passenger cars, the import of components in CKD/SKD condition may be allowed freely at the peak tariff of Basic 50% plus CVD 40%. In the second phase, both completely built up units of passenger cars and components in CKD/SKD condition may be allowed freely at reduced level of applicable basic duty plus CVD.

CONCLUSIONS AND RECOMMENDATIONS

- (a) In the New Industrial Policy of 1991 the manufacturing of automobile has been delicensed. The Statement on Industrial Policy 1991 also abolished all phased manufacturing programmes. The Import Policy regarding automobile sector, on the other hand has largely unchanged and has been under consideration for some time at various levels. It is imperative that the policy be changed so that controls are removed.
- (b) Since the import of fully built up cars and of CKD/SKD units is in the restricted list of import policy, the new manufacturing units are being subjected to an ad hoc import licensing procedure requiring the signing up of MOUs with the Directorate General of Foreign Trade. The manufacturing units have to specify a programme of indigenisation in these MOUs in order to obtain import licences for the import of CKD/SKD kits for the manufacture of cars. These licences are given for a year's imports at a time. This procedure subjects the car manufacturing units to phased manufacturing programme which has since been abolished in the New Industrial Policy. The custom department levies duty on CKD/SKD kits at the same level as that of fully built up cars. At the same time, the import policy allows freely the import of "parts and components" of automobiles without the need for an import licence, which are then subject to different customs tariff rates as applicable to different parts and components.
- (c) Under this scheme there has been continuing discussion on what constitutes the definition of CKD/SKD kits. While the duty levied on CKD/SKD kits is treated as the same as that on completely built up cars (CBUs) there is divergence of opinions on what should be the appropriate cut off point for the value of CKD/SKD kits expressed as a proportion of a CBU. Even if there is an agreement on what this cut off

point for proportion should be, the vital issue concerns the manner in which these imports should be governed.

- (d) Some car manufacturers wish to set up with small volumes and consequently this would result in low indigenisation. They propose to carry forward indigenisation as the market develops. Others wish to start with high volumes and their plans show high indigenisation. Anything below 100,000 cars a year rising to 200,000 is small volume. At the same time it is neither necessary to prejudge intent nor desirable to tie down investors in a market economy. Accordingly our proposals given below encourage high volume and discourage small volumes without physical restraints.

It is recommended as follows:

- (a) In the first phase fully built up cars should be allowed to be imported freely at the current duty of 50%+40% CVD (total 110%). Similarly the import of components in CKD/SKD condition may be allowed freely at the same rate of duty as applicable to passenger cars.
- (b) In the second phase both fully built up cars and their components in CKD/SKD condition may be allowed freely at the reduced level of basic duty plus CVD.

This approach will provide powerful incentives towards progressive indigenisation, but those which are governed by the comparative advantage of production in India rather than through an administered regime. This would discourage the setting up of sub-optimal capacities in the car industry. This system would encourage the substantive production of cars on optimal level of scales without administrative arrangements. The current system being followed of signing MOUs with the Directorate General of Foreign Trade which is inconsistent with the Industrial Policy, will no longer be necessary. This system would be a self-governing one and would also provide scope to foreign collaborators to make India a base for production of cars and its components for exports.

Working Group on Exports for the Ninth Five Year Plan

Section II . 3

**Sub-Group Report on
Agro-Exports**

184-260

Convenor : S M Acharya

Chairman

**Agricultural and Processed
Food Products Export
Development Authority (APEDA)
Ministry of Commerce
Government of India**

II.3

TERMS OF REFERENCE

- 1) To review the target as well as achievements made of agricultural exports during the 8th Plan, and identify the constraints affecting the growth of agricultural export.
- 2) To work out the realistic and achievable targets for 9th Plan in respect of Agricultural exports taking into account economic parameters, impact of the ongoing Schemes and also demand-supply position in the domestic and international markets for agricultural commodities.
- 3) To review the on-going programmes and export promotional schemes of APEDA/ MEPDA/ Department of A&C, Ministry of Commerce and recommend necessary modifications if required.
- 4) To study export possibility in "newer" and non traditional areas.
- 5) To assess the short-term and long term requirements of export growth including institutional finance.
- 6) To make a special study on export of non-traditional agricultural items such as basmati rice, vegetables, fruits, spices, etc. and suggest export promotion measures and incentives.
- 7) To review and identify the basic infrastructural facilities essentially required at farm level and Sea Port/ Air Port for boosting agro exports and work out investment requirement for strengthening the infrastructure.
- 8) To study the impact of GATT on agro-export, identify the factors affecting competitiveness of agricultural commodities and suggest remedial measures for improving competitive efficiency and aggressive marketing strategy.
- 9) To identify mega markets and new markets for exports of agricultural commodities including other food products such as eggs, poultry products, meat & meat products, fish & fish products and suggest suitable strategy for enlarging India's share in the World export of agricultural commodities.
- 10) To study the issues such as strengthening of backward linkages with the farmers, involvement of growers' Co-operatives/ Associations in direct export to international market and development of international market network.
- 11) To formulate programmes for development of marketing infrastructure particularly for progressive farmers and co-operatives involved in the export of agricultural commodities.

- 12) To study the export potential of value-added agricultural products including spices products, herbals and medicinal products, identify constraints, estimate investment requirement for necessary infrastructure and processing facilities and suggest suitable package of incentives for encouraging the exports of value-aided agricultural commodities.
- 13) To study the present status of Post Harvest Infrastructure Technology, identify the bottleneck/shortcomings and suggest measures for improving these facilities to ensure quality and purity of agricultural commodities for export.
- 14) To review critically Indian quality standards for ensuring purity and quality of food products, identify the short-comings and suggest measures for improvement.

CHAPTER-1 : INTRODUCTION

- 1.1 Agricultural exports are crucial to our economy. Export of Agricultural products help us not only in earning valuable foreign exchange but also in raising the standards of living of the rural population and in arresting the trend towards urbanisation. In almost all the non oil producing developing countries, agricultural commodities or value added products from agriculture account for the major portion of their foreign exchange earnings. In India export of agricultural products account for only about 18 per cent of the total exports in 1995-96. In contrast the percentage share of Agri-Exports to the gross exports in case of Chile, Brazil, Thailand it is high as 59 %, 29 %, 27 % respectively.
- 1.2 Agricultural products which are presently being exported from India include foodgrains (rice, wheat, coarse cereals and pulses), spices, tobacco, cashew, oilmeals, sesame and niger seeds, groundnut, spirit and beverages, guar gum meal, oil seed extractions, shellac, sugar and molasses, horticulture and floriculture products, processed fruits and juices and meat and meat preparations. The total exports of agricultural products during 1992-93, 1993-94, 1994-95 & 1995-96 were Rs.8845 Crs, Rs.12549 Crs, Rs. 13201 Crs and Rs.19280 Crs respectively.
- 1.3 World trade in agricultural products is estimated to be around US \$ 470 billion in value. Within this overall trade, it is estimated that around 22% consists of bulk commodities (cereals, soyabeans, unmanufactured tobacco, cotton, plant seeds and pulses), while 24% consists of principally semi-processed products (wheat flour, feeds and fodders, hops, oil meals, vegetable oils, refined sugar, live animals, etc.) The remaining products which dominate world trade in agricultural products and account for around 54% of the total are consumer oriented products, that require little or no additional processing for consumption. These include fresh and processed horticultural products, fresh and processed meat and dairy products, table eggs and bakery products. The fast growth in the world trade is in the consumer oriented products. India's share in the world trade in agricultural commodities is less than 1%.
- 1.4 GATT-UR has opened new windows in the global markets. By correcting the distortions in the international trade, the GATT agreement has not only made the agricultural products more price competitive but also provide them assured access to hitherto protected markets.
- 1.5 Agricultural exports have received special attention from the government since it is in this area that there is the greatest potential for increasing the farm incomes, tackling unemployment and earning foreign exchange. Fortunately, India is blessed with a rich and diverse agro climatic profile, which gives it the ability to grow large varieties of agricultural products. Our agricultural production has not only kept pace with the increasing demand at home and thus enabled us to become self-sufficient in foodgrains but it has also been

possible for us to generate surpluses for the export market on a consistent basis. The government has therefore been attempting to give a thrust to agricultural exports through enhanced public investments and by building up a conducive policy environment.

- 1.6 The sub-group has gone deep into the issue of evolving an approach for sustained agri-exports during the next decade and a half with special focus on five years commencing April 97 . Recommendations of the sub-group pertain to broadly non plantation agricultural product groups viz. oil cakes,cashew,sugar & molasses, marine products, cereals and Apeda schedule products.

The approach adopted to reach these recommendations was critical evaluation of the performance during the VIII th plan period (First 4 years), identification of the impediments, projecting targets for the IX th plan period and then a proposed strategy to achieve those targets.

CHAPTER-2

PERFORMANCE DURING THE VIIIth PLAN PERIOD

To rework our strategy for the IX th Plan, it is imperative to evaluate our performance during the VIIIth Plan. We are now in the terminal year of the VIIIth Plan Period. Analysis and trends during the past four years can throw sufficient light to show our way to the next few years.

This chapter has been divided into 3 parts viz

- 1) Agri export scenario at the end of the VIIth Plan Period + Two Plan years 1990-91 - 91-92.
- 2) Policy initiatives taken by the government at the beginning of the VIIIth Plan.
- 3) Impact of these Policy Measures and the Export Performance during the VIIIth Plan Period.

2.1 Agri Export Scenario 1985-86 - 1991-92

Export performance during the seven years covering the 5 years of VIIth Plan and two plan years following that is furnished in Table 2.1.1

Table 2.1.1.

VIIth Plan Year

Product Group	1985-86	1989-90	1990-91	1991-92	Compared % growth
Marine	409	687	960	1443	28.7
Cashew	225	368	447	676	24.6
Oil Meals	134	612	609	922	47.1
Sugar & molasses	16	33	38	157	57.8
Apeda	285	483	633	929	26.6
Cereals	190	275	491	921	37.1
sub-total	1259	2458	3178	5048	32.0

2.1.2 Leading Trends

- i) Agro-products (under purview of working group) grew at 32 % during VIIth plan period and holiday plan period of 90-91 & 91-92 (with 1985-86 as the base year).
- ii) Sugar & molasses grew at 58 % during the 7th plan period.
- iii) The export of marine products increased from 409 Crores to 1443 Crores during this period registering a growth rate of 28.7%. They constituted 28% of the product group under review.
- iv) Apeda products grew with compound growth of 26.6 % and constituted 18% of the export basket.
- v) Cereals grew at growth rate of 37% in these seven years.

2.2. Policy Initiatives during VIIIth Plan Period

- 2.2.1 A number of policy changes were introduced during the VIII th Plan to make agricultural exports more viable. The devaluation of Indian rupee and subsequent introduction of a unified exchange rate has favoured agricultural products. Lowering of import duties on capital goods particularly for greenhouse equipment and plant and machinery necessary for food processing industries as well as easier availability of credit for processing industries as well as easier availability of credit for exports have also helped. Most of the restrictions on agricultural exports have been removed. Only two items in the category of agricultural and food products are in the negative list i.e. beef and tallow. The items on the restricted list have been drastically pruned down and very few items now remain subject to either licensing or quantitative ceiling.
- 2.2.2 Liberalisation of the Industrial Policy has allowed almost the entire agro processing sector to be in the delicensed category which has created a positive environment for investments in this sector.
- 2.2.3 The Export Policy is constantly being updated and further liberalised. Recent changes which are introduced include
 - (a) expansion of the definition of "Manufacture" to include agro processing
 - (b) allowing export oriented horticulture and agro processing units to sell upto 50% of their production in the Domestic Tariff Area (DTA) and
 - (c) liberalisation of the Export Promotion Capital Goods (EPCG) Schemes.

2.2.4. EXPORT POLICY:

The export policy followed by the Government regarding agricultural products is as under:

- a) Wheat: Export of non-durum and durum wheat is allowed subject to a quantitative ceiling without any Minimum Export Price (MEP) restriction.
- b) Basmati Rice: Exports freely allowed subject to registration with Apeda.
- c) Non-Basmati Rice : Exports allowed without quantity and price restrictions subject to registration with Apeda.
- d) Coarse Grains: Export allowed without a licence subject to quantitative ceilings. Non-FAO Jowar (Kharif Crop) has been permitted to be freely exported.
- e) Pulses: Export of the following types of pulses is permitted subject to licensing:
 - i) Pulses, all types including lentils, grams, beans and flour made therefrom:
 - ii) Processed pulses other than those made out of the pulses imported under the duty exemption scheme or by a EOU/Unit in the EPZ.
- f) Sugar: Exports canalised through Indian Sugar and General Industry Export Import Corporation Ltd. (ISGIETIC).
- g) Cashew Kernels: Exports freely allowed.
- h) Spices: Exports freely allowed.
- i) Oil Extrusions: Exports freely allowed.
- j) Tobacco: Exports freely allowed.
- k) Lac: Exports freely allowed
- l) Meat Preparations:
 - a) Export of beef prohibited
 - b) Meat of buffaloes: Export allowed only of those animals which are not used for breeding or milk purposes.
 - c) Meat of Sheep & Goat : Export allowed freely.

2.2.5. Measures Taken to Improve Domestic Production:

The development efforts related to improving domestic production of foodgrains fall within the purview of the Ministry of Agriculture. The areas of intervention in this regard mainly constitute increasing irrigation potential, improved use of fertilisers and encouraging use of HYV (High Yield Variety) of seeds for higher production. Further to ensure adequate supply of quality seeds to farmers and to improve and diversify domestic seed industry, import of quality seeds has been exempted from custom duty. Availability of adequate credit/finance to the agricultural sector is one of the most important factors for achieving increased foodgrain productivity. For this purpose institutional frame work of rural credit system consisting of Co-operative Banks, Regional Rural Banks, National Bank for Agricultural & Rural Development (NABARD) have been established.

2.3 Export Performance during the VIIIth Plan

2.3.1 For purpose of this paper the impact of the new Policy Regime introduced during the VIIIth plan period has been evaluated on the basis of following criteria :

- i) Compound growth during the Plan period in terms of :
 - a) Value (Rs.)
 - b) Value (\$)
 - c) Quantity
- ii) Compound growth in comparison with 7th Plan.
- iii) Compound growth : Agricultural Products Vs. Total Exports (VII & VIII Plan Period)
- iv) Expansion of Export Basket.
- v) Diversification of markets.
- vi) % of export to production.
- vii) Contribution of Agri-exports to Indian export basket
- viii) Change in % share of different products to total Agri-exports
- ix) Growth of world agro trade and growth of India's share.

2.4 TRENDS

2.4.1 Compound growth

- i) In the first four years of current plan period the agriculture sector (for products under purview of working group) registered a compound growth of 33 % in Rs. terms.
- ii) Sector wise growth is : Oil cakes 14.8%, Cashew 17.8%, Sugar 12.3%,
Cereals 19.2%, Apeda 68.5%, Marine 24.5%
- iii) In USD terms the aggregate compound growth was 30.2%.
- iv) In terms of quantity, the growth was 17.1%.

2.4.2. Growth VII Plan vs. VIII Plan

The compound growth of agri-products (under review) during the VII Plan period was 32 % in terms of Rupee value and 33% during the VIIIth plan period.

2.4.3 Growth VIII Plan : Total vs. Agricultural Exports

Compared to 25.3% growth registered by the total export from India, the growth in total agri exports was 28.7% and 33% in the product group under review.

2.4.4 Expansion of export Basket

Products with > \$15 million exports

1985-86 - 8 products (APEDA)

1990-91 - 9 products (APEDA)

1995-96 - 14 products (APEDA)

2.4.5 Diversification of markets (APEDA PRODUCTS)

Export > \$ 15 million

1985-86 - 6 countries

1990-91 - 6 countries

1995-96 - 13 countries

2.4.6 Production - export ratio

	1985	1994
Fruits & Veg.	0.22	0.55
Rice	0.25	0.88
Wheat	0.22	0.08
Other cereals	0.01	0.09
Meat	0.04	0.13

2.4.7 Contribution of agri export to India's export basket

1961	44.2 %
1971	31.7 %
1981	30.6 %
1991	19.4 %
1995	16.6 %
1996	18.0 %

2.4.8 Growth in Production

Production in Million Tonnes

		1985	1991	1995	% increase
a)	Horticulture				
	i) Fruits		29	32	11.0
	ii) Vegetables		57	65	14.0
b)	Livestock products				
	i) Meat		2.8	3.0	7.0
c)	Processed Foods				
	i) No. of units		3925.0	4270.0	9.0
	ii) Installed capacity		9.0	14.0	56.0
	iii) Capacity utilisation		3.0	7.0	134.0
d)	Cereals				
	i) Rice	64.0	75.0	81.0	27.0
	ii) Wheat	47.0	56.0	65.0	38.0
	iii) Coarse grains	21.0	21.0	26.0	24.0

2.4.9 India's Share in the Global Trade (1988-93)

COMPARATIVE TRADE GROWTH WORLD, INDIA
(1988-93)

Table -xiii value: Bill \$

	1988	1989	1990	1991	1992	1993
Total Agri Exports (World)	401.26	422.30	454.04	464.90	496.67	469.94
India	2.62	3.06	3.58	3.41	3.59	3.85
India's share	0.65	0.72	0.79	0.73	0.72	0.82

Source : Fao,1993

2.5 STATISTICAL DETAILS

ia) Compound growth, Agri Product, VIII Plan

Val : Rs. Crores

Table-i

PRODUCT GROUP	1992-93	1993-94	1994-95	1995-96 (Est)	Comp. growth
Oil cakes	1545	2324	1798	2350	14.8
Cashew	749	1048	1247	1232	17.8
Sugar & molasses	354	178	62	504	12.3
Cereals	721	1099	940	1229	19.2
Apeda(incl non bas rice	1347	1753	2037	6548	68.5
Marine products	1743	2552	3537	3384	24.5
Total	6459	8962	9621	15247	32.7

Source : Economic Survey, DGCIS

ib) **Compound growth, Agri Product, VIII Plan**

Val : \$ Million

Table- ii

PRODUCT GROUP	1992-93	1993-94	1994-95	1995-96	Comp. growth
Oil cakes	534	741	573	748	11.2
Cashew	258	334	397	392	14.8
Sugar & molasses	122	57	20	160	9.3
Cereals	299.6	422.2	407.7	391	9.2
Apeda	375	487	540	2084	76.1
Marine products	602	814	1126	1077	21.2
Total	2190.6	2855.2	3063.7	4854	30.1

ib) **Compound growth, Agri Product, VIII Plan**

Qty : 000 Mts

Table -iii

PRODUCT GROUP	1992-93	1993-94	1994-95	1995-96 (Est)	Comp. growth
Oil cakes	3678.8	4820.7	4150.8	6395	20
Cashew	62.7	73.5	80.2	77	7
Sugar & molasses	465.1	204.5	51.1	350	-11
Cereals	615.8	768.2	1067.7	1009	18
Apeda	836	836.3	948.5	---	
Marine products	210.8	257.9	320.9	310	13.7
Total	5879.2	6961.1	6619.2	13052	17.1

ii) **Compound Growth ,Agri Products vs Total Exports VIII Plan**

Table -iv

Product Group	1992-93 (Rs. in Crs)	1995-96 (Rs. in Crs)	% of growth
Total National Export	53688	106464	25.3
Total Agri Export	9457	20341	28.7
APEDA Scheduled products	1347	6548	68.5

Source: DGCIS

iii) **Compound growth : Agricultural Products vs. Total Exports**
(VII & VIII Plan Period)

Value: Rs. in Crs.

Products	VIIth Plan		% Comp growth	VIIIth Plan		% Comp. growth
	1985-86	91-92		92-93	95-96	
Total exports	10895	44041	32.2	53688	106464	25.3
Agri-exports	3018	8228	22.2	9457	20341	28.7
Apeda Schedule pdts	285	1249	34.3	1347	6548	68.5

Source : DGCIS

iv) **EXPANSION OF EXPORT BASKET :**

PRODUCTS WITH OVER 15 MILLION USD EXPORTS.

Table -vi

Value: above 15 million USD

VIIth & VIII PLAN PERIOD

PRODUCT GROUP	1985-86	1990-91	1994-95
Bas. Rice	114.71	160.59	275
Non. Bas. Rice	--	94.37	108.40
Buffalo met	30.85	59.53	103.28
Onions	23.87	50.65	65.16
Dried & pres. veg	--	---	46.65
Guargum	27.2	32.38	45.57
Ground-nuts	--	31.21	32.26
Mango pulp	--	15.08	25.70
Proc. fruits & vgs	23.3	--	22.67
Cereal Preps.	--	---	21.94
Sheep/Goat meat	19.70	17.42	21.02
Walnuts	--	--	19.30
Alc. Beverages	--	18.06	14.72
Pickle & chutneys	--	--	15.84
wheat	37.48		
Mangoes	15.89		

SOURCE : DGCIS

v) **DIVERSIFICATION OF MARKETS (APEDA PRODUCTS)**

Table -vii

	<u>1985-86</u>	<u>1990-91</u>	<u>1995-96</u> (Above 15 Million USD)
UAE	34.27	97.32	102.43
MALAYSIA	23.96	71.35	68.05
USA	23.90	39.63	
SAU	17.17	28.76	68.15
USSR	18.70	---	21.33
BANGLADESH	46.93	45.85	
UK		45.35	37.23
SINGAPORE			21.87
INDONESIA			21.65
GERMANY			20.60
SRILANKA			19.43
NETHERLAND			18.47
KUWAIT			18.15
PHILLIPINES			17.20
OMAN			16.87

SOURCE : DGCIS

vi) **% Of Export to Production**

Table -viii

Products	<u>1985</u>			<u>1994</u>		
	Production	Exports	E/P	Production	Exports	E/P
Fruit & Veg.		0.22	-	100	0.55	0.55
Rice	63.80	0.25	0.39	81.20	0.88	1.08
Wheat	47.10	0.22	0.46	65.50	0.08	0.12
Other Cereals	20.50	0.01	0.05	25.50	0.09	0.35
Meat		0.04	-	3.13	0.13	4.15

source : Economic survey,Fao,Dgcis

vii) **Contribution of Agro -Products to Indian Export Basket
(Time Series)**

Table- ix

	<u>Value in Rs.Crs</u>		
	<u>1985-86</u>	<u>1990-91</u>	<u>1995-96</u>
APEDA	285 (9.4%)	633 (10.0%)	6548 (33.9%)
MARINE	409 (13.5%)	960 (15.2%)	3384 (17.5%)
COFFEE	265 (08.8%)	252 (03.9%)	1509 (07.8%)
SUGAR & MOLASSES	016 (0.53%)	038 (0.60%)	0503 (02.6%)
CASHEW	225 (7.50%)	447 (7.00%)	1232 (06.4%)
SPICES	278 (9.20%)	239 (3.80%)	786 (4.00%)
TEA	626 (20.7%)	1070 (16.9%)	1172 (6.00%)
OIL MEALS	134 (04.4%)	609 (09.6%)	2350 (12.2%)
CEREALS	190 (06.3%)	491 (07.7%)	1229 (06.4%)
TOTAL	3018	6317	19280

viii) **Production: Growth rates of Industrial Production by Broad groups of Manufacturing (per cent)**

Table- x

	1991-92	1992-93	1993-94
Food Products	4.8	-1.6	-8.4
Beverages and Tobacco	2.4	5.9	21.3
Cotton Textiles	9.8	8.0	5.0
Jute Textiles	-10.0	-4.2	18.6
Other Textile Products	-5.8	-22.0	-3.2
Wood and Wood Products	-6.2	3.0	4.3
Paper and Paper Products	2.6	3.9	6.6
Lather and Fur Products	-6.7	3.5	6.6
Rubber And Petro Products	-1.1	1.5	0.9
Chemical Products	2.8	6.0	7.6
Non-Metalic Mineral Products	6.2	1.8	3.4
Basic Metal and Alloys	5.7	0.4	15.0
Metal Products and Parts	-7.0	-6.4	1.4
Non Electral mechninery	-1.9	-1.2	4.2
Electral mechninery	-12.4	-2.0	-6.8
Transport Equipment	-0.7	5.0	5.2
Other Manufacturing Inds.	-16.1	4.2	-5.7

Eco: Survey 1994-95

ix) **Growth in Food Processing Industries**

Table xi

	1990	1991	1992	1993	1994
Processed Fruits & Vegetables	5.9	14.3	28.6	30.3	20.0
Milk Products	-2.4	-1.2	8.6	4.1	12.3

Source : Economic Survey 1994-95

x) **PRODUCTION**

Table -xii

(Production in Million MTs)

	1985	1991	1995	% increase
a) Fruits		29.0	32.00	
b) Vegetables	n.a	57.0	65.00	
c) Livestock products				
i) Meat		2.9	3.10	
d) Processed Foods				
i) No. of units	n.a.	3925.0	4270.00	
ii) Installed capacity		8.9	14.02	
iii) Capcity utilisation		2.8	6.76	
e) Cereals				
i) Rice	63.80	74.70	81.20	
ii) Wheat	47.10	55.70	65.50	
iii) Coarse grains	20.50	20.90	25.50	

Source : Economic survey, FAO, MFPI

xi) **COMPARATIVE TRADE GROWTH WORLD INDIA**
(1988-93)

Value: Billion \$

Table -xiii

Total Agri Exports (World)	401.26	422.30	454.04	464.90	496.67	475.00	525.00
India	2.62	3.06	3.58	3.41	3.59	4.18	4.06
India's share	0.65	0.72	0.79	0.73	0.72	0.88	0.77

p.s. Total Agri Exports = Live animals, Meat, Milk, Eggs, Cereals & Flours, Fruits & Nuts, Sugar, Cocoa, Bran, Alcoholic Beverages, Groundnuts, Seeds, Rubber, Silk, Sisal, Veg. oils.

CHAPTER-3
SECTOR SPECIFIC REVIEW

3.1 MARINE PRODUCTS:

The export growth of marine products from India during the last five years is given in the Table below:

V: Value in Rs.Crore
Q: Quantity in tonnes
\$: Million US \$

Year	Export	Export growth		Unit Value (Rs/Kg) (US \$/kg)
1988-89	Q: 99777	+ 2598	2.67%	
	V: 597.85	+66.65	12.55%	59.92
	\$: 412.88	+ 3.32	0.81%	4.14
1989-90	Q: 110843	+11066	11.09%	
	V: 634.99	+37.14	6.21%	57.29
	\$: 381.38	+31.50	7.63%	3.44
1990-91	Q: 139419	+28576	25.78%	
	V: 893.37	+258.58	40.69%	64.08
	\$: 497.90	+116.52	30.55%	3.57
1991-92	Q: 171820	+32401	23.24%	
	V: 1375.89	+482.52	54.01%	80.08
	\$: 558.13	+60.23	12.10%	3.25
1992-93	Q: 208602	+36782	21.41%	
	V: 1767.43	+391.54	28.46%	84.73
	\$: 615.06	+ 56.93	10.20%	2.95
1993-94	Q: 257900	+49298	23.63%	
	V: 2552	+785	44.42%	98.95
	\$: 814	+199	32.35%	3.15
1994-95	Q: 320900	+63000	24.42%	
	V: 3537	+985	38.59%	110.22
	\$: 1126	+312	38.29%	3.51
1995-96	Q: 311536	-9364	- 2.91%	
	V: 3384	-153	- 4.32%	108.62
	\$: 1058	-68	- 6.04%	3.39

In terms of quantity, marine products registered an increase of 14.7% compound Growth in value over a period of 92-93 to 95-96 as compared to 11.4% during the seventh plan period. In terms of value it has increased by 24.5% during the VIIIth plan period. Unit value realised from marine products exported increased in rupee terms over this period and has declined in dollar terms. Devaluation of the rupee and export of low valued fish items are the two reasons which could be ascribed to low net unit value realisation.

3.1.1 Comparative growth rates:

Table 2 examines the growth in the value of marine products exports and the value of total exports from India. Value of total exports increased from Rs.733 crore in 1951-52 to RS.1,06,464 crore in 1995-96. The share of the value of marine products in total exports increased from 0.45 per cent to 3.15 per cent during this period.

Table:2

Growth in the Marine Products and Total Exports in Different Plan periods (end years) in India

Quantity in '000 tonnes
Value in Rs.crore

Year	Export of Marine Products		Total export value	Share of marine products export in total %	Average unit value realisation (Rs/kg)
	Qty.	Value			
1951-52	22	3.3	733	0.45	1.48
1955-56	24	3.9	609	0.64	1.64
1960-61	17	4.1	642	0.64	2.39
1965-66	19	13.5	806	1.67	7.06
1968-69	31	33.1	1358	2.44	10.81
1973-74	47	76.3	2523	3.02	16.37
1978-79	92	262.0	5726	4.58	28.43
1983-84	86	362.0	9771	3.77	42.05
1989-90	110	634.0	27658	2.29	57.64
1992-93	208	1767.0	53688	3.29	84.95
1993-94	258	2552.0	69751	3.65	98.91
1994-95	321	3537.0	82673	4.38	110.18
1995-96	312	3364.0	106464	3.15	107.82

The average unit value realisation of marine products has steadily increased from Rs.1.48 per kilogram in 1951-52 to Rs.107.82 in 1995-96. This increase has been brought about by a variety of value addition processes of the marine products like the individually quick frozen (IQF) shrimps.

The examination of the compound growth rates of marine products exports and total exports reveals an interesting picture (Table 3).

Table 3.

Compound Growth Rates of Marine Products Exports and
Total Exports from India (per cent)

Year	Value of Marine Products	Quantity of Marine Products	Value of Total Exports	Unit Value Realisation
1951-60	6.67*	0.73	-0.37	6.05***
1961-70	31.74***	9.89***	10.07***	31.71***
1971-80	22.82***	10.65***	19.32***	22.91***
1980-87	8.35*	2.83	11.48***	8.35*
1951-87	18.15***	4.98***	10.70***	21.89***
1951-92	15.82***	4.67***	16.75***	16.28***

NS = Not Significant *** = Significant at 1 per cent level
* = Significant at 10 per cent level

** = Significant at 5 per cent level

The overall growth rate is positive and significant. High significant growth rate in the unit value realisation from the exports of marine products has been responsible for the growth in the proceeds of the exports of marine products. This was evident in the increasing share of marine products in total agricultural exports proceeds at current prices and a rapid decline of the same at constant prices (*ibid*). On the whole the earnings from the marine products exports grew faster than those from total exports except for the overall period 1951-1992 owing to the less than proportionate increase in the value of marine products exports vis-a-vis value of total exports in the recent years.

3.1.2 Composition of the Export Basket:

Frozen shrimp (black tiger prawn) constitute almost two-third of the seafoods export basket of India. However, there is consistent decline in its share during the last one decade. Other important items exported are squid, cuttle fish and fish.

Table 4. Composition of Marine Products Exports from India

Item	Quantity (%)			Value (%)			Unit Value Realisation (Rs/kg FOB)		
	1981	1986	1993	1981	1986	1993	1981	1986	1993
Frozen Shrimp	72.36	58.41	35.66	86.68	82.12	66.78	45.57	72.78	158.65
Fresh/Fr. Fish	11.36	13.54	36.13	3.30	4.24	12.15	11.05	16.23	30.84
Fr.Squid	-	-	14.56	-	-	7.59	-	-	50.03
Fr.Cuttle Fish	1.97	5.83	9.10	1.13	2.99	5.73	21.85	26.65	62.63
Fr.Lobsters	0.84	1.35	0.77	1.64	2.81	2.45	73.93	107.70	260.69
Dried items	2.09	7.17	2.03	0.53	1.55	1.02	9.63	11.25	42.57
Live items	-	-	0.23	-	-	3.20	-	-	60.90
Others	9.95	13.98	1.47	4.19	6.30	1.08	11.99	21.04	62.21

3.1.3 Export Destinations:

Japan and USA remain the chief destination for the India sea food products. However due to increasing competition from the South East Asian Suppliers like Indonesia and Thailand, India is losing its market share in Japan. USA too is slipping away from the Indian grip. We hardly cater to 5% of USA's total imports. China, Thailand and Ecuador jointly command about 75% of the USA market share. West Europe is emerging as an important market for the Indian shrimp. Almost one-fourth of the total shrimps exported from India are destined for the Western European ports more importantly the UK, Spain, France, Italy and others.

Table 5 Relative performance of Major Sugar Producing Countries, 1990

Major Sugar-cane growing countries	Area under sugar-cane relative to the total world area under the crop (per cent)	Production of sugar relative to the total world production of sugar (per cent)	Contribution in the export of trade of sugar (in per cent)	
			Export as per cent of total world domestic	Share in world export Trade of Sugar (per cent)
USA	1.82	5.66	8.49	1.78
Philippines	1.33	1.63	13.65	0.83
Australia	1.86	3.19	8.06	0.95
South Africa	1.54	2.06	36.39	2.79
China	6.10	6.40	8.75	2.11
Cuba	7.67	7.35	88.05	24.01
India	19.53	10.07	0.05	0.02
Brazil	24.26	7.07	19.81	5.20

3.2 SUGAR:

3.2.1 Export Performance :

The export performance of sugar in India has not been satisfactory. The details are given in Table 6. It is evident from the analysis that the proportion of sugar export to total production is very small. Percentage of sugar exports to total exports ranged from 0.47 per cent in 1995-96 to 11.70 per cent in 1975-76.

Table 6. Export performance of Sugar in India

Year	Percentage share of sugar exports to the total exports (Value terms)	Percentage share of sugar exports to the Agri. & Allied export (Value terms)	Percentage of sugar exports to the total production of sugar (Quantity terms)
1970-71	1.80	4.88	0.290
1975-76	11.70	28.01	0.651
1980-81	0.54	1.51	0.810
1981-82	0.81	2.41	0.930
1982-83	0.71	2.36	0.371
1983-84	1.42	4.92	0.070
1984-85	0.23	0.85	0.061
1985-86	0.15	0.49	0.041
1986-87	0.13	0.42	0.004
1987-88	0.08	0.31	0.003
1988-89	0.05	0.23	0.004
1989-90	0.12	0.56	0.001
1990-91	0.12	0.52	0.005
1992-93	0.65	3.74	
1993-94	0.25	1.36	
1994-95	0.07	0.45	
1995-96	0.47	2.60	

3.2.2 Global Export Performance:

The relative performance of major sugar producing countries is given in Table 5. The analysis reveals that Brazil, India, Cuba and China are the main sugarcane growing countries in the world. In respect of production of sugar, India remained on the top by producing nearly 10 per cent, followed by Cuba (7.35 per cent), Brazil (7.07 per cent), China (6.49 per cent) USA (5.66 per cent) and South Africa (3.19 per cent) of the total world production. In context of global export trade of sugar, Cuba remains the largest sugar exporting country, contributing nearly 88 per cent of the domestic production of sugar to the export trade followed by South Africa (36.39 per cent), Brazil (19.81 per cent), and Philippines (13.65 per cent). India exports only 0.05 per cent of the domestic production of sugar. The relative share of the exporting countries in the world trade of sugar, for various countries, are Cuba (24.01 per cent), Brazil (5.20 per cent), South Africa (2.79 per cent), China (2.11 per cent). India could have only 0.02 per cent share in the global export of sugar.

3.3 CASHEW:

3.3.1 India's Export Performance:

Among the various commodities contributing to Agricultural exports, the share of cashew kernel has been declining. It slightly improved during the year 1985-86 only to dip again during 1990-91.

Table 1. Share of Cashew Kernel to Agricultural Exports in India

Year	Total Agricultural export (Rs. in crore)	Export of Cashew Kernel (Rs. in crore)	Percentage of export of Cashew Kernel to total Agricultural Export
1970-71	487.00	56.98	11.70
1975-76	1493.63	96.19	6.44
1980-81	2057.00	140.08	6.81
1985-86	3018.00	225.14	7.46
1990-91	6317.00	447.24	7.08
1991-92	8228.00	676.00	8.21
1992-93	9457.00	749.00	7.92
1993-94	13021.00	1048.00	8.04
1994-95	13712.00	1247.00	9.09
1995-96	19280.00	1232.00	6.39

In absolute term, the export of cashew kernel has been rising from Rs.56.98 crore in 1970-71 to Rs.1232.00 crore in 1995-96. But it could not keep pace with the export of other agricultural commodities. It is, therefore, necessary to explore the possibilities of increasing the share of cashew kernel among the agricultural commodities.

3.3.2 Global Export Performance:

India faces competition from other countries resulting in decline in import of raw cashew nut. Improved processing facilities in countries like Tanzania, Mozambique and emergence of China and Brazil as cashew exporters have resulted in gradual drying up of the raw nuts available to India. Therefore, the bulk of the requirements of the processing industries has to be met by improved internal production. This highlights the necessity to improve the productivity of this crop and also its export performance.

Table 7. India's share in the World Exports of Cashew Kernels

Year	India's export (Tonnes)	World exports (Tonnes)	India's share
1950	22424	22458	99.80
1955	31452	32466	96.80
1960	39436	41578	94.80
1965	53793	58830	91.40
1970	54074	78336	69.00
1975	59174	95961	61.70
1980	32265	67151	48.00
1985	37097	66043	56.00
1986	43004	70498	61.00
1987	35971	74940	48.00
1988	33994	79782	43.00
1989	45632	85075	54.00
1990	49874	81128	61.00
1991	47738	79296	60.00
1992	53436	99329	54.00
1993 (P)	68968	95781	72.00
@ C.G.R.	4.41 * (5.90)	3.49 * (5.04)	

Figures in the parentheses indicate 't' value

P: Provisional

*: Significant at 1 per cent

@ C.G.R. Compound Growth Rate of cashew kernel exports from India and world during 1980 to 1992

3.3.3 Export Destination:

A fair proportion of India's export of cashew kernel went to the East Europe. In 1973-74, the share of East European market in India's export of cashew kernel was 63.45 per cent. This share has gone up to 75.39 per cent in 1980-81. But the United States market has gone down from 31.91 per cent to 19 per cent during the same period. The downward trend is noticeable in the U.K. market also. The share of Canadian market has ranged from 2.69 per cent to 10.08 per cent. In respect of the Australian and the Japanese markets, India's export of cashew kernels has been rising.

3.4 FRESH FRUITS:

3.4.1 Export Performance:

Export of Fresh Fruits during VII and VIII plan period is as below:

Export of Fresh Fruits - VII Plan

	1985-86		1986-87		1987-88		1988-89		1989-90	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value
Mangoes	16539	1944	16258	1912	20302	2334	18131	2309	23000	2393
Grapes	2658	245	3159	382	3297	406	4738	640	3862	640
Other fruits*	12806	855	23155	800	29577	1612	32841	1975	16138	1800
Walnuts	2721	764	4508	1391	3784	1320	4241	1564	3418	1508
Total	34724	3808	47080	4485	56960	5672	59951	6488	46418	6341

VII PLAN

VIII PLAN

	1990-91		1991-92		1992-93		1993-94		1994-95	
	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value
Mangoes	19380	3122	23104	3546	25650	4599	22794	4387	25414	4503
Grapes	5348	855	11147	1862	10801	2179	15932	3393	16877	4085
Other fruits	22121	1260	41313	2846	43633	3419	39781	3446	45963	3801
Walnuts	4269	1945	4929	3613	4832	4404	6326	6718	6459	6064
Total										

	1980			1985			1990		
Fruits & Vgs.(Incl. Cashews)	W	I	%	W	I	%	W	I	%
	24018	259	1.1	23606	332	1.4	50430	400	0.8

	1992 *			1994 *			1996 *		
Fruits & Vgs.(Incl. Cashews)	W	I	%	W	I	%	W	I	%
	56654	394	0.7	63450	634.5		71064	710.6	

	1998 *			2000 *			2002 *		
Fruits & Vgs.(Incl. Cashews)	W	I	%	W	I	%	W	I	%
	80000	800		96000	960		10700	1070	

* Estimates worked out on basis of Average Compound Growth

As it may be observed the Compound Growth rate was 20.7% & 12.5% respectively.

The higher growth rate during Plan periods is owing to several promotional measures taken in this respect.

3.4.2 Global Export Performance:

Except for the Grapes, India does not have any particular fruit which touches the 0.5% level of the world trade while we are said to be second largest producers of the world. Considering the case of Global trade of different fruits, it is observed that what India trades is not what is traded in the world . The following figures prove the point.

Global Trade in Fruits

(A) Major Fruits Traded in the World

Qty: 000 tonnes
Value: 000 \$

CITRUS	IMPORTS											
	1992		1993		1994		1992		1993		1994	
	Q	V	Q	V	Q	V	Q	V	Q	V	Q	V
ORANGES	5886	3478	5983	3266	6588	3668	5876	3069	6398	2926	6909	3257
LEMONS & LIME	1016	603	1054	610	1197	745	1090	528	1148	544	1260	661
OTHER CITRUS	994	721	956	614	1132	738	993	447	1039	473	1155	565
BANANAS	10885	5323	11406	5182	12394	6157	10784	3334	11601	3486	1207	4101
APPLES	3946	3062	4243	2194	4188	2628	3910	2455	4453	2052	4538	2567
GRAPES	1761	2015	1775	1868	1920	2109	1771	1608	1926	1649	2009	1847
PINE APPLE	632	379	662	370	687	382	605	183	680	222	724	263

(B) Major Exporters & Importers of Fruits

Major Exporters

Major Importers

Country % Share

Country % Share

USA	14
Spain	13
Italy	9
Chile	6
France	4
Turkey	4
Netherlands	4
Ecuador	3
Newzealand	2
India	1
Others	37

Germany	19
USA	11
France	10
UK	10
Japan	6
Italy	5
Netherlands	5
Canada	5
Bel-lux	3
Others	26

3.4.3 EXPORT BASKET:

Fruit basket in terms of exports shows a long list of fruits. The following figures show, what was traded in 1991-92 (End of VII Plan) and what is traded today i.e. 1995, showing expansion of export basket.

Products above 20 Million Rupees

	1990-91	1991-92	1994-95
Mangoes	312.2	354.6	450.30
Grapes	88.1	186.2	408.50
Citrus	25.2	40.5	73.11
Watermelon	22.1	56.6	46.35
Apples	-	85.9	67.80
Other fresh fruits	-	69.8	58.59
Pomegranates	-	-	55.90
Sapota	-	-	26.80
Tamarind	-	-	20.00
New Products			
Strawberry	-	-	13.50
Litchi	-	-	0.40

3.4.4 Export Destinations:

Destinations with above Rs.5 million exports

MANGOES

Countries	1991-92	1994-95
UAE	183.8	210.8
Saudi Arabia	84.5	93.6
UK	16.9	21.5
Bahrain	28.4	21.3
Bangladesh	7.9	38.5
Kuwait	9.5	19.7
Qatar	11.9	5.2
Singapore	-	7.6
Netherlands	-	7.4
USA	-	5.4

Grapes

Countries	1991-92	1994-95
UK	10.4	199.0
UAE	123.2	108.8
Bangladesh	9.2	25.0
SAU	28.6	21.9
Netherland	-	15.0
Kuwait	-	8.3
Bahrain	8.0	7.7
Hongkong	-	6.5
Srilanka	-	6.5

Other Fruits

Countries	1991-92	1994-95
Bangladesh	131.8	157.0
UAE	86.0	91.7
SAU	20.0	30.0
Srilanka	-	16.0
Bahrain	10.7	14.2
Pakistan	-	11.0
UK	-	10.5
Kuwait	-	6.5
Qatar	-	5.2
Netherland	-	5.0

3.5 FRESH VEGETABLES

3.5.1 Export Performance:

Vegetable Exports during the VII plan period and VIII plan period is as follows:

VII PLAN

Q: MT
V: Rs. LAKHS

	1985-86		1986-87		1987-88		1988-89	
	Q	V	Q	V	Q	V	Q	V
Onions	157463	2921	234726	5275	130391	4061	215830	6418
Other Veggies	33528	1822	19947	1945	27483	1595	46695	1547
Total	190991	4743	254673	7220	157874	5656	262525	7965

	1989-90		1990-91		1991-92	
	Q	V	Q	V	Q	V
Onions	360227	8455	240222	9088	370950	14959
Other Veggies	42079	2909	27426	1750	41757	2572
Total	402306	11364	267648	10838	412707	17531

VIII PLAN

Q: MT
V: Rs. LAKHS

	1992-93		1993-94		1994-95		1995-96	
	Q	V	Q	V	Q	V	Q	V
Onions	390000	17300	357133	18268	401282	20462	490000	25000
Other Veggies.	37880	2807	33367	2331	58552	4412	90000	6208
Total	427880	20107	390500	20599	459834	24874	580000	31208

Compound Growth VII Plan 24.2%

VIII Plan 15.6%

3.5.2 Export Basket:

Here the export basket is only containing onions as a major produce containing more than 85% of the basket. Other vegetables are beans, peas, other green vegetables.

3.5.3 Export Destinations:

Fresh Onions

	<u>1991-92</u>	<u>1994-95</u>
U.A.E .	214.1	658.2
Malaysia	224.1	506.7
Singapore	202.5	295.9
Srilanka	217.0	268.1
S.A.U.	48.1	89.2
Bangladesh	548.7	58.2
Russia	-	47.8
Pakistan	-	30.9
Bahrain	-	26.0
Mauritius	-	24.2
Maldives	-	11.3
Kuwait	-	7.3

Other Vegetables:

	<u>1991-92</u>	<u>1994-95</u>
Srilanka	14.5	75.0
S.A.U.	47.2	57.1
Russia	41.9	55.1
UAE .	7.8	46.6
Kuwait	15.4	24.2
U.K.	8.7	20.5
Mauritius	21.5	16.3
Bahrain	6.6	15.6

Nepal	-	12.7
Australia	-	12.0
USA	-	11.0
Spain	-	10.9
Germany	-	10.9
Qatar	12.1	8.3
Netherlands	-	7.4
Singapore	-	6.9
Belgium	-	6.4
Maldives	-	6.1
Canada	-	5.8
Bangladesh	52.3	-
Oman	-	5.3

3.6 FLORICULTURE AND SEEDS

3.6.1 Global Trade:

The worldwide demand of cut flowers and pot plants can only be given in approximate figures. In 1990 it was estimated that some 14 or 15 main countries together accounted for cut flower consumption of over 45 billion guilders and pot plant consumption of over 26 billion guilders but what is noteworthy is that the consumption of cut flowers worldwide has risen by 11% since 1985 going from 41 b to 45 b guilders in 1990. This trend is expected to continue particularly in the 3 main consuming regions: Western Europe, North America and Japan. The Japanese cut flower market with a strong demand for good quality and new unfamiliar products may grow is forecast for the American market. Even European market, bit by economic recession is expected to increase by 4% per year to over 29 b guilders in 1995.

Japan, US, Italy and Netherlands are the world's main producers of both flowers and pot plants. World imports for 1990 are estimated at 5.4 billion guilders of cut flowers and 2.4 billion guilders of pot plants.

On the supply side, Europe plays a great role having more than 76% share of the total world market of cut flowers. The Netherlands are the largest exporting country with a share of 59%. The other major exporters are Columbia, Italy, Israel and Kenya. The countrywise share of global exports and imports are as under:

<u>Major exporting countries</u>	<u>% Share</u>	<u>Major Importing Countries</u>	<u>% Share</u>

Cut Flowers

The Netherlands	59	Europe	81.3
Columbia	10	of which	
Italy	6	Germany	39.2
Israel	4	France	8.0
Kenya	1	UK	7.0
		USA	15.5
		Asia	3.2

Pot Plants

The Netherlands	48
Denmark	16
Belgium	10

TOP TEN FLOWERS TRADED GLOBALLY

(Auction Turnover Million Dutch Guilders)

	<u>1991</u>	<u>1992</u>	<u>1993</u>
1. Rose	825	833	902
2. Chrysanthemum	598	563	581
3. Carnation	292	278	276
4. Tulip	254	267	265
5. Lily	231	228	237
6. Freesia	168	147	145
7. Gerbera	143	132	133
8. Cymbidium	109	104	102
9. Gypsophila	108	91	82
10. Aistromeria	79	77	79

3.6.2 India's Export Performance & Export Basket

As per the reports from International Trade Centre, Geneva, total world import of cut flowers in 1992 were over US \$ 3.5 billion in which India's share works out to 0.06%. The break-up of export of floriculture products during the last 3 years are as under:

	<u>91-92</u>	<u>92-93</u>	<u>93-94</u>
Cut Flowers Fresh	39.90	108.98	101.26
Dried flowers	643.51	743.12	1089.01
Live plants	401.53	305.65	437.08
Dried plants	239.87	254.57	119.21
Bulbs & Tubers	120.58	78.34	51.99
Total	1455.39	1490.66	1798.55

3.6.3 Major Destinations (of Indian Flowers):

Cut Flowers	UAE, UK, USA, Germany, Netherlands, Japan
Dried Flowers	USA, Germany, CIS, UK, Netherlands, Italy

3.7.1 Export Performance:

VII PLAN

Q: MT

V: Rs.LAKHS

	1985-86		1986-87		1987-88		1988-89	
	Q	V	Q	V	Q	V	Q	V
Buffalo Meat	31623	3774	35468	4313	51247	6731	60695	8700
Sheep Meat	10618	2408	8156	1995	6981	1546	6496	2179
Poultry	-	85	-	74	-	85	-	87
Dairy Products	1296	389	2356	458	1608	559	1245	370
Processed Meat	1386	234	1169	209	-	2	-	3
Animal Castings	-	173	-	265	-	440	-	744
Total		7063		7314		9663		12083

	1989-90		1990-91		1991-92	
	Q	V	Q	V	Q	V
Buffalo Meat	61764	9014	63502	10689	81461	18921
Sheep Meat	7474	2883	8327	3126	9767	3249
Poultry	-	129	-	228	-	1014
Dairy Products	-	-	628	248	2635	1118
Processed Meat	-	-	159	81	193	113
Animal Castings	-	731	-	718	-	690
Total		13241		15090		25105

VIII PLAN

Q: MT

V: Rs.LAKHS

	1992-93		1993-94		1994-95		1995-96	
	Q	V	Q	V	Q	V	Q	V
Buffalo Meat	81614	21442	101666	28075	116137	32437		
Sheep Meat	13700	7500	11022	6216	10819	6603		
Poultry	-	1732	-	1108	-	887	}	
Dairy Products	1093	837	2105	1248	8957	4012	}	5453
Animal Castings	-	713	-	657	-	771		62699
Processed Meat	147	92	182	97	193	128		
Total		32316		37401		44838		68152

Compound Growth: VII Plan	23.4%
VIII Plan	27.9%

3.7.2 Export Destinations:

The livestock products face the constraint of making an entry into highly advanced markets of USA & Europe due to its quality and hygiene, but our meat products are well accepted in Middle East market and is highly competitive. India has not only diversified into more markets but has also achieved a considerable growth overall.

Buffalo Meat:
(Countries with more than 5 million exports)

Sheep/Goat Meat

	<u>1991-92</u>	<u>1994-95</u>		<u>1991-92</u>	<u>1994-95</u>
Malaysia	1024.50	1500.0	Saudi Arabia	112.0	300
UAE	350.60	531.0	UAE	159.0	265
Phillipines	-	436.0	Oman	27.0	53
Oman	108.00	184.0	Bahrain	11.6	23
Mauritius	22.60	119.0	USA	-	5
Kuwait	64.30	100.0			
Singapore	-	88.0			
YAR	90.40	65.0			
Bahrain	57.60	41.0			
Greece	-	37.0			
Brunei	-	36.0			
Jordan	123.26	95.0			
Qatar	-	28.3			
France	-	17.1			
Gabon	-	14.8			
South Africa	-	9.0			
Singapore	31.89	6.9			

3.7.3 Global Trade:

(i) Imports: According to FAO Trade Year Book, 1994, the trade in various kind of meat for the year 1992, 1993 and 1994 is as under:

	<i>(QTY. QUANTITY IN MILLION MT)</i>		
<u>WORLD</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
BOVINE MEAT	4.89	4.49	4.72
SHEEP MEAT	0.86	0.81	0.85
SWINE MEAT	3.03	3.16	3.45
POULTRY MEAT	2.98	3.31	3.94

The major importer in case of bovine meat is Europe which accounts for about 38.5% of the global trade followed by Asia accounting for 25.2% of the global trade. Japan is the major importer in Asia followed by Korea and Iran.

In case of sheet meat, Europe accounts for 49.4% of world sheep meat imports followed by Asia which accounts for 24.7% of the global trade. In Asia, Japan is the major importer followed by Saudi Arabia and China.

In case of Swine meat, Europe is the largest importer accounting for 64.3% of the global trade in swine meat followed by Asia which accounts for 17.4% of the global trade. In case of Asia, Japan is the major importer of swine meat followed by Hongkong and Korea.

In case of poultry meat, Asia is the largest importer accounting for 39.8% of the global trade followed by Europe which accounts for 30.7%. Hongkong, Japan and Saudi Arabia are the major importer of poultry meat in Asia.

(ii) **Exports:**

The world export of various kind of meat for the year 1992, 1993 and 1994 is as under:

(QTY: QUANTITY IN MILLION MT)

<u>WORLD</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
BOVINE MEAT	4.83	4.69	4.89
SHEEP MEAT	0.93	0.85	0.84
SWINE MEAT	3.03	3.19	3.73
POULTRY MEAT	3.10	3.70	4.39

The major exporters of bovine meat are Europe and Oceania which account for 48.8% and 23.3% of world's export respectively. In case of Swine meat, Europe is the largest exporter accounting for 77.7% of world exports followed by NC America which accounts for 9.6%.

In case of sheep meat Oceania accounts for 66.7% of the world sheep meat exports followed by Europe which accounts for 25%.

In case of poultry meat, Europe is the largest exporter accounting for 39.20% of the world poultry meat exports followed by NC America which accounts for 33.9%.

3.8 CEREALS:

3.8.1 India's Export Performance:

Exports of Cereals in the VIIth and VIIIth plan are as below:

Qty : MT
Value: Rs.lakhs

VII PLAN

	1985-86		1986-87		1987-88		1988-89	
	Q	V	Q	V	Q	V	Q	V
Basmati	247685	14032	235213	16336	365859	26192	349687	24014
Non Basmati	715	45	2689	132	22808	1237	35753	2023
Wheat	226268	4585	439105	7481	259470	3410	11766	214
Other Cereals	10876	312	2408	66	9063	242	8037	433
Total	485544	18974	679415	24015	657200	31081	405243	26684

VII PLAN

	1989-90		1990-91		1991-92	
	Q	V	Q	V	Q	V
Basmati	396895	25548	241833	28813	235000	43500
Non Basmati	26705	1636	283314	16938	525000	52000
Wheat	15800	299	139470	3113	658250	15808
Other Cereals	5954	-	7310	277	14150	701
Total	445354	27483	671927	49141	1432400	92009

VIII PLAN

	1992-93		1993-94		1994-95		1995-96	
	Q	V	Q	V	Q	V	Q	V
Basmati	286000	70000	527233	106127	442167	86539	392258	85116
Non Basmati	276000	19800	240454	22544	448446	34040	5120343	370185
Wheat	36749	1021	350	19	86628	4234	617211	36090
Other Cereals	17058	1016	153	3720	90467	3218	28047	1715
Total	615807	91837	768190	132410	1067708	128031	6157859	493106

Compound growth VII Plan 29.9%
 VIII Plan 74.1%

3.8.2 Global Trade

Qty: Million Tonne

Table I

	85-86	86-87	87-88	88-89	89-90	90-91	91-92
Rice	11.7	12.8	11.2	13.9	11.7	12.1	14.1
Wheat	84.7	90.8	115.6	104.3	103.7	100.7	110.8
Coarse Grains	82.7	82.9	89.6	97.6	104.5	89.5	96.0

Source USDA

Qty: Million Tonne

Table II

	92-93	93-94	94-95	95-96	96-97
Rice	14.9	16.9	20.9	18.1	18.2
Wheat	112.7	100.2	97.2	93.1	91.1
Coarse Grains	91.54	85.51	97.13	88.93	89.73

Source USDA

RICE (world production)

(QTY: MILL. TONNES)

WORLD PRODUCTION	1992-93	1993-94	1994-95	1995-96
TOTAL	521	520	534	524
of which				
CHINA	186	177	176	174
INDIA	109	117	122	117
INDONESIA	48	48	47	46
VIETNAM	22	22	24	22
USA	8	7	9	9

RICE (world trade)

(QTY : MILL TONNES)

MAJOR IMPORTER					MAJOR EXPORTER				
	1992-93	1993-94	1994-95	1995-96		1992-93	1993-94	1994-95	1995-96
TOTAL	14.7	15.9	20.0	15.4		14.7	15.9	20.0	15.4
of which									
INDONESIA	-	0.9	2.8	1.2	CHINA	1.3	1.5	0.05	0.5
BRAZIL	0.7	0.8	1.0	0.8	INDIA	0.6	0.6	3.9	0.8
IRAN	1.0	0.5	1.4	0.8	USA	2.6	2.6	3.0	2.8
S.A.RABIA	0.9	0.7	0.7	0.7	THAI	4.7	4.7	5.9	4.9
IRAQ	0.6	0.2	0.2	0.5	VIET	1.7	2.0	2.0	2.0
EU	0.4	0.5	0.6	0.5	PAK	0.9	1.3	1.5	1.3

WHEAT(world production)

(QTY : Mill tonnes)

	1992-93	1993-94	1994-95	1995-96
WORLD PRODUCTION				
TOTAL	562	559	522	533
of which				
CHINA	101.5	106.3	99.3	100.0
INDIA	55.6	57.2	59.1	65.2
USA	67.1	65.2	63.1	59.4
RUSSIA	46.1	43.5	32.1	28.0
CANADA	29.8	27.2	23.1	25.4

WHEAT(World Trade)

QTY: MILL. TONNES

MAJOR IMPORTER					MAJOR EXPORTER				
	1992-93	1993-94	1994-95	1995-96		1992-93	1993-94	1994-95	1995-96
TOTAL	112.6	100.0	97.1	97.4		112.6	100.0	97.1	97.4
of which									
RUSSIA	14.4	5.0	2.7	4.8	USA	37.1	33.0	32.2	33.0
CHINA	6.7	4.3	10.2	12.0	AUS.	9.5	12.7	7.8	12.5
JAPAN	5.9	6.1	6.3	6.3	CANADA	21.7	18.7	21.2	19.0
BRAZIL	5.8	5.7	6.4	6.6	ARG.	7.3	4.5	7.6	4.8
EGYPT	6.0	5.9	6.0	6.0					

TOTAL**Export Destinations:**

Wheat	Countries above 100 million Rs.	
	1991-92	1995-96
Bangladesh	-	747.6
Kenya	-	379.0
Yeman	-	536.6
UAE	106.1	484.7
Turkey	-	308.4
Jordan	575.1	135.8
Morroco	-	239.2
Netherlands	-	259.0
S.Africa	-	142.4
Sudan	-	103.4
Korea	327.2	
Oman	152.2	
Phillipines	120.4	

Basmati Rice	1991-92	1995-96
Saudi Arabia	3064	3700
Kuwait	137	772
UK	400	1165
USA	-	807
UAE	319	751
Oman	-	111
Bahrain	-	177
Canada	-	128
France		142

NON BASMATI RICE Countries with above 1000 Million Rs.

	1991-92	1995-96
Indonesia		8313
Iran		1009
Bangladesh		9473
Kenya		3057
Russia		1056
Saudi Arabia		1213
S.Africa		2992

CHAPTER -4

IMPACT OF THE URUGUAY ROUND ON AGRICULTURAL TRADE

Chapter: GATT-UR-IMPLICATIONS FOR INDIA'S AGRICULTURAL EXPORTS

GATT-UR has thrown up as many challenges as the market opportunities it supposed to have opened. World wide there are as many hopes as apprehensions about the implications of the Agreement. What has it in store for India? The chapter attempts to find an answer to this issue.

Structure: Introduction, Provisions, Patents Issue, Sanitary and Phyto-Sanitary Issues, Environment Concerns; Implications, Global Changes, Trade Projections, Conclusion.

Summary Observations:

INTRODUCTION:

While the policy changes introduced by the Government during the VIII Plan Period have produced a conducive environment for growth within the country, simultaneous changes in the world trade environment are also likely to affect our competitiveness. In this regard, the most significant development has been the successful conclusion of the GATT negotiations which included agriculture in the multilateral trade agreement for the first time. So far the market for basic agricultural products and foodstuffs was distorted due to not only high barriers to trade in the form of tariff and quota systems imposed by a number of consuming countries but also by the massive subsidies granted by some of the developed countries like the US and EC. However, with the coming into being of the World Trade Organisation (WTO) from 1st January, 1995, most of the countries have committed "to establish a fair and market oriented agricultural trade system".

Under the URUGUAY agreement there is an obligation for reduction of levels of protection for all agricultural commodities covered by the agreement. For agricultural products, currently subject to ordinary custom duties only, 15-36% reduction commitment has to be undertaken in 6 years. For agricultural products on which non-tariff restrictions apply, there is an obligation to convert these restrictions into tariffs first and then to reduce these tariffs by an average of 36% over the implementing period. The calculation of the tariff equivalents is to be made using the actual difference between internal price (representing wholesale price) and external price (actual average CIF unit values). It also stipulates that the countries where there are no significant imports, minimum access opportunities will have to be provided. This has been set at 3% of the domestic consumption to be raised to 5% by the end of implementation period. Trade liberalisation which has been catalysed by the introduction of the Uruguay Regime agreements

and commitments, which predominantly tariffy quotas and reduce tariffs, will generate faster expansion of agricultural trade and create significant export opportunities for developing countries by the end of the century.

But, more important than the price reductions, which will be occasioned by changes in tariff rates, will be the growth in world income, which will be induced by the whole package of GATT-UR measures. World income is expected to increase by \$200 to \$300 billion dollars per year above current levels during this same time frame, an increase of over 8% over the next decade, as a direct result of the trade liberalisation caused by the GATT-UR agreements. These factors are expected to accelerate the growth rate of agricultural trade which at the present place is expected to increase by 10% over the current levels by the year 2000. By this calculation, the world agriculture trade may touch \$500 billion in the next 5 years. Withdrawal of subsidies by the developed countries coupled with reduction in tariffs are bound to not only make our products internationally price competitive but also facilitate their access to hitherto protected markets.

PROVISIONS:

The focus of Uruguay Round negotiations was primarily on reducing specific trade barriers and improving market access for partner countries. The negotiations on the Agriculture were guided by the Ministerial Declaration of September 1986 which read as follows:

"Contracting Parties agree that there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions including those related to structural surpluses so as to reduce the uncertainty, imbalance and instability in world agricultural markets. Negotiations shall aim to achieve greater liberalisation of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines, taking into account the general principles governing the negotiations, by: (i)improving market access through, inter alia, the reduction of import barriers; (ii)improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes; (iii)minimizing the adverse effects that sanitary and phytosanitary regulations and barriers can have on trade in agriculture, taking into account relevant international agreements."

The agreement on agriculture has four main components: concessions and commitments on market access, domestic support and export subsidies, the agreement on sanitary and phytosanitary measures and a Ministerial Declaration concerning least developed and net food importing developing countries. GATT-UR seeks to liberalise world trade in agriculture and free it from governmental measures that distort trade and lead to inefficiency. For instance in Western Europe domestic cultivators are protected from foreign competition. Export subsidies are used to get rid of surplus agricultural commodities in world markets at prices below actual cost of production and so on. The most commonly followed three ways of subsidising farmers through government intervention are: (i) to have a set of domestic and external policies so that the domestic farmers receive higher prices for their outputs than would have been possible, where trade to become completely free. This can be done through domestic price support policies, tariffs, quotas, export enhancement programmes, price stabilisation measures, importing licensing and canalisation. Secondly, farmers can be subsidised by providing them inputs at

prices below costs of supply or at prices that are lower than the prices charged for other consumers of the same product. The third method is through direct cash payments to the farmers. Export subsidies are also covered in the scope.

According to the Agreement, the export subsidies must be brought down by 36% over a period of six years. The volume of agricultural exports that receive subsidies must be brought down by 21% over a period of six years. This is for the developed countries. For developing countries, budgetary outlays on export subsidies must be brought down by 24% and the volume of exports that receive subsidies must be brought down by 14% in a period of 10 years. Least developed countries have no reduction commitments on export subsidies.

TARRIFICATION:

There is also a tariffication requirement. This means that quantitative import restrictions. Variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state trading enterprises, voluntary export restraints and other such measures must be replaced by tariffs. Once this has been done, developed countries must reduce the tariffs by an average of 36% over a period of six years. And developing countries must reduce the tariffs by an average of 24% over a period of ten years. Minimum tariff reductions of 15% are also required for each tariff line, apart from the average reduction. In the case of developing countries, the minimum tariff reduction for each tariff line is 10%. These tariff reductions do not apply to least-developed countries.

PATENTS ISSUE:

The Agreement on Trade Related Aspects of Intellectual Property Rights speaks of Patent related issues. It covers standards for specific intellectual property rights and covers copyright and related rights, trade marks, geographical indications, industrial designs, patents, layout designs of integrated circuits and protection of undisclosed information. There is also a stipulation on the contract of anti-competitive practices in contractual licenses, enforcement of intellectual property rights, dispute prevention (related to IPR) and settlement. It further requires the plant varieties must be protected through patents or through a sui generis system that will be the country's own. But the protection must be effective. A sui generis system effectively means a system that is specifically designed to protect plant varieties. The obvious model for this is the protection of a plant breeder's right (PBR). If such protection is to be granted the plant variety in question must possess the criteria of novelty, distinctness, uniformity and stability. Under PBR, the farmers can exercise the freedom to save or retain the seeds, derived from protected plant varieties, for own use in future sowing periods. There is no explicit objection to limited and non-commercial exchanges of seeds. But commercial sales or multiplication of propagating material are prohibited.

IMPLICATIONS FOR INDIA:

As of now the UR does not require complete patents for plant varieties, the lee way of accepting a weaker form of protection does exist. But the protection has to be effective and the system will be reviewed in 1999. Whatever form of legislation India adopts there is the possibility that in 1999 this will be dubbed ineffective and we will have to move towards a system of complete patent protection for plant varieties.

SANITARY AND PHYTO-SANITARY ISSUES:

The UR-Agreement makes a serious effort to prevent technical issues like Sanitary and Phyto-Sanitary issues becoming extra trade barriers.

The agreement on the application of sanitary and phytosanitary measures addresses concerns such as these. The agreement has 14 articles. Sanitary and Phytosanitary measures are defined in the annex as any measure applied: "(a) to protect animal or plant life or health within the territory of the Member from risks arising from the entry, establishment or spread of pests, diseases, disease-carrying organisms or disease-causing organisms; (b) to protect human or animal life or health within the territory of the Member from risks arising from additives, contaminants, toxins or disease-causing organisms in foods, beverages or feedstuffs; (c) to protect human life or health within the territory of the Member from risks arising from diseases carried by animals, plants or products thereof, or from the entry, establishment or spread of pests; or (d) prevent or limit other damage within the territory of the Member from the entry, establishment or spread of pests. Sanitary or phytosanitary measures include all relevant laws, decrees, regulations, requirements and procedures including, inter alia, end product criteria; processes and production methods; testing, inspection certification and approval procedures; quarantine treatments including relevant requirements associated with the transport of animals or plants, or with the materials necessary for their survival during transport; provisions on relevant statistical methods, sampling procedures and methods of risk assessment; and packaging and labelling requirements directly related to food safety".

"Members have the right to take sanitary and phytosanitary measures necessary for the protection of human, animal or plant life or health, provided that such measures are not inconsistent with the provisions of this Agreement" (Article 2.1). "Members shall ensure that their sanitary and phytosanitary measures do not arbitrarily or unjustifiably discriminate between Members where identical or similar conditions prevail, including between their own territory and that of other Members. Sanitary and phytosanitary measures shall not be applied in a manner which would constitute a disguised restriction on international trade" (Article 2.3). There is also a reference to scientific evidence, although such an expression is extremely vague and subjective. "Members shall ensure that any sanitary or phytosanitary measure is applied only to the extent necessary to protect human, animal or plant life or health, is based on scientific principles and is not maintained without scientific evidence.." (Article 2.2).

There will also be an attempt to harmonise sanitary and phytosanitary measures and base them on international standards, although no country has a mandatory obligation to base the measures on international standards. "To harmonise sanitary and phytosanitary measures on as wide a base as possible Members shall base their sanitary and phytosanitary measures on

international standards, guidelines or recommendations, where they exist..." (Article 3.1) "Members shall play a full part, within the limits of their resources, in the relevant international organizations and their subsidiary bodies, in particular the Codex Alimentarius Commission, the International Office of Epizootics, and the international and regional organizations operating within the framework of the International Plant Protection Convention, to promote within these organizations the development and periodic review of standards, guidelines and recommendations with respect to all aspects of sanitary and phytosanitary measures" (Article 3.4). "The Committee on Sanitary and Phytosanitary Measures... shall develop a procedure to monitor the process of international harmonization and coordinate efforts in this regard with the relevant international organizations" (Article 3.5). Some concern has been expressed about these international organisations being subject to undue influence by producer lobbies, as opposed to consumer lobbies.

Since complete harmonisation is not immediately possible, there is a clause on equivalence. "Members shall accept the sanitary or phytosanitary measures of other Members as equivalent, even if these measures differ from their own or from those used by other Members as equivalent, even if these measures differ from their own or from those used by other Members trading in the same product, if the exporting Member objectively demonstrates to the importing Member that its measures achieve the importing Member's appropriate level of sanitary or phytosanitary protection. For this purpose, reasonable access shall be given, upon request, to the importing Member for inspection, testing and other relevant procedures" (Article 4.1)

But even if there is harmonisation and there are international standards, countries can maintain higher standards than these. "Members may introduce or maintain sanitary or phytosanitary measures which result in a higher level of sanitary or phytosanitary protection than would be achieved by measures based on the relevant international standards, guidelines or recommendations, if there is scientific justification... Notwithstanding the above, all measures which result in a level of sanitary or phytosanitary protection different from that which would be achieved by measures based on international standards, guidelines or recommendations shall not be inconsistent with any other provision of this Agreement (Article 3.3). Scientific justification is a vague expression and a note of explanation does not reduce the ambiguity. The note states, "...there is a scientific justification if, on the basis of an examination and evaluation of available scientific information in conformity with the relevant provisions of this Agreement, a Member determines that the relevant international standards, guidelines or recommendations are not sufficient to achieve its appropriate level of sanitary and phytosanitary protection".

The measures applied must also be consistent. "With the objective of achieving consistency in the application of the concept of appropriate level of sanitary or phytosanitary protection against risks to human life or health, or to animal and plant life or health, each Member shall avoid arbitrary or unjustifiable distinctions in the levels it considers to be appropriate in different situations, if such distinctions result in discrimination or a disguised restriction on international trade" (Article 5.5). For example, in the Canadian case cited, the tax was only levied on canned beer and not on other canned products.

A country may of course have complaints about sanitary or phytosanitary measures imposed by some other country. "When a Member has reason to believe that a specific sanitary or phytosanitary measure introduced or maintained by another Member is constraining, or has the potential to constrain, its exports and the measure is not based on the relevant international standards, guidelines or recommendations, or such standards, guidelines or recommendations do

not exist, an explanation of this reason for such sanitary or phytosanitary measure may be requested and shall be provided by the Member maintaining the measure" (Article 5.8). If this is not found to be satisfactory, Article 11 has provisions for consultations and dispute settlement.

There are special provisions for developing countries.

"In the preparation and application of sanitary or phytosanitary measures, Member shall take account of the special needs of developing country Members, and in particular of the least developed country Members. Where the appropriate level of sanitary or phytosanitary protection allows scope for the phased introduction of new sanitary or phytosanitary protection allows scope for the phased introduction of new sanitary or phytosanitary measures, longer timeframes for compliance should be accorded on products of export interest to developing country Member so as to maintain opportunities for their exports. With a view to ensuring that developing country Members are able to comply with the provisions of this Agreement, the Committee is enabled to grant to such countries, upon request, specified, time-limit exceptions in whole or in part from the obligations under this Agreement, taking into account their financial, trade and development needs. Members should encourage and facilitate the active participation of developing country Members in the relevant international organisations" (Article 10).

ENVIRONMENT CONCERNS:

The final Uruguay Round agreement takes into account the importance of environmental issues. The Ministerial Declaration on Trade and Environment ensures that linkages between trade policies, environmental policies and sustainable development will be taken up as a priority within the WTO. Following the declaration, a Committee on Trade and the Environment is to be set up. The Preamble to the WTO agreement recognises explicitly the objective of sustainable development, including the objective of protecting and preserving the environment. To quote, "Recognising that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development...". As has been mentioned, at the Marrakesh meeting, Ministers agreed to set up a Committee on Trade and Environment under the WTO. This has an ambitious agenda. It will identify the relationship between trade measures and environmental measures, work out the response of the WTO to environmental agreements and treaties and recommend necessary modifications to multilateral agreements.

The GATT view seems to be that the import restrictions are permissible if the environmental damage is caused by the product, but not if it is caused by the production process or method.

GAINS FROM THE URUGUAY ROUND:

A few studies have been undertaken to quantitatively assess the impact of the Uruguay Round agreement on global real income or on the incomes of individual countries. These are generally based on the assumption that implementation begins in 1995 and is completed within a period of ten years. The impact on real world income thus refers to the year 2005. The point that it is real income (in 1992 US dollars) and not nominal income, needs to be emphasised.

It also needs to be emphasised that these studies tend to under-estimate the gains from the Uruguay Round liberalisation. For example, they concentrate on the market access provisions, specially tariffs. The gains from reductions in non-tariff barriers and such liberalisations in textiles and garments, agriculture and services are not that easy to quantify. Nor is it possible to quantify the gains from better rules, such as in anti-dumping, subsidies, safeguards, better standards of intellectual property protection and improved dispute settlement procedures. The studies also tend to assume perfect competition. This excludes gains from exploiting economies of scale because of imperfect competition. Gains from exploiting dynamic economies of scale, such as through increased cross-border flows of investments, are also excluded. Finally, the benchmark for making comparisons is taken to be the status quo prevailing in 1992. This is not relevant. The benchmark for making comparisons should instead be the counterfactual scenario of a deteriorating trading environment had the Uruguay Round negotiations indeed failed.

Subject to these caveats, what do the studies show? They suggest that real world income (in constant 1992 US dollars) will increase by between 212 billion and 274 billion in 2005. Further such annual increases will follow. This amounts to around 1% of world gross domestic product (GDP).

Figures are also available on gains to individual countries or groups of countries. Real income in industrial countries will increase by between 139 billion and 185 billion. The developed countries thus gain the most from the liberalisation. The increase in real income for the European Union will be between 61 billion and 98 billion, roughly 1.6% of GDP. The increase in real income for the United States will be between 28 billion and 67 billion, GATT (1994) forecasting an increase of 122 billion. The US Trade Representative's office calculates a US gain of 130 billion, 0.2% of GDP. The increase in real income for Japan will be between 27 billion and 42 billion, roughly 0.9% of GDP.

The countries in transition (former socialistic countries of East Europe) gain around 0.1% of GDP, if China is also included, the increase in real income as a percent of GDP goes up to around 0.9%.

The increase in real income for the developing countries as a group is expected to be between 36 billion and 78 billion. Since developing countries are not important enough individually, very few studies quantify the gains for individual developing countries. Some figures are available on real income gains as a percent of GDP. These show gains of 2.5% for China, 0.5% for India, 0.6% for South Africa and 0.3% for Brazil. It must be remembered that some developing countries are expected to lose because of the Uruguay Round package. This includes net food importing developing countries, which are likely to lose because of higher world agricultural prices because of the phasing out of agricultural subsidies. It is because of this that the Final Uruguay Round text includes a "decision on measures concerning the possible negative

effects of the reform programme on least-developed and net food-importing developing countries". Other developing countries that are likely to lose are those who have trade preferences in their favour. The value of these trade preferences goes down because of the liberalisation.

Quantitative estimates of the increases in world trade are rarer. But since the Uruguay Round package is about direct trade liberalisation, the increase in world trade is clearly going to be more than the increase in world income. Some GATT estimates (GATT [1993]) shows that world trade will increase by 12% (on top of the normal growth rate), if the Uruguay Round package is completely implemented. In constant 1992 US dollars, this represents an increase of 745 billion. The value of world exports (including services) will increase by around 10%. The value of exports originating in North America will increase by 8%. And those originating in the European Union will increase by 10.3%. Some of the largest projected increases in world trade are in areas that are of interest to developing countries. For instance, world trade in textiles is projected to grow by 34%, that in clothing by 60% and that in agricultural, forestry and fishery products by 20%.

THE SUPPLY SIDE:

Both because of tariffs and NTBs, market access is thus going to increase because of the Uruguay Round agreement. But what Implication does this have for India's exports? The GATT accord represents a liberalisation of world trade in goods and services. Such liberalisation helps efficient producers of goods and services and hurts those who are inefficient. To reap the potential from the Uruguay Round, India will have to be an efficient producer of goods and services. since improved market access does not characterise India alone, but competitors as well. Are we efficient producers of goods and services? Probably not. Otherwise India would have had more than a 0.6% share of world exports.

At a simple level one can ask the question, what constraints or determines the level of India's exports? Apart from a price component, which is significant as India is in the low value segments, one can think of supply-side factors and demand-side ones. Barring the 1970s, when exports to the Middle East were influenced by increased demand because of what happened to oil prices, Indian exports have especially been supply-constrained.

This is understandable for a country that accounts for 0.6% of world exports. In fact, for some items which exhibit a negative income elasticity of demand, Indian exports tend to benefit from recessionary conditions. A prime example is low value textiles and garments. At an extremely aggregated level, one can differentiate the Indian export basket into agro-based products and manufactured items. I, so far s agro-based products are concerned, particularly food grains, the primary constraint is one of exportable surpluses not being available. And in manufactured items, there are problems like high costs, inefficient production, outdated technology and an inability to stick to delivery schedules and product specifications. These too, are supply-side problems. It is difficult to see how India can gain much from the market access provisions unless these supply-side problems are sorted out.

IMPLICATIONS:

Table 5.1, based on GATT compilations from the Integrated Data Base (IDB), gives some idea about tariff bindings for agricultural products. Table 5.1 is based on data for 26 developing countries that account for 80% of merchandise imports. As the table shows, all tariff lines for agricultural products will now be subject to bindings. The increase in the coverage of bindings is greatest for developing countries, particularly those in Asia and Latin America. The 100% binding for tariff lines of agricultural products is remarkable when one remembers that only 83% of tariff lines for industrial products will be bound.

Market access is not going to increase only through tariff bindings, it is also going to increase through reductions in tariffs. Some idea of the tariff reductions involved can be seen from Table 5.2. As the table shows, some tariff lines are already bound duty-free. For other tariff lines, there exist duties at the moment. Some of these will now be bound without reductions, others will be bound with reductions. The percentage of tariff lines on which there will actually be reductions is 79% for developed countries, 74% for developing countries and 84% for countries in transition.

Table 5.1 : Tariff Bindings (%) for Agricultural Products

Country group	Percentage of tariff lines bound		Percentage of imports under bound rates	
	Pre Round	Post Round	Pre Round	Post Round
Developed countries	58	100	81	100
Developing countries	18	100	25	100
Economies in transition	51	100	54	100
North America	92	100	96	100
Latin America	36	100	74	100
West Europe	45	100	87	100
Central Europe	45	100	50	100
Asia	17	100	40	100

Table 5.2 : Bindings with Reduction for Agricultural Products
(As percentage of tariff lines)

Country group	Already bound duty-free	Currently dutiable Bindings with without reductions	Bindings without reductions
Developed countries	17	79	4
Developing countries	0	74	26
Economies in transition	18	84	2
North America	26	71	3
Latin America	0	72	28
West Europe	11	86	3
Central Europe	11	87	2
Asia	5	74	21

Developed countries account for two-thirds of world imports of agricultural products. These countries have offered to reduce tariffs on imports of agricultural products, including those that have been converted from non-tariff barriers to tariffs, by an average of 37%. It is not easy to figure out what has been the magnitude of tariff reductions in the course of the Uruguay Round, since prior to the Uruguay Round, many agricultural products were subjected to quantitative restrictions rather than tariffs. In addition, existing tariffs were often specific and not ad valorem. Subject to this caveat, Table 5.3 gives some idea about the average tariff reductions in developed countries for different product categories.

Table 5.3: Tariff Reductions (%) In Developed Countries for Agricultural Products

Product category	Percentage reduction
All agricultural products	37
Coffee, tea, cocoa, sugar	34
Fruits and vegetables	36
Oilseeds, fats and oils	40
Other agricultural products	48
Animals and products	32
Beverages and spirits	39
Flowers, plants, vegetable materials	48
Tobacco	36
Grains	26

All tropical products	43
Tropical beverages	46
Tropical nuts and fruits	37
Certain oilseeds and oils	41
Roots, rice, tobacco	40
Spices, flowers and plants	52

Export subsidies in developed countries are now estimated to be worth around 21 billion US dollars. That is, export subsidies amount to around 20% of developed country exports of agricultural products. In contrast, export subsidies in developing countries are estimated to amount to only 1.7 billion dollars. In the 1986-90 period, developed countries are annually estimated to have subsidised exports of 48.2 million tonnes of wheat, 19.5 million tonnes of cheese and butter. Table 5.4 shows the number of individual commitments that developed countries have made on export subsidisation of agricultural products.

Table 5.4: Agricultural export subsidies and quantitative commitments by developed countries

Product category	Base period export subsidies (millions of US dollars)	Number of individual quantitative commitments offered
Fruits and vegetables	241	15
Coffee, tea, cocoa, sugar	1203	23
Grains	7140	17
Animals and their products	4473	32
Oilseeds, fats and oils	301	12
Flowers, plants	6	3
Beverages and spirits	303	8
Dairy products	5814	37
Tobacco	146	3
Total agricultural products	20998	158

We have earlier referred to the increase in world trade that is expected to occur because of the Uruguay Round agreement. This means around 300 billion US dollars worth of additional exports beyond the year 2005. Of this, 90% is expected to be because of the agricultural agreement alone, due to the removal of domestic subsidies and easing of border measures, particularly in developed countries. That means, around 270 billion US dollars worth of additional agricultural exports per year. Because of the liberalisation, it is also expected that world agricultural prices will go up by an average of 10%, subject of course to the caveat that all these estimates tend to be somewhat arbitrary. This makes India's agricultural exports even more price competitive - not only in the United States and Western Europe, but also in Eastern Europe, a region that earlier used to be catered to by agricultural exports from the West.

Since agricultural protection was greater in developed countries, the primary beneficiaries of the liberalisation are expected to be developing countries, of which India is one. The estimates however show that the major beneficiaries of agricultural trade liberalisation are going to be the Cairns Group of countries, a group of agricultural exporters, not all of which are developing countries. The reason for this is not that India's exports of agricultural products are price uncompetitive.

GLOBAL CHANGES:

The protection of agricultural producers by industrialised countries over a long period of time, coupled with slower income growth in developing countries, has resulted in a global glut and depressed world prices in the markets for many farm products. Since the early 1980s numerous studies on the effects of industrialised countries agricultural policies indicate that protectionist policies have in fact lowered world prices below their free trade levels. The combination of depressed world prices and development oriented policies in developing countries, which tax agriculture relative to industry, have discouraged farm output and hence lowered rural incomes. Liberalisation of agricultural trade, on the other hand, is perceived to result in increases in world farm product prices, global GDP and trade volumes.

PROJECTIONS FOR THE SELECTED COMMODITIES:

1. RICE:

World trade in rice is projected to expand at 4% annually to reach 18.9 million tonnes by the year 2000. While the imports for both developed and developing countries would increase much faster than previously, a market shift in export patterns is expected to emerge. Exports of the developing countries are projected to increase by over 50%, while developed countries rice shipments are projected to decline. These diverse developments would stem largely from the influence of the Uruguay Round because of the developed exporters' commitment to reduce export subsidies. Among them the EC would be the most affected, as its commitments would result in an increase in its imports from third countries, reducing intra-EC trade.

The opening of previously closed markets for rice would increase the volume of global trade by about 1.2 million tonnes and international rice prices would rise by about 7% above those without the agreement, leaving 2000 prices 15% higher than 1987-89 average of

2. WHEAT:

FAO predicts slower growth for the world wheat trade during the coming five years. The maximum effects are expected for the developed countries, particularly the EC, where, following the CAP reform, feed demand is expected to increase, thus reducing the export availabilities. In the area of the former USSR and Eastern Europe, feed use is likely to be reduced sharply, and thus less imports. These trends are expected to be reinforced under the Uruguay Round scenario, which is expected to lead to a price increase of 7% more than enough to offset the 3% decline

foreseen in the base scenario, thus resulting in a reduced volume of wheat imports. In particular, some countries in Asia and Latin America are likely to produce more grains for their own requirements, leading to a slow-down in growth of their wheat import demand.

3. COARSE GRAINS:

After almost no growth in the past one decade, coarse grain trade is projected to expand by nearly % annually. Strong growth is anticipated in imports among the developing countries, primarily in the Far East and Latin America. China, a large net exporter of maize, could become a net importer again. By contrast, coarse grain imports are expected to decline by the developed countries, specially in the area of the former USSR and Eastern Europe.

The projected expansion of coarse grain trade is likely to be equally shared among developed and developing countries. Only moderate additional trade expansion is expected under the Uruguay Round (2 million tonnes). Prices are forecast to be 5-10% higher.

4. OILSEEDS AND OILMEALS:

Under the Uruguay Round world trade is projected to grow to 38 million tonnes for oils, or by 3.2 per cent annually, and to 31 million tonnes, or by 1.9% annually for oilmeals. Developing countries will have the fastest growth rates in imports and exports for both oils and oilmeals. Prices for oils may be 4% higher than they would have been in the absence of the Uruguay Round by oilmeal prices are unlikely to be affected. Commodity wise additional production for export would be mainly accounted for by palm oil and soyabeans.

5. MEAT:

Trade in livestock and meat products is projected to expand by 2% per annum, to 18.7 million tonnes by 2000 AD. Developing countries exports are anticipated to rise much faster than in the past. Large increase in imports are anticipated in Latin America and Far East, especially China the Republic of Korea, Malaysia's and Singapore/ Among developed countries, Japan is projected to remain a major growth market for meat imports.

Among the various categories of meat, the strongest expansion in trade is expected in poultry, followed by sheep and bovine meat.

6. MILK AND MILK PRODUCTS:

The overall level of trade in milk and milk products is not expected to change significantly as a result of the Uruguay Round, even though the prices are expected to be 7% higher suggesting 2000 prices to be 41% higher than during 1987-89. Imports by the developed countries could rise as a result of minimum access agreement under the Uruguay Round. Some growth in export commodities is likely to accrue to the developing countries especially in Latin America and Oceania.

7. COFFEE:

Reduced import tariffs for coffee under the Uruguay Round are expected to increase world coffee imports by 1.8% to reach 5.14 million tonnes. Coffee imports are expected to increase most strongly in Europe. Smaller increases are projected for the area of the former USSR, Japan and developed countries in Oceania, coffee imports by developing countries are projected at 3,62,00 Mts. In Latin America and the Caribbean and Africa, projections of coffee exports to 2000 have been revised upwards, by 26,00 Mts each, to 3.26 million Mts and 1.13 million Mts, respectively.

8. TEA:

The general impact of the Uruguay Round the world tea economy is likely to be small. The projections indicate that total export availabilities in 2000 would increase by 1.2% reaching 1,341,000 Mts. Availability's in Africa could increase from 334,000 Mts to about 340,000 Mts while in the Far East exportable supply would grow by 1% to 875,000 Mts. Trade liberalisation would increase world black tea imports by nearly 3% from 1,227,000 Mts to 1,263,000 Mts in 2000 A.D. Most additional imports would take place in developing countries which account for 80% of the net increase. Tariff reductions would also positively affect tea imports into Pakistan as well as Egypt and other North East countries which should increase from 354,000 Mts to 372,000 Mts in 2000 A.D.

9. SUGAR:

The Uruguay Round is expected to lead to an increase in world sugar imports of around 300,000 Mts over and above the baseline projection of by 2000 A.D. Imports of the developing countries would account for most of this growth, about 180,000 Mts.

CONCLUSION:

It is strongly preceived that the extent to which the gains depend on the extent to which countries undertake reforms which go beyond the offers tabled in UR. It is anticipated that the benefits, in response to the liberalisation by developed industrialised countries to developing countries will be minimal if these countries do not liberalise their agricultural sectors. From the above paradigm, it can be deduced that India can benefit the most by removing the protection levels from its highly protected commodities as the countries which liberalise the most, benefit the most. Agricultural liberalisation results in higher prices for wheat, sugar, meat and dairy products. India can benefit by reallocating its resources from tea, rice etc. (products for which price changes are either negative or minimal and have higher share in India's agricultural exports) to dairy products (products for which price changes are significant and have higher shares in India's agricultural exports).

CHAPTER - 5

STRAINTS AND IMPEDIMENTS

5.1 Despite vast scope and opportunities as reflected in the previous chapter, India's share in the international agri trade stands pegged at < 1%. Reasons for such a mini scale share is host of constraints and bottlenecks inflicting the agricultural sector. Summary of the major impediments restraining our export efforts is furnished below :

5.2 GOVERNMENT POLICIES AND REGULATIONS:

Domestic Trade Policy - Restrictions on Agri Trade within India.

5.2.1 EXIM POLICY

5.2.2 LAND CEILING ACT:

Land Ceiling Act is one of the major impediments to increase the exports. It prevents corporate sector to own land for growing fruits and vegetables even for captive consumption. Hence food processors have no control over the quality of raw material, which makes it difficult to penetrate the foreign markets.

5.3 PRODUCTION LIMITATIONS:

5.3.1 VAST SPREAD OVER

But for wheat, and Rice the production of various products is not in clusters. Scattered production makes creation of infrastructure an up hill task. Not only it adds to the cost but even the utilisation is not optimum.

5.3.2 PRODUCTIVITY AND LOW PERCAPITA AVAILABILITY

The Country has achieved great strides in the field of agricultural production. Over four decades of hardwork by the Indian farmers has made the Country not only self-sufficient in the food grains and allied sector but also perched India on the top of the Pyramid of the leading global producers.

Low productivity and per capita availability have a direct bearing on the export performance. Low productivity adds to the per unit procurement cost and ultimately adds to the final product cost. In most of the cases, Indian Products are not internationally competitive because of their high cost as compared to the products exported by our

competitors. No doubt many other production and post production inputs determine the cost of product yet the cost of the basic raw material is the most overwhelming. For illustration, the CIF cost of fresh cost is determined by the following inputs:

- (i) Fruit Procurement Price
- (ii) Processing (Pre-cooling, grading, sorting etc)
- (iii) Packaging
- (iv) Freight
- (v) Import duty
- (vi) Experience shows that many a times the procurement of price of the fruit itself is so high that its export became unviable.

Another related factors is per capita availability. Understandably exports are possible only after the local populace requirement is met. It has been observed that the leading exporters of particular agri products, are necessarily those which have the largest production but those who have higher per capita availability.

5.3.3 VARIETAL CONSTRAINTS

Another linked issue is of Variety. For successful marketing, sensitivity to the consumer preference is upper most. We cannot sell in the international market whatever we produce. Thus being the largest producer of mangoes in the world becomes less important and variety of mangoes produced by India and consumed in the world becomes more relevant. We produce almost three-fifth of the total mangoes in the world but account for less than 10% of the world market share. Contrary to it, ..., ... account for hardly, ..., ... % of the world production of mangoes but are more recognised than India in the world as producer and exporter of mangoes. Simple reason is that most preferred international varieties of mangoes are Tommy Atkins, Haden, Keitt, Kent and Irwin. While India produces none of these varieties, the other countries like, ..., ..., produce and export only these varieties. Indian apples, mandarins, pine apples face the same problem. Another example could be of Rice. India could export 5 million Mts of Rice during 1995-96. It was prima facie possible because % of world rice trade is of Indica variety and India is one of the largest producer of this variety. Varietal constraints severely constrain our efforts to expand our export basket and diversify the export markets.

5.4 PRE-HARVEST MANAGEMENT

Pre-Harvest Practices largely determine the productivity and Quality of a product. While the world over the leading agricultural countries have adopted advanced pre-management practices like drip irrigation, thinning, pruning, liquid fertiliser application etc. We have not made much headway in this direction. Flood irrigation remains largely the norm of the day. Practices like thinning, pruning, curdling, hormone control are still unheard of in India.

5.5 POST HARVEST CONSTRAINTS:

India is reported to be losing as much as 30-40% of its production on account of poor harvesting methods, transportation and storage. Right from the stage of plucking till it reaches the consumer, agricultural produce which are highly perishable in nature, demand special care and treatment. India being a tropical country, most of the produce tend to perish faster. To prevent it, proper temperature controlled delivery system and storage facilities are an essential pre-requisite. Traditionally the produce grown in a particular pocket were consumed in the same area. Thus need to develop appropriate storage and delivery system was never developed. In absence of these essential facilities, movement of agricultural produce is facing severe hardship.

5.6 MANPOWER CONSTRAINTS:

India has agricultural universities, ... agricultural and veterinary colleges and host of other institutions which on an average produce..... agricultural graduates and post-graduates. Despite such a large turnover of qualified manpower, productivity of agricultural labour remain a big question mark. There are two prominent issues related to manpower inadequacy. First is relevance of the curriculum in the universities to the field requirement. Absence of Post Harvest Management as a specialisation in not many universities or colleges is a glaring example of the mismatch referred to above. Another example could be packaging unless a qualified person has the knowledge of basic areas such as Pre and Post Harvest Management, Packaging etc. can he be expected to make any constructive contribution to the Trade and Industry.

5.7 SUPPORTING INDUSTRY NON-EXISTENT :

For the agricultural export to flourish, existence of the supporting industry is a must. Export oriented production demand different inputs like drip irrigation, liquid fertilisers, different type of chemicals and enzymes, pre-coolers, temperature management equipment, packaging material sorting/grading equipments and so on. At present, importation is largely the mode of sourcing these materials and equipment. It not only makes them costly but also their sourcing time consuming and complicated and their availability uncertain. The non-existence of the supporting industry is thus a serious handicap for the agri sector.

5.8 VALUE ADDITION :

Despite the huge production base of food commodities and other related products, the processed ones account for less than 10 per cent as compared with 70 per cent in developed countries. Total processed food exports, which are otherwise lopsided, are around only Rs.3000 crore - about 10 per cent of the aggregate value of production. It is distressing that around 30 per cent of the annual value of fruits and vegetables production, amounting to over Rs.3000 crore, goes waste on account of inadequate post harvest processing. Exploitation of production potential is low in many sectors like marine products, meat, etc. The domestic food processing industry is unable to compete effectively in international markets on account of sizeable price differential; processed foods are subject to high incidence of duty rates; transportation and other overhead expenses are rising and infrastructure facilities are woefully inadequate. The net result

is that though the country is blessed with large livestock and farm lands, the pace of growth of food processing industry has been rather slow.

The food processing industry in the country is broadly classified into 1) unorganised and cottage industries and 2) organised sector. These, in turn, are further divided into: primary food processing; spice and horticultural products; dairy and livestock products; fish and fish products and consumer goods industry (other processed foods). In the absence of a co-ordinated approach in developing the industry, the progress of the different sectors has been hamstrung by various problems.

For rapid and smooth growth of the constituent food processing sectors, the first and foremost essential requirement is the assured supply of the basic raw materials that are processed. They include foodgrains, oil seeds, milk, fruits and vegetables, meat and poultry products and marine fish. In the case of foodgrains, oilseeds and, to some extent, milk, fruits and vegetables, production prospects are still a gamble in the monsoon.

Though foodgrains output has leaped from 130 million tonnes in 1980-81 to almost 180 million tonnes now, the present grain processing capacity is inadequate and not fully utilised. This is because there is no sizeable organised processing activity in the field. Though grain processing is the biggest component in the food sector constituting over 40 per cent of the total value, more than 80 per cent of production value in this sector is accounted for by primary processors, while secondary and territory producers process the milled grain and its by-products. This is also reflected in the not so significant export contribution from the grain processing sector. In addition, there are substantial grain losses due to use of obsolete machinery.

Fruits and vegetables sector is also a good example of the inadequacy of (food) processing capacity in the country in spite of huge production capacity and sizeable actual output. According to the Eighth Plan document, the annual production of fruits in the country is about 28 million tonnes and is targeted to increase to 40 million tonnes by 1996-97. Similarly, the annual output of vegetables is almost 69 million and is targeted to rise to 94 million tonnes by the end of the Plan.

The total installed processing capacity for fruits and vegetables is around 14 lakh tonnes i.e. about one per cent of the combined annual production. And even the available processing capacity is under-utilised at the level of 30 per cent. In comparison, the fruits and vegetables processing capacity in other countries is high in the US and Brazil at 70 per cent; in Malaysia at 83 per cent, but a low of 30 per cent in Thailand.

In the absence of adequate processing capacity, the value of fruits and vegetables export is Rs.317 crore in 1991-92 formed just one per cent of the world trade in this sector.

The slow pace of development in relating to huge potential is also evident from the development of marine/fish sector. For instance, the 2.02 million sq.km. of exclusive economic zone could produce four to 4.5 million tonnes of marine/fish per annum. In 1993, the total marine/fish produce was only 2.44 million tonnes. Processing of produce into canned and frozen forms is carried out only for export market purpose. The quantum and value of exports of fish and fish preparations were 1.90 lakh tonnes and Rs.1443 crore respectively.

Similarly, in respect of various types of meat and poultry products, estimated at 1.4 to 2.3 million tonnes, the situation is none-too encouraging. Slaughter houses are suffering from poor water supply, insufficiency of electricity and of processing/storing facilities. Unhygienic and filthy conditions shy away the prospective importers. The export of meat was a small quantity of 95 thousand tonnes (valued at Rs.230 crore) in 1991-92.

The present low level of processing capacity for important food and other products is thus reasonable for the industry's slow pace of progress and its inability to make a significant dent on the export front. India's share of processed foods in the world market had come down about 1.2 per cent in 1978 to 0.44 per cent in 1988.

QUALITY :

Indian products have to face consumer indifference on account of both Quality and Pseudo-Quality. An agricultural produce, being edible in nature receive all the more discretion of the consumer. Due to lack of competition and long phase of scarcity in the domestic market a product sans quality could sell easily. Thus the growers and manufacturers were insensitive to the Quality in the sellers market. With no Quality environment in the Country, the Indian produce suffers adversely on account of inferior quality.

Quality begins from stage one and cannot be interpolated at an intermediate level. Poor quality seed, out dated pre and post harvest management practices, lack of grading, sorting, packaging, absence of cold chains and appropriate storage facilities all account for poor quality of the Product.

The growing concern of the consumers in the Developed countries, which are major export destinations for India, has added another dimension to the issue of Quality. Fertilisers and other chemicals and pesticide residues in a product also determine the of a product in the Global markets. The India farmer is totally ignorant of international norms and limits prescribed for the pesticides residues etc. Chemicals and fertilisers allowed or prohibited. Adequate testing facilities to gauge the presence of these element is also not available to the growers and exporters. Quality is emerging as the toughest extra tariff barrier for India.

RESEARCH AND DEVELOPMENT :

ICAR has 40 national institutes dedicated to research and development in the agricultural sector. Selected CSIR and other institution are also involved in R&D related issues. Due to the outstanding work done by these institutions, India has achieved unparalleled success in production of various agricultural produce like Rice, Wheat, Milk, Oilseeds etc. There is a need now to sensitise these institution to the demands of the trade. For example: through genetic engineering we should be able to produce mangoes that satisfy the consumer preference- large, multi coloured, fibreless etc. No specific research has been done to extend the season of any particular fruit crop. Bridges appear to be missing between the lab and the trade.

LOGISTICS:

Linking production zones with the exit points is another severe constraint, impeding our export efforts. Road and rail links are either non-existent or are of poor grade. Fresh produce like fruits suffer injuries while travelling on bumpy roads. Railways do not have sufficient number of rakes to transport bulk commodities like Wheat and Rice. According to one estimate rakes are required to transport million tonnes of wheat and rice from North India (Punjab, Haryana, Western U.P) to the West. But hardly rakes are available today. Exporters are put to severe hardship as requisition of the rakes is extremely difficult. Adequate specialised transport system is also lacking. It forces the exporters to transport their goods by ordinary means and in the process of quality suffers.

PHYTOSANITARY QUARANTINE AND RELATED ISSUES :

Many lucrative markets like Japan, S.Korea and USA do not allow import of our mangoes on account of Mediterranean fruit fly found in the Indian mangoes. In fact import of all fruits and vegetables is prohibited by Japan and S.Korea for Quarantine reasons. Export of Indian wheat came to a standstill as many countries debarred its import as Indian wheat was found to be affected with Karnal Bunt. Similarly import of Indian Bovine meat is not allowed because of Rinder Pest and Foot and Mouth diseases prevalent in some isolated parts of the country. As the competition grows and India becomes more aggressive in her exports, bogey of Phytosanitary, Quarantine and Related issue are expected to raise more formidable barriers.

INFRASTRUCTURE AT PORTS:

Due to their peculiar characteristics, the agricultural products require special handling facilities at the air and sea ports. Regrettably none of the sea or air ports in India are appropriately equipped to handle perishable products or even bulk commodities. India has traditionally been net importer of food grains, exports of agricultural produce being a very recent phenomenon. Due to this reason most of the ports are designed to handle imports and not exports. Nava Shava port in Bombay, though equipped with modern bulk cargo facilities, is lying idle as it is designed to handle imports and not export of food grains. At present, Kandla Port handles large bulk of the commodities like Wheat and Rice. None of the berths is mechanised and the normal waiting period is 30 days.

Fresh fruits require reefer and CA/MA containers, palletisation facilities, plug points, Temperature controlled ware houses, mega x ray machines etc. Similar facilities are required at the Air ports for fruits, cut flowers etc. At present no such facilities exist at any port in India. This is one of the major impediments faced by the industry.

Related issue is the custom procedures and lack of perception on the part of the custom authorities. The custom treat perishable and non-perishable alike, unaware of the fact that opening up of consignment in the name of checking could totally damage the produce.

DOMESTIC MARKET:

Fresh Produce: The Domestic Market system brings no pressure on the growers to induce quality. It being a highly price sensitive market preference has always been to low prices rather than quality.

Processed Food: The present low level of processing capacity for important food and other products is thus responsible for the industry's slow pace of progress and its inability to make a significant dent on the export front. India's share of processed foods in the world market had come down about 1.2 per cent in 1978 to 0.44 per cent in 1988.

The inadequate development of food processing sector is due to the low domestic demand. Indian people's mind is substantially rooted in the belief that freshly cooked food is more healthy even though it might be produced, transported, sold and cooked in less than hygienic conditions. Another reason for low development of processed food is that Indian palate is far more adventurous than the Western, with the result that prospects of eating the same food daily is less that appealing. Due to Indian traditions of housewife cooking the food, the idea of buying ready-made food doesn't appeal to Indian families, which also dilutes their position as caretaker of the family. The Indian consumer perceives the prices of packaged food much higher than the input of fresh materials cost. The cost of packaging, advertising and development of brand name is very high, as much as 50 per cent in many cases.

But domestic scenario is in for change now due to many factors. The population of the metropolitan cities is rising very fast. Emergence of two pay packets nuclear families has curtailed the time available with Indian housewife, which has enhanced her dependence on ready to cook and ready to eat food. Due to expected demographic changes, 44 per cent of the total population will be urban by the year 2000 AD. Middle class is continuously rising in numbers as well as its purchasing power. Rising health consciousness is shifting the demand towards more hygienic food. The distribution aspect has become easier due to enhanced shelf life. New packaging innovations have helped in better preservation and marketing. Emergence of mass media has provided a channel to industry to reach huge number of consumers and establish their brand names. Exemption of processed food from excise duty has helped in reducing the prices and hence enhancing the demand to some extent.

The main reason behind the poor export performance is the low base of domestic demand. Indian industry doesn't have the kind of platform, which can help it in launching its products globally. The availability of infrastructure is poor. Due to the bad roads, the fresh fruits and vegetables perish fast during transportation. Congestion at airports makes supply of fresh fruits and vegetables very difficult, which must reach their target consumers very fast. Cumbersome paper work for exports is another hindrance. Availability of testing facilities is poor for check of pesticide residue, soil analysis, potability of water used for irrigation.

INTERNATIONAL MARKETING:

(i) **Poor National Image:** India is hardly recognised in the world market as producer or sustainable exporter of agricultural commodities or products. For example: India is the largest producer of mangoes in the world but Indian mangoes are not known in major markets in EU or South East Asia. Similarly India is the largest producer of long grain rice in the world. But

globally it is Thailand and USA that are known as leading exporters of Rice. To add to the problem, Indian products have the notoruling of being of very poor quality.

(ii) **'Brand' disadvantage:** Indian industry has to depend on overseas distribution and marketing channel. Due to poor hygiene perception about Indian food products, Indian brands find it difficult to carve niches in the markets. Launching a brand in USA costs around \$ 50 Million. India produces vast quantity of bananas, which can fetch a decent price both as fresh fruits as well as banana puree (in demand by baby food manufacturers). But Indian bananas are squeezed out of the market by Chiquita banana, a popular brand, which enjoys monopoly. Chiquita sells at \$ 1200/tonne, while Indian bananas find it difficult to sell even at 25 per cent lower prices.

(iii) **Duty and Quota Disadvantage:** India's competitors enjoy a definite edge over us in terms of duty concessions and favourable Quotas.

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CHAPTER 6

MISSION

MISSION FOR THE FUTURE - IX FIVE YEAR PLAN AND BEYOND

Having analysed our performance during the last one decade or more, identified the constraints and flagged the opportunities the next step would be to decide on the National Mission for the next decade or a half. Before making an attempt to fix goals in terms of physical and fisoal targets, it is pragmatic to first evaluate the exportability of a product group or a commodity. The exportability of a product or a product group may be judged on the following criteria:

- 1) Trends in the global Market
- 2) Strength of the project

TARGETS 2002

Value

Rs.Crore

PRODUCTS 1991-92 * 1995-96 ** 2002

	Rs.Crore	Comp. growth	Rs.Crore	Comp. growth	Rs.Crore	Comp. growth (est.)
MARINE	1443	28.7	3384	24.5	15000	27
CASHEW	676	24.6	1232	17.8	4300	22
OIL MEALS	922	47.1	2350	14.8	9500	25
SUGAR & MOLASSES*	157	57.8	504	12.3	1500	20
APEDA	929	26.6	6548	68.5	20000	15
CEREALS	921	37.1	1229	19.2	6000	28

* Terminal year of viith plan

** Terminal year of viii plan

CHAPTER 7

STRATEGY

1. Create and Sustain Competitive Advantage

1.1 For long including, during the VIII Plan period, the premise underlying our optimism and over rated strength in agricultural capabilities largely emanated from our supposed advantage in basic factors of production. It was believed that India possesses a very good potential of agricultural exports because we are endowed with unique bounties of Nature like large stretch of land, good water 12 month sunlight, varied agro-climatic zones , cheap labour and the like. Therefore it was safely concluded that since India possesses these advantages some cosmetic improvements could produce dramatic results. Despite numerous policy initiatives, simplification of procedures, financial incentives and host of similar measures, the results have not been upto the deserved levels. Perhaps our diagnose has been erroneous and for this reason even prescription wrong.

1.2 Potter in 'Competitive Advantage of Nations' points out that basic factors of production like weather conditions, cheap labour etc. have limited advantage . Abundance of factors inherited at zero cost sometime undermine rather than enhance competitive advantage. Selective advantages in factors, through intelligent planning and innovation, often contribute to sustained competitive success. Both the premises prima facie appear to be true. India's productivity in fruits and vegetables, for example, has been at the lowest ebb despite favourable factors of production. On the other hand, countries like Israel and the Netherlands have emerged as leaders in floriculture despite clear factor disadvantage. Netherlands, by far the world leader in floriculture, exports over \$ 1 billion of cut flowers per year despite its extreme hostile temperate weather. Case of Israel is no different . Further the mere availability of factors are not sufficient to explain competitive success. It is not access to factors but the ability to deploy them productively that takes on central importance to competitive advantage. The factors most important to competitive advantage are not inherited but are created within a nation. Availability and multitude of factors at any particular time is less important than the rate at which they are created. The theme of our planning should therefore be 'creation and productive utilisation of these factors and through this process achieving 'sustainable competitive advantage'

1.3 Determination of Competitive Advantage

CHANCE

**FIRM STRATEGY
STRUCTURE AND
RIVALRY**

**FACTOR
CONDITIONS**

**DEMAND
CONDITIONS**

RELATED AND SUPPORTING INDUSTRIES

1.4 While over all theme of the export enhancement plan could be 'create and sustain competitiveness', the immediate strategy to achieve specific objective of expanding our market share to 2% could rest on the following model :-

- * Produce what the world eats(not what you wish them to eat)
- * Select and concentrate on few products
- * Work backwards - Produce selected products specifically for exports
- * Don't allow the butler to spread too thin - adopt cluster approach.
- * Market the country image and the Produce aggressively - with a killer's instinct.

2. Product Identification

2.1 The whole planning and strategy formulation should begin from 'Product Identification'. It would be impractical to presume that India could export what ever is grown under the sun. Keeping in view the limited resources we have , the focus should be on few selected products. The plausible criteria for their selection could be as follows:

- (i) Share in the Global Trade
- (ii) Growth
- (iii) Competitive Advantage

Share in the Global Trade

The foremost consideration for zeroing on a Products should be its share in the world market. If the share of the product in the Global market is small then, we can not hope to achieve much results in the overall volumes of trade in terms of our share. For example, the share of the Lychees in the global trade would be hardly % of the US ----- Million fruit trade. For purposes of argument even if we capture the whole world market share, our total exports would be to the tune of US\$-----. On the other hand the market share of grapes is estimated to be %. Thus even if India has % of share of the total market our export could be to the level of .

Growth in International Trade

The Product must have sufficient growth to accommodate new comers. e.g. the growth of is negative. In such a case increasing our share in the global trade appears difficult. Our focus should therefore be on such products which have a smart growth predicted for the next one decade at least.

Competitive Advantage

We must pick up only such product where we enjoy a definite competitive advantage and can sustain it or create competitive advantage and sustain it. The products given below have been selected on the criteria spelled above.

EXPORT COMPETITIVENESS OF SELECTED AGRICULTURAL COMMODITIES

Degree of Export Competitiveness
(as measured by price comparisons only)

Commodity	Highly competitiv	Moderately Competitive	Less Competitive (border line case)/Not Competitive (at present)
NPC Range	(NPC< 0.75)	(NPC 0.75-1.00)	(NPC>1.00)
Cereals	Rice(0.46)	Wheat(0.83)	Maize (1.00)* Sorghum +(1.31)
Fruits	Banana (0.52)*** Grapes(0.62) Sapota(0.69)* Lychee(0.55)*	Mango(0.81)	Apple +(1.05)***
Vegetables	Onion(0.68)*** Tomato(0.58)***	Potato(0.97)	
Processed Fruits			
Processed Vegetables	Mushroom(0.61)	Tomato (0.98)	

+ Do not seem promising at present, but can perhaps be developed with appropriate strategies spelt out in Boxes 6.2, 6.3 and 6.4.

*** Three years * One year

Note: Figures in parentheses are average NPC estimates for the last four years, 1989-90 to 1992-93, unless otherwise specified.

Cereals

Of late cereal crops, have emerged as an important export group among various agricultural commodities. The exports of cereals and their preparations have increased from Rs.2.4 billion in 1980-81 to slightly higher than Rs.3.98 billion in 1992-93, at constant 1980-81 prices. Among cereals and cereal preparations, cereals are the major contributors to the exports of this particular group and account for about 95 per cent of the total exports in this group. The major cereal crops selected for studying the export competitiveness are rice, wheat, sorghum and maize. These four crops account for nearly 50 per cent of the total cropped area and about 58 per cent of the total value of crop output in the country. If one is to rank them from production and trade viewpoint, rice occupies the first place followed by wheat, sorghum and maize respectively. These four cereals are also the major cereals that are traded world-wide for human and animal consumption.

Rice is India's prime cereal crop occupying about one-fourth of the total cropped area. In the ranking of several nations producing rice, India has the largest acreage (about 22 per cent of world production) after China which contributes about 36 per cent to world production. India ranks fourth in area under wheat (10.5 of world acreage) but occupies fifth position (9.4 per cent) in production after China (17.3 per cent), Commonwealth of Independent States (formerly USSR) (15.5 per cent), European Community (EC) (15.3 per cent), and U.S.A. (11.5 per cent). In case of sorghum, India has the largest share (32.3 per cent) of world area but ranks second in production (18.3 per cent of world) after U.S.A. (28.4 per cent). However, in the case of maize India does not figure in the list of major producers contributing about 42 and 19.5 per cent to world production respectively.

Considering the above rankings in area and production, it is really ironical that India does not account for even 1 per cent of total world trade of these cereals except for rice. Even in rice India's rank is sixth contributing about 3.6 per cent to the world trade despite being the second biggest producer in the world as noted above. However, yield levels of these crops are much lower as compared to those attained by other developing and developed countries. For example, the highest paddy yield in the world is reported in Australia (84.1 Qt/ha) followed by China (56.8 At/ha). The world average stands at 35.5 Qt/ha whereas average paddy yield in India is 26.7 Qt/ha. Similarly, in the case of wheat, highest yield is obtained in EC (51.9 Qt/ha) as a group followed by China (31.9 Qt/ha) and U.S.A. (25.5 Qt/ha). The world average yield of wheat stands at 25.2 Qt/ha whereas average wheat yield in India is 22.6 Qt/ha. Further, U.S.A. has the highest yield of sorghum (41 Qt/ha) followed by china and Mexico. India's average yield level of 8.1 Qt/ha is the lowest among all major producers of sorghum in the world. As regards average yield of maize, U.S.A. again, has the highest yield of 75.1 Qt/ha compared to 15.3 Qt/ha achieved in India. Average yield of maize in china is about 45.4 Qt/ha whereas the world average yield is 38.4 Qt/ha. These productivity figures are indicative of the potential of these crops as future export items. Another reason for their future trade potential is the fact that rising incomes will shift food demand towards dairy products, eggs, meat and meat products, fruits and vegetables, thus releasing more of cereal crops for exports.

Result based on the analysis of export competitiveness carried out in this study reveal that rice is a highly competitive crop of India and wheat has also become competitive after correcting for overvalued exchange rate (Box 6.1 and Figure 6.1). In fact, average NPC under exportable hypothesis for rice in last four years has been 0.46 using shadow exchange note. This indicates that Indian rice prices are about 54 per cent lower than world prices, thus, clearly showing the

high export competitiveness of India rice. The comparable average NPC for wheat for last four years is 0.83 showing that India wheat prices are about 17 per cent lower compared to world wheat prices. From the export point of view these two crops rank first and second among four cereal crops considered in this study. The result are not encouraging for sorghum and maize in terms of their export competitiveness. However, maize can be treated as less competitive or border line case (NPC 1.00 in 1992-93 under exportable hypothesis). Average NPC under exportable hypothesis for last four years using shadow exchange rate is 1.31 for sorghum thus making it non-competitive. One of the prime reason for maize being less competitive and sorghum being non-competitive at present is wide year to year fluctuations in their production, and hence their prices. This is because of the fact the coarse cereals are largely produced in rainfed areas. Further, the new technology and infrastructure which have resulted in raising the output of rice and wheat have yet to make a serious dent in coarse cereals. However, less encouraging export competitiveness of maize and sorghum in itself is not a serious worry because these crops can be import substituted efficiently since NPCs are below unity in most cases under importable hypothesis (0.82 and 0.93 for last four years using shadow exchange rate in the case of maize and sorghum respectively). Therefore, the trade situation that emerges is that of encouraging exports of rice, wheat and maize and letting imports of sorghum to occur. The analysis, thus, clearly calls for making added investment in the cultivation of rice, wheat and maize from the efficiency point of view and also from the export point of view. This is especially true of high value segments of rice (basmati) and wheat (durum).

FRESH FRUITS AND VEGETABLES

In case of fruits and vegetables, India is the second largest producers of fruits (8 per cent of world), next to Brazil and is the second largest producer of vegetables (12 per cent of world) next to china in the world. But, despite being the second largest producer of fruits and vegetables, the country is only a marginal player in terms of international trade of these commodities (less than 1 per cent in world trade). The fresh fruits considered for detailed analysis in the report are : mango, grapes, banana, apple, sapota (chikoo) and lychee. The vegetables considered for analysis are onion, potato and tomato.

India contributes about 59 per cent to world mango production and about 13 per cent to world exports in fresh mangoes. The main export variety of mango in India is Alphonso and is unique due to its early season and taste, the main features for its export advantage over mangoes from Pakistan. Grapes are next to mango in the export basket of fresh fruits of India. Grape yield in India (16 tonnes/ha) is one of the highest in the world (Israel, 19 tonnes/ha). Banana is second to mango in terms of total fruit production in India. The largest producer of banana in the world India contributing about 14 per cent to world production. However, India's share in world trade of banana is negligible. apple production in India is about 2.6 per cent of world production. Sapota (chikoo) and lychee are not major fruits in India in terms of their area and production but are considered important for exports. India is ranked second to china in terms of total lychee production.

The cost of production estimates relating to fruits are generally low in absolute terms (ranging between Rs.0.56 and Rs.3.05 per kg) suggesting the importance of ex-orchard matters such as storage, transport and other marketing facilities in determining export competitiveness. In terms of export competitiveness of fresh fruits, based on the analysis of NPCs under exportable hypothesis using shadow exchange rate, it turns out that banana (average NPC 0.52 for last three years), grapes (average NPC 0.62 for last four years), sapota (NPC 0.69 for 1992-93) and

lychee (NPC 0.55 for 1993) are highly export competitive and mango (average NPC 0.81 for last four years) is moderately export competitive while apple (average NPC 1.05 for last three years) is less export competitive Box 6.1 and Figure 6.2). It is important to note, however, that due to lack of relevant information, quality/variety considerations could not be captured to the extent it would have been desirable. Also, data limitations constrained NPC estimation for few years only. To that effect, the conclusions are indicative and should be interpreted with due caution.

India is the second largest producer of onion (123 per cent of world production) next to China (14 per cent of world production). Average yield of onion in India is 10.5 per tonne per ha compared to 15.8 tonne per ha in China. The highest yield of onion (44.1 tonne per ha) is reported in Japan. India produces about 6 per cent of world potatoes. Average potato yield in India (15.9 tonne per ha) is higher than average yield in China (11.6 per ha) which contributes 12 per cent to world potato production. India contributes about 1 per cent to world potato production. Average yield of tomato is highest in U.S.A. (55.6 tonne per ha) followed by Italy (39.5 tonne per ha) among major producers of tomatoes in the world.

In terms of export competitiveness of fresh vegetables, assessed on the basis of NPCs under exportable hypothesis using shadow exchange rate, it turns out that onion (average NPC 0.68 for last three years) and tomato (average NPC 0.58 for last three years) are highly export competitive and potato (average NPC 0.97 for last six years) is moderately export competitive (Box 6.1 and Figure 6.3).

PROCESSED FRUITS AND VEGETABLES

Though India is a major producer of fresh fruits and vegetables in the world, the same can certainly not be said about their processed items. Indeed, of the huge raw material production, only about 0.5 per cent gets commercially processed whereas in other developing and developed countries such as the Philippines, Malaysia, Brazil and U.S.A. this is close to 70 per cent. Also, currently India's share in world export of processed fruits and vegetables is about 0.4 per cent. All this, however, indicates tremendous potential for growth of processed fruits and vegetables sector in India. The major players in world export of processed fruits and vegetables are Brazil, U.S.A., Netherlands, Italy and Germany. Processed fruits and processed vegetables contribute about 60 and 4 per cent respectively to total preserved fruits and vegetables trade in the world. Thus fruit processing is by far more substantial relative to vegetables processing the world. This study examines four processed fruit and vegetables items :mango pulp, apple juice, canned mushroom and tomato paste. Mango pulp, the largest export item (26 per cent of all processed fruits and vegetables exports of India), is a traditional export item of India. The other three, apple juice, canned mushrooms and tomato paste, are products gaining prominence in the world market in terms of growth in their demand.

Mango pulp is gaining popularity internationally because of its use in making juice, nectar and ice-cream. India is major supplier of mango pulp, though only 1 per cent of total mango production in the country is processed. Other suppliers of mango pulp are Brazil, Mexico and the Philippines. As regards apple juice, India's presence is insignificant in world exports. The main exporters of apple juice are EC, Canada, Brazil, Argentina and Chile. Also mushroom production in India is insignificant compared to the major producers such as U.S.A. France, China and Holland. In case of processed tomatoes, India's share in world production is about 0.8 per cent whereas EC and North America together contribute about 75 per cent. Tomato paste is second to canned tomato in processed tomato trade in the world.

In the case of mango pulp it is found that India has an export market more on account of quality and taste, however, it is only borderline price competitive (average NPC 1.13 for last four years under exportable hypothesis using shadow exchange rate). In the case of apple juice, the study shows that India does not possess export competitiveness (average NPC 2.21 for last four years under exportable hypothesis using shadow exchange rate). The overall picture that emerges in the case of processed vegetables items, canned mushroom and tomato paste, is that of export competitiveness. In fact, canned mushroom is highly export competitive (average NPC 0.61 under exportable hypothesis using shadow exchange rate for last fourty years) and tomato past is moderately export competitive (average NPC 0.98 under exportable hypothesis using shadow exchange rate for last four years) Box 6.1 and Figure 6.4). This is particularly promising because of growing world demand for canned mushroom and tomato paste.

FLORICULTURE

Global trade in flowers has been on the increase with global imports of floriculture products estimate at Rs.10,000 crores and is now growing at average annual rate of approximately 10%. The exportable commodities include cut foilage, live plants, seeds, tubers and corms. Cut flowers account for 60% of the world flower trade, rest being live and potted plants. The US, Japan and Western Europe are the major flower markets. Netherlands control upto 69% of the world market. Other major exporters are Columbia, Italy. Sri Lanka, Kenya, Taiwan, Singapore, Peru, Mexico and Spain.

The cut flower trade is dominated by Roses, carnations and chrysanthemums. There is however a shift towards exotic flowers like anthurium, lilies and orchids. There has significant increase in demand of cymbidium orchids and gypsophylla. Export of potted plants has also been picking up. The potted foilage and flowering plants account for almost one-third of the total export of floriculture trade. among potted plants focus is now in great demand followed by Dracaena, Azalea and Kalanchae.

India enjoys high competitive advantage in Roses, orchards, potted plants and foilage.

LIVESTOCK PRODUCTS

Bovine Meat and Meat products enjoys competitive advantage.

CASHEW KERNEL

The Indian market was almost of monopolistic nature in the export of cashew kernels till the end of the seventies. The market scenario has become more competitive at present due to setting up of processing units in the cashew producing countries. India's share in the world cashew trade was 99.8% in 1950 and it remained above 90% till 1965. Today India's share in the world market fluctuate between 60-70%. India can sustain its share in the market provided domestic production of cashew is stepped up. The land ceiling laws are the major hindrance in increasing the production and productivity of raw cashew nuts in the country. There is need to focus attention on domestic productions lest we lose our market share to our competitors specially Mozambique and Brazil.

SUGAR

Nearly 4 million hectares of land is under sugarcane cultivation in India producing an average 250 million tonnes of sugar every year. Roughly half of the total sugar can lands up on the sugar mills for manufacture of white sugar. The other part of the production is used for the manufacture of gur and khandsari. The India sugar can face tough competition from other surplus countries like Cuba in the world market.

MARINE PRODUCTS

The Marine Products Exports Development Authority (MPEDA) attributes this to poor landing of shrimp in the year. Declining trends in landings of a particular species is a clear indicate of the species being subject to over fishing. Another plausible reason for the decline of exports of frozen shrimps from India is due to the use of chipped ice in lieu of flake ice for freezing. The latter form of icing prevents bodily injury to the shirrs and thus enhance their market demand and unit value. it is very important for the sharp exporting industry to switch to flake icing to retain their market share.

2. A) Market Identification

2.1 After selection of the focused products, focused markets need to be identified. Proximity and purchasing power of a country would inevitably be the two chief considerations. Consequently, our target markets would be (i) the Middle East (ii) the growing economies of South East Asia (iii) the newly opened areas of South Africa (iv) some parts of Northern Africa and (v) SAARC countries. Although the US, western Europe and Japan present a very large market, export of agricultural and processed food to these countries on a large scale may be difficult because of : (a) distance; (b) quality standards; and (c) the existence of a narrow production base in our country; Therefore, for export to these countries, the product mix would perforce have to consist more of value added products instead of bulk agricultural commodities. Nevertheless, improved production base will be an important step in undertaking exports on a large scale to these countries.

2.2. While CIS countries and countries of Eastern Europe present a potential market, they are currently facing a difficult economic situation. But,with their conversion to a market-oriented system, economies of these countries are likely to turnaround in 5-6 years, proving a substantial market for Indian agricultural produce. This is in addition to the trade possibilities in agro-food products that exist today. Therefore, in the short-run, it will perhaps be judicious to strengthen our relationship and maintain our business presence in these countries in the shape of joint ventures and trading and warehousing organisations.

2.3 Trade with the other SAARC countries could possibly be in the form of import of certain agricultural produce from these countries with a view to re-export to third countries after value addition. One possibility would be import of tea from Sri Lanka for blending and packaging to reduce the pressure on tea in the domestic market. Similarly, import of marine products from Bangladesh, processing and consequent export would help expand our international market share significantly. Medicinal herbs could also be imported from Nepal for producing various

formulations for export. Out export to these countries could comprise milk products, fresh fruits and vegetables, wheat, rice and other value added products which these countries would need of some time to come. Organic foods, authentic Indian Ethnic foods, and snacks and flowers could be viable products for these markets.

2.4 To facilitate access to some of the larger markets of the EEC, arrangements could be worked out with Israel, Holland, or some of the East European countries initially. Similarly, for market access to Japan or China, it may be prudent to improve trade relations with Hon Kong, Singapore or Taiwan.

2.5 As access to, and development of, markets in each country has its own short and long term advantages and disadvantages, it would be necessary and worthwhile to first formulate a country-product matrix. In this exercise, the competition that may arise due to the targeting of the same markets by other developing countries also need to be taken into account. Once the country product matrix is developed, there should be a concerted effort on our part to produce for and promote exports of the identified products in the selected countries. As an example we may recall the pioneering efforts made by Hindustan Lever to introduce Basmati rice as an ingredient of French cuisine. We can assist similar initiatives to inject it into the American gourmet selection. Similarly, Japanese varieties of rice can be specially grown for the newly opening Japanese rice market.

3. Synergy

3.1 Unlike most of the other sectors, agricultural exports are dependent on multiple agencies viz. Ministry of Agriculture, Ministry of Food, Ministry of Commerce, Ministry of Rural Development (Agriculture Marketing), Ministry of Food Processing, Surface Transport and their agencies in the Central Government and equal number of departments/agencies at the state level. It has been observed that often these Ministries do not share a common perspective rather they hold contrary briefs. Examples to illustrate lack of co-ordination between these departments are plenty. Ministry of food advised Ministry of Commerce not to make allocations of wheat quota for export after Trade Notice had been issued. Similar difficulties had been experienced in getting ceilings for the export of dairy products. These are only a couple of many examples which could be quoted here. Ministry of Commerce is the interface between the Indian exporters/farmer and the international buyer. Ministries of Commerce and Agriculture should enjoy a perfect synergy as this alone could facilitate export oriented production in the country.

3.2 It is therefore proposed that a Cabinet Committee on Agricultural Exports be constituted under the Chairmanship of the Prime Minister with the following composition :

1.	Prime Minister :	Chairman
2.	Agriculture Minister	Vice Chairman
3.	Deputy Chairman	Member
4.	Minister of Commerce	Member
5.	Minister of Food Processing	Member
6.	Minister of Food	Member
7.	Minister of Civil Supplies	Member
8.	Minister of Finance	Member
9.	Minister of Surface Transport	Member
10.	Minister of Railways	Member

3.3 There should be a standing Committee of Secretaries of all the above ministries which could meet more frequently and co-ordinate the activities at the implementation stage. This suggestion deserves full consideration of the Government specially because agricultural exports constitute 18% of our total exports and enjoy the potential of its share being raised to 25%. Needless to mention here that poverty alleviation in India is directly related to agriculture development and exports have direct bearing on the production, productivity and income generation in the agricultural sector.

4. Upgradation of Production Base

4.1 For any meaningful effort aimed at export enhancement to take shape, it is imperative that the production base itself be upgraded. As the current productivity of our agricultural produce is sub-optimal, a thrust needs to be given to improving agricultural productivity through the use of better technical inputs, directed research and development efforts and concentrated extension efforts in consonance with a systematic effort for making quality inputs available. There is urgent need to make high quality planting material, hybrid seeds etc. available in abundance. Inadequate and poor quality planting material is a bane of the Indian Agriculture. High grade Nurseries should be set up for seed multiplication. Agricultural tools and implements should be modernised to increase productivities.

5. Export Oriented Production

5.1 To facilitate export, the production has to be export oriented. So far the trend has been to have a common production base and export the same products after sorting/grading. Such a strategy reduces the viability of export on account of two reasons. Firstly, the Quality parameters for the domestic market and the export market are different and to conform to those standards different production technologies are required to be adopted. For example for export oriented production of fruits thinning, pruning, brushing etc. are a must while for domestic production they may not be very relevant. Secondly, the productivity of the crop goes down badly. Today in the best mango orchard also not even 10% crop could be harvested which might match the international grades and other parameters.

5.2 Farmers therefore need to be educated about the difference between ordinary and export oriented production. Orchards/farms should be ear marked separately and developed specifically for export. Latest pre and post harvest management practices should be introduced in such identified orchards. This alone could facilitate high quality production. Already such a production has started in floriculture, mushrooms, grapes and few other selected products.

6. Cluster Approach

6.1 It is incontrovertible that export production needs a concentrated and directed effort of input of technology, technology transfer, investments and infrastructure development. As a strategy, it will perhaps be more economical and more productive if cluster approach is adopted. If these inputs are provided in carefully pre-selected areas of the country, agriculture production as well as agro processing could be enhanced considerably in a comparatively shorter period. This will entail:

- identification of specific agro-climatic areas/districts for production of particular agricultural crops for export;
- making the services of specialist and scientist of the R&D organisations available in those specified export production areas /districts for direct assessment of technological needs, directed R&D effort and transference of technology;
- re-training and re-orienting State level extension agencies in those areas for effective transference of technologies and attending to the technological needs of farmers and processors. For the purpose, the existing infrastructure of Krishi Vikas Kendras for transference of technology could be utilised after duly empowering the KVKs and even private R & D institutions.
- inviting corporate sector, both domestic and foreign for development of the pre - selected areas/districts for export production and infrastructure development;
- developing co-operatives, or other farmer organisation, for increasing agricultural production;
- directing Central and State Governments investment/assistance for improving infrastructure in those areas;

- making available the incentives mentioned in the earlier paras for private investment in those areas/districts;

In nutshell we may endeavour to promote one production zone for one product and all agencies, private or public should synergies to develop the zone and the product.

7. Quality

7.1 Key to India's success in Agricultural Exports shall be 'Quality'. In our endeavour to boost exports, we may be confronted with two issues :

1. Genuine Quality Issues
2. Psuedo Quality Issues

We need to gear up to meet both the challenges.

7.2 Genuine Quality Issues

Concept of Quality Assurance has alluded the Indian exporters so far. Accustomed to the domestic market, Quality has never been the India manufacturer's/traders priority. It is landing Indian into difficulty. Not only the poor quality stuff fetches lower realisation but also slies the country's image - the later being much more harmful. Today Quality is major constraint impeding our agricultural exports. Besides culture and environment the following factors have been identified as responsible for the Indian trade's lack of Quality perception :

- (i) Non-availability of good quality raw material
- (ii) out dated manufacturing technology
- (iii) Unawareness about the Quality parameters of the importing countries
- iv) Poor Packaging
- (v) No standards, grades prescribed.
- (vi) Inadequate Quality and Testing facilities
- (vii) Lax Inspection System

Total Quality Management begins not only from first stage of manufacturing of the end product but from stage one of production of the raw material. Most of the processed food manufactured in India are not of very good quality largely because of poor Quality of the fruits and vegetables or other agricultural produce used as raw material. The quality of the raw material in turn is of questionable quality because of the bad quality of planting material and out dated pre and post harvest management practices. Therefore if the Quality of the finished product has to be improved we may have to go to the root Quality Assurance system right out the raw material production stage. This would call for effective backward linkages and perfect relationship

between the producers and the processors. Related issue is the technology. However good the raw material may be, unless the manufacturing technology is appropriate, the end product can never be of good quality. The Indian manufacturing industry is overwhelmingly in the cottage and small scale industry. The manufacturing infrastructure is obsolete with no scope of upgradation due lack of financial capabilities. Same is true of the raw material production. Primitive pre and post harvest management is being practised all over India. The quality of the produce therefor e gets severely compromised.

Packaging is the third ingredient which makes a product a perfect buy. Our packaging is often found wanting. Largely because of inavailability of the right type of packaging material and sometime due to lack of conviction on the part of the exporter. It is also noticed that many a times the exporters receive a flak owing to their ignorance about the importing country's Quality Regulation. Lack of adequate Quality and Testing facilities at home, aggravates the problem further.

After liberalisation, Government in their decontrol and anti licence Raj drive have done away with all mandatory pre-shipment inspections. Trust has in turn been posed in the exporter and self /pre certification. Sudden withdrawal of the mandatory inspection system has created a void which has not been satisfactorily been filled by self/peer assessment system. The quality related grievances of the importers are increasing rather than decreasing with the passing time.

7.3 Psuedo Quality Issues

To replace the trade barriers dismantled by the URUGUAY AGREEMENT, countries are raising Quality issues as new extra trade barriers to protect their domestic markets. Pesticide residues, environment friendly packaging material etc. are some of the pseudo - Quality related boogies raised by the developing countries. Such issues are expected to become more prominent than even the genuine Quality issue in the near future.

To tackle these issues it is proposed that the Government agencies should play more active role to keep themselves updated of the quality control systems and regulations in position in the targeted countries and educate the exporters on these issues regularly. A network of well equipped testing laboratories may be set up in the major production zones. The private sector may be encouraged to set up such a network. More effective certification system need to be introduced. It may not hurt the commercial trade much if pre-shipment inspection by more than one agency, public or private, could be designated for this purpose. But before that standards/grades for each of the products need to be developed and specified. The standards/grades developed should be in harmony with the international standards. In this process the multiplicity of role by different agencies should be prevented. Only one agency should be mandated with developing the standards. The procurement agencies should procure and store the produce as per their grade. Farmers and manufacturers should be provided with an incentive for better quality production. Today quality fetches no premium. Till India achieves packaging material manufacturing capabilities, exporter may be permitted to import packaging material of the right grade free of any duty. However, the ultimate success in Quality upgrading would finally lie with the improvement in the raw material production. Suggestions for improving the raw material quality have been discussed separately..

7.4 Aggressive Marketing

Indian exporters have still not stepped out of the 'scarcity syndrome' which prevailed and still prevails, to a very large extent, in the domestic agriculture market. Due to long history of food scarcity in the country, the domestic market has always been the 'sellers market' and the traders therefore had zero investment on marketing. The scenario in the international marketing is in complete contrast - there is fierce competition, the consumer is highly Quality conscious and price sensitive. Brands enjoy premium and loyalty of the consumer. Such a scenario demands heavy investment in Brand Promotion and other modern marketing techniques. Another serious handicap which requires to be overcome is 'poor image of country of origin. Except for tea or may be one or two other products, India is hardly recognised in the world as a prime producer of major agricultural produce. Rather, it is regretful to note that India enjoys a negative reputation in the minds of the consumer, almost the world over. This adversely affects the marketability of the Indian agricultural products.

Since India is a new entrant to the global agricultural trade, our gains are bound to be losses of the established exporters of agricultural trade. We therefore, need be prepared for retaliation by them in both covert and direct ways. Already it has been noticed that Indian Wheat faced problem due to misinformation campaign launched by competitors to beat us out of the international markets. Third contingency could be attempted by the established and more resourceful (cash rich) exporting countries to rob us of our marketing strengths. Hijacking of our country brands like 'Darjeeling' tea and 'Basmati' Rice are two recent examples of country Brand infringement by the competitors..

To check these problems and carve a niche for ourselves in the international market we need to adopt aggressive marketing strategies while the private trade should endeavour to establish brand names in the world markets. The Government export promotion agencies and other state formations should pool their resources to invest in 'India Brand equity and protecting Indian Brands like Basmati, Darjeeling Tea etc. To further strengthen our marketing efforts it is high time we consider posting of Agricultural Counsellors in the key international markets. It may be worthwhile to consider creating an Indian Agricultural Trade Service. The Cadre of the service could always be managed through deputation from the Indian Trade Service, Indian Administrative Service and Indian Foreign Service. The essential criteria for deputation could be minimum 3 years tenure in the state or central Ministry of Agriculture.

For optimum realisation of the export promotion efforts Selected Products for Selected Markets should remain our mool-mantra. All investment and efforts should be oriented towards these products and market alone for the next 5-10 years.

7.A) Human Resource Development

7.5 Cheap labour rather than higher productivity has always been considered as an asset. But gradually it is realised that illiterate and less productive, though cheap, labour is a constraint rather than an advantage. Only better trained man power could appreciate and understand the application and utility of modern management practices.

7.6 Government should therefore launch a mission to upgrade the skills of agriculture labour . Private efforts towards this end should be duly rewarded with incentives like tax benefits etc. The curriculum in the Colleges and Universities should be restructured to cater to the today's need. It is regretful to note that not many institutions in India offer diploma/degree courses in post harvest management, packaging, refrigeration etc. The focus continues to be on pathology, agronomy etc. It requires a shift.

.B) Research, Development and Application :

7.7 A large network of good R&D institutions exists in the country. Our agriculture scientists have a proven track record of excellence. They have been instrumental in bringing green revolution in the country followed by operation flood, oil seeds mission etc. By virtue of their efforts, country achieved self-sufficiency in food followed by increased productivity in milk, oil seeds etc. However some deficiencies have been observed on the following accounts :

1. Institutes involved more in Basic rather than Applied Research
2. Interface between the trade and R&D institutes missing.
3. Transfer of technology from Lab to Lab tardy.
4. Orientation not customer friendly.
5. Overlapping of Research efforts.

7.8 To reorient the R &D towards the needs of the trade it is suggested that few institutions alone in the country should be designated for basic research. These institutions could be fully funded by the Government. Rest of the institutions should be made autonomous profit centers. The trade should be duly represented on the management committees of these centres. They should have full say in deciding the activities/research projects of the center. Each center should be allotted a crop depending on its geographical location. The center should be fully empowered and equipped to give exhaustive technical advice to the growers/processors of the region and for the crop/product they are designated for. Such an exclusive service alone would make the R&D institutions relevant to the trade. Besides commissioned research, the centers could also scout and source technology from the premier basic research institutions within the country or abroad.

8. Freeing Foreign trade from various controls

8.1 The most important incentive to the farmer for achieving higher productivity and production is remunerative prices for his produce. In this context, free access to the domestic market as well as the international market assumes importance. Although, for the most part, domestic trade in agricultural commodities within India is not physically restrained, a number of physical constraints, including that of infrastructure, seriously distort the domestic market. This

is particularly so for perishable agricultural produce of horticulture, fishery products and , products of animal origin which do not fetch remunerative price. This is because of farmer's lack of access to the market due to non-existent or inefficient infrastructure or several statutory and non statutory restrictions for access of the all-India as well as the international market. These restrictions can be enumerated as follows:

- (i) Levy price system for rice and sugar
 - (ii) Operation of FCI and public distribution system and its associated regulatory control through EC Act which distorts the commodity prices and affects the production base of the farmer.
 - (iii) Periodical control on movement of groundnuts and groundnut oil from Gujarat.
 - (iv) State-level controls, like monopolistic purchase of rice by the Government of Tamil Nadu and cotton by Maharashtra Federation under monopoly procurement scheme.
 - (v) Pervasive control on trade through : (a) control on inventory of traders and processors through orders under Essential Commodities Act; (b) general ban on futures trading except for few items; and (c) selective credit control.
- (Discrimination by Railways against private traders for movement of commodities.
- (vii) Regulatory controls imposed by various Commodities.
 - (viii) Distorted regulation of sugar industry both by Central and State governments.
 - (ix) Price and other regulatory controls on processing of primary commodities. Examples include reservation of certain products under the SSI Sector, sugar mill and Khandsari controls in Uttar Pradesh, price control of cotton jenny, control on edible oil processing and levy on rice milling.
 - (x) Subsidies to farmer co-operative trading and processing organisations.
 - (xi) Control over distribution and prices of inputs such as fertilisers, pesticides etc.

8.2 These controls and regulations have an effect of disturbing and depressing the domestic prices which in turn, acts as a disincentive to the farmers. Therefore, there is an urgent need to review the provisions of the Essential Commodities Act and various orders made under it , Cold Storage Act, there is also need to remove quantitative restrictions and decanalise all items.

9. Involvement of State Governments & State Agencies

9.1 While export is a union subject, Agriculture is State subject. It has created a peculiar situation. Agriculture exports can not take off without active involvement of the state governments and their agencies. State agencies like agro corporations, agricultural marketing boards etc. require to be strengthened both financially and technically.

A) Market Information Collection and Dissemination

9.2 International trade can be facilitated only if there is a strong system of collecting international market information and its dissemination to the exporters and producers. For this purpose, our commodity boards, trade promotion agencies as well as the Missions abroad need to be reoriented to collect the market information and future projects. This commercial intelligence needs to be passed on to the domestic agencies, who in turn, need to make a proper analysis and supply the same to the exporters and manufacturers.

10. Export Promotion Agencies

Government have established export promotion authorities and promoted export promotion councils to boost export of respective agro-products. APEDA, MPEDA, Cashew Export Council are few of such agencies. They have done a commendable job in giving a thrust to the export of products falling in their purview. But their role could shall be made much more robust, purposeful, productive and fruitful if the following suggestions are considered:-

- Some of the agencies lack focus. For example, APEDA is mandated with export promotion of over 400 diverse agricultural products - each enjoying its own export potential. It must be a unique case in the world. To the contrary, Australia has an exclusive board for wheat and New Zealand for apples. To harness optimum potential for major export product groups there ought to be separate export promotion boards at least for grains - rice, wheat and other coarse grains, fresh fruits and vegetables, livestock products, processed foods and floriculture.
- The boards/authorities after starve of funds. At present APEDA and MPEDA depend on government for their funding. Instead these bodies should be allowed to charge half-a-per cent export fee on the export of their scheduled products. The sum thus raised should go directly to their no-plan account. For plan schemes, the government should provide them separate funds. Since their entire accounts are subject to audit by CAG, they need not approach the government for financial clearance through out the year.
- It is also observed that these boards are too tightly controlled by the concerned administrative ministries. For every small or big issue they need government clearance. This hampers their working. Instead it is proposed that the government and the boards should have interaction only twice a year. Once when the targets are fixed and second when they are reviewed. Rather than treating them as their field formations, the government should allow them full freedom of functioning and evaluate them on their performance.
- For the future, instead of export promotion, they should be designated as development and Export Promotion bodies.

- Each of the body should empower themselves more with technical expertise. At present many of these bodies including APEDA do not have much technical manpower.
- The Financial Assistance Scheme should be suitably re-designed with more focus on infrastructure, common user facilities etc.
- Maximum funding should be for the products identified as the Focus Products and for the identified Export Markets.
- It is strongly recommended that instead of subsidy the account of the financial assistance scheme should be on equity/grant in viable projects.

11. AGREXCO Type Experiment

It is strongly recommended that an AGREXCO (of Israel) type body be set up as a subsidiary of APEDA. The function of this new body would to :-

- 1) provide high quality planting material (by importing, if need be) to the farmers.
- 2) provide them complete technical expertise and advice on pre and post harvest management.
- 3) Export on their behalf .

Such an arrangement has the following distinct advantages:-

- 1) Advantages of specialisation
- 2) Farmer's risk reduced
- 3) Economies of scale reduced.
- 4) Quality issues taken care of
- 5) Brand Image established

12. Forward Training for Commodities

- 12.1 Government should consider introduction of Forward trading for rice and wheat to begin with, during the 9th Plan.

13. Re-orienting the role of Food Corporation of India

13.1 The monopoly purchase of rice, movement restriction during procurement season and preferential allocation of wagons by the Railways to FCI should also be done away with immediately. In fact, all restrictions on movement, production and trading should be phased out to create a unified domestic market and remove the price distortion in these markets. For food security, buffer stock operation by FCI may to be continued for the present. But, instead of levy or restrictive movement or selective credit control, FCI Could be asked to buy commodities from the open market, by calling tenders, or direct purchase from the 'mandi, at market prices. If need be, for maintenance of buffer stock there should be no hesitation to import.

14. Enhanced Public and Private Investment

14.1 Unfortunately Public investment in agriculture and agro-processing has been dwindling in the past. In the budget of 96-97 the trend has been reversed but it needs to be further enhanced. To attract private investments supportive environment needs to be created for attracting investment in agriculture and allied activities ; agro processing as well as infrastructure.

14.2 Agriculture or agro-processing is mainly in private hands. Therefore, for inducing the private sector for investment in agriculture or agro-processing, certain encouragement has to be given for owning large farms and plantations necessary for securing the supply chain. While it may not be possible to amend the land ceiling laws, it may be possible to:

- lease Government land on long-term basis;
- bring horticulture under the Plantation Act;
- encourage contract farming with a suitable mechanism for enforcement of contract; and
- make land laws to enable land tenancies to operate commercially.

14.3 Besides the above, the entire infrastructure sector needs to be thrown open to the private sector. Involvement of the private sector in ports, fishing harbours cold storage's, cargo terminals in airports, etc., is likely to taken the process of development of infrastructure.

Working Group on Exports for the Ninth Five Year Plan

Section II . 4

**Sub-Group Report on Export
Marketing and Information
Networking**

261-313

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Report Of the Sub-Group on Export Marketing and Information Networking

- Prepared for the Working Group on
Exports for the 9th Five Year Plan

Introduction

India's export turnover is likely to be US \$31.4 billion in 1995-96, as against US \$26.2 billion in 1994-95, a growth of 20 per cent over the previous year. Despite a sustained export growth rate of about 20 per cent in the last few years, India's share in world trade is likely to hover around just 0.6 to 0.65%. It hardly needs to be emphasised that this share is quite insignificant and all out efforts need to be made to improve it. Our exports are currently only 9% of the GNP, as against 17% of China's and 70% of Malaysia.

INDIA'S TRADE

					US \$ BILLION
Year	Exports	Growth Rate(%)	Imports	Growth Rate(%)	Balance of Payments
1993-94	22.2	20.0	23.2	1.3	(-)1.0
1994-95	26.2	18.3	28.3	21.7	(-)2.1
1995-96 (estimated)	31.4	20.0	34.8	23.0	(-)3.4

India's declining market share in world trade has been one of the primary concerns of the Government, which has over the years taken many steps to reverse this trend. Welcome as most of these steps are, it is evident from the findings of many Committees that much more needs to be done to raise India's share in world trade to at least 1% in the near future.

The Ministry of Commerce, apex Chambers of Commerce and Industry, Trade Associations as well as promotional bodies are in agreement that the export target for

2001 should be in the region of US \$75 to 100 billion. This is also the level of turnover which the Government is keen to achieve, so as to meet India's commitments towards debt servicing, imports and other obligations. This sub-Group also firmly believes that these are achievable targets and our country should not spare any efforts to achieve them.

Several important Committees, e.g., Alexandar Committee, Tandon Committee, Abid Hussain Committee and others have earlier analysed export policies and strategies. Many of their recommendations continue to remain valid. More recently export policy papers like "FIEO Vision on Export Strategy for India for 1996 to 2001" and "Export Vision 2001" - a discussion paper of the FICCI, have touched upon the various facets of exports and commented on many new areas which have emerged recently in the world trading environment. The Planning Commission Working Group on Industrial Planning for Exports on the 8th Five Year Plan set up under the Chairmanship of Mr. Ganguli of Hindustan Lever Ltd., felt that the 8th Plan was significant in as much as it bridged the 7th and 9th Five Year Plans. It envisioned the 9th Five Year Plan as the "Take Off" Plan. This Sub Group too feels the same. If the "Take Off" envisaged actually materialises during the 9th Plan, it will be the deciding factor to determine whether India will be a truly international player with a market share of over 1% and positioned for even higher market share in the future.

It is well recognised that there are many constraints in regard to achieving the export target of US\$ 75 to 100 billion, which are both internal and external. However these constraints have to be overcome by treating exports as a commercial activity with all dimensions of business management. Business strategy techniques and approaches need to be applied to the Indian export activity and the structural changes carried out since 1991 made more sharp and focussed.

The more recent papers on exports have concluded that with a 25% growth rate in exports, India should be able to achieve its export target of US \$100 billion by 2001. An export growth of approximately 30% would provide a more suitable cushion for India to achieve the desired results. This will of course make the task much more difficult, but the imperatives of the economy demand a more focussed attention on measures which have not been addressed appropriately in the past. The time for incremental improvements is over and the need to implement major changes in a short

time is going to be the key factor for the success of India's export effort in the 9th Five Year Plan.

Although many specific measures would have to be taken to achieve the desired growth rate in exports sectorally, a few general marketing policies need to be put in place at the earliest. The emerging world trade scenario is a factor which will probably help achieve our targets, as the world economy is emerging out of its recessionary phase. World trade is looking up. A new trading regime has been set in motion and the WTO is likely to generate greater momentum to the growth of world trade. Trade barriers are likely to be dismantled and new markets will emerge.

The Export Vision 2001 Paper of the FICCI analyses that with a performance growth of 5%, world exports would jump from over US \$4000 billion to US \$6000 billion by 2001. These figures have also been related to those projected by the World Bank. In terms of a marketing exercise, the targets in simple terms to be achieved by 2001 would be :-

- ⇒ An export target of US \$100 billion.
- ⇒ Marketing share in world trade of about 1%.

As export marketing has many strong linkages with factors other than operating in the field overseas, adequate attention needs to be given to these linkages separately. Some of these are adequate domestic capacity and capability to meet the targets, continuity in policies, availability of reasonably priced credit for providing competitive products, policies of State Governments, etc. However, as these matters are being considered by other Sub-Groups, this Sub-Group is not dwelling on them. We are confining our discussion in this paper to the issues of Export Marketing and Information Networking.

In regard to Export Marketing & Information Networking, the important areas of concern that need to be addressed quickly are :-

- ⇒ Goals should be stated in simple terms to secure the understanding and commitment of the people involved, covering potential, opportunities and constraints.
- ⇒ Careful choice of leaders and champions for the cause.
- ⇒ Target-setting and review system to make mid-course corrections.

- ⇒ What are India's export products that are capable of rapid increase as also of increased market share?
- ⇒ Target markets and focussed attention.
- ⇒ The role of Super Trading Houses/Trading Houses, Export Houses and the Small Scale Sector.
- ⇒ Product Development.
- ⇒ Imposition of Non-Tariff Barriers by Importing Countries and Methods of Overcoming them.
- ⇒ Warehousing Facilities.
- ⇒ Product Obsolescence and the Need for technologically updating Indian Goods.
- ⇒ Product Approvals - A pre-requisite for Market Entry.
- ⇒ Need for Study of Environmental Issues in Potential Markets.
- ⇒ Patenting of Indian Products & Services and their Promotion.
- ⇒ Brand Promotion in Overseas Markets.
- ⇒ Improving the Image of India.
- ⇒ Consistency in Offering Agricultural Products to Overseas Markets.
- ⇒ India as a Major Player in World Sourcing.
- ⇒ Use of Local Talent in Promoting Specific Products in Specific Markets
- ⇒ Trade Fairs as a Means of Market Penetration with Adequate Pre and Post Fair Work.
- ⇒ How to Remove the Stigma that 'Trading with India is a Chore'.
- ⇒ Rationalisation of Indian Export Promotion Organisations Operating in Overseas Markets.
- ⇒ Need for Maintaining Presence of Indian Promotional Agencies in Target Markets.
- ⇒ Limit on Export Promotional Organisations Operating in Overseas Markets.
- ⇒ Give Adequate Funds to India Trade Promotion Organisation (ITPO) to play its assigned role.
- ⇒ ITPO as Nodal Promotional Agency Overseas.
- ⇒ Publication of more Trade Related Journals, specially Catalogues.
- ⇒ Opening Large Retail Shops at Airports to display and retail Indian products already being sold in Overseas markets.
- ⇒ Inviting Commercial Journalists from Overseas Trade and Technical Magazines to Publicise India.
- ⇒ Encouraging India Promotion in Leading Department Stores Abroad.
- ⇒ ITPO/NCTI to act as Nodal Agency for creating databases in Indian Missions and Commercial Offices overseas
- ⇒ Need for corporate publicity on ITPO and other promotional offices.
- ⇒ Linkages with Offices of Overseas Buying Houses in India.
- ⇒ Use of the Electronic and Print Media.
- ⇒ Strengthening Information Base and Publicity by Using Internet Web Page.
- ⇒ Use of Online Networking.
- ⇒ Coordination in the Export Promotion Effort of the Country.
- ⇒ Government to Purchase Properties Overseas and Lease them to Promotional Organisations.
- ⇒ Opening of Offices of Trade Promotion Organisations at Major International Airports.
- ⇒ Need for Quick Action on Companies Exporting Sub-Quality Merchandise.
- ⇒ Effect on the Marketing of Indian Agri products, textiles and apparel as a result of setting up of the World Trade Organisation (WTO).

- ⇒ Registration of Pharmaceutical products in overseas Markets,
- ⇒ Larger presence of Indian Companies in the form of offices required overseas,
- ⇒ Establish Venture Capital Fund for launching Indian Products overseas,
- ⇒ Facilitation for overcoming barriers that may arise through contest of IPR in foreign countries
- ⇒ Compilation of Dossier on databases available in India
- ⇒ Liberalise usage of 25% of export earnings allowed to be retained overseas for export promotion effort
- ⇒ Need to give quick clearance with greater transparency for setting up Pharmaceutical Units in overseas Markets.

Potential, Opportunities and Constraints

Growth in the world trade by 2001 has been projected by the World Bank at US \$6000 billion and this too is based on a modest growth rate of only 5%. The growth in India's exports over the last few years of 20% is also a sign of the potential of the growth in the world trade. Our export growth rate is quite remarkable, specially when viewed against the global recession and the performance of dynamic economies like South Korea (7.6%), China(8%), Hong Kong(13%) and Singapore (17%).

The new trade regime in the post-GATT period is also likely to provide increased trading opportunities due to :-

- ⇒ Tariff reduction by all countries, which are likely to provide increased market access for industrial products of developing countries from 20 to 40%.
- ⇒ Reduction in subsidies and supports would open up large markets for Indian agri products.
- ⇒ The phasing out of MFA could particularly benefit countries like India.
- ⇒ The rule-based multilateral trading system, the lowering of restrictions on imports on the ground of dumping and the dispute settlement mechanism as evolved by the WTO, are expected to strengthen the world trading system and open up new trade opportunities.

Alongside this potential and opportunities, there would be many problems in the new WTO regime. Many of these have started surfacing in new forms and shapes. Some of these are :-

- Insistence on linking labour standards and environmental issues with trade.

Agreement on technical standards, as also sanitary and phyto-sanitary measures, being used to restrict flow of goods from developing countries on health grounds.

Well established non-discriminatory and non-reciprocal schemes like GSP being tampered with by a new differential tariff criteria.

Restriction on entry visa for Indian professionals affecting exports of many labour intensive products and services.

Other non-tariff barriers like Super 301 on the ground of IPR, Safety hazards (e.g. Indian skirts in USA), inclusion of plastic sacks as textile materials and subjecting them to quota limit, placing embargo on some engineering goods on the ground of subsidy , etc.

Emergence of new trading blocs, such as the enlarged EU, NAFTA, APEC and the proposed Atlantic Free Trade Area.

Careful choice of leaders and champions for the Cause

It has often been experienced that the right selection of a leader/champion for a cause can more often than not result in achieving the goal or target. For export marketing efforts too, we need to identify suitable leaders/champions from amongst industry and institutions.

As Industry is of the view that marketing should be left to individual companies, champions for the cause of exports should also be identified from amongst the industrial companies. However, each industry should also identify these leaders/champions from those who export a large bulk of a particular product from India and use them to champion the cause of India in the particular product.

The industry leader/champion could co-opt a suitably aggressive promotional organisation from those available within the country to assist in the generic promotion of the product and target specific markets.

Target-setting and review system to make mid-course corrections

Although we have set targets to be achieved by the turn of the century, these targets need to be reviewed from time to time to take into account the ground realities. However, having once set a target, it should be the endeavour of all concerned to see that it is achieved and, if necessary, mid-course corrections made to ensure adherence to set targets. Many actions and decisions will also have to be continuously reviewed to ensure that policies adopted are conducive to achieve the defined goals.

Products

It needs to be considered carefully as to what are India's export products that are capable of rapid increase as also of increased market share. Since India cannot compete in the competitive global market in all the products that it manufactures, we obviously have to immediately prioritise the items on which special emphasis needs to be laid to promote exports from India. For the selection of thrust products, many views are available and this Sub-Group feels that the rationale of selection of products as broadly accepted is logical and ought to be pursued. These products can be classified into the following:-

- ⇒ Sunrise items
- ⇒ Products already exported with reasonable share of the world market or star products
- ⇒ Other products

Sunrise products

- ⇒ In which while the world markets are growing fast and are large, the domestic demand is not highly elastic.
- ⇒ With inherent comparative advantage for India and where current exports are small/negligible.
- ⇒ Where India should aim for high and rapid growth with an eye on becoming a global player in a decade.
- ⇒ With output significantly exportable and requiring very outward-looking and flexible policies.

- ⇒ With this criteria, the sunrise products include
- | | |
|-------------------------------------|-------------------------------|
| (a) Agri based | Shrimp aquaculture |
| | Aquarium fish |
| | Mushrooms |
| | Asparagus |
| | Cut Flowers |
| | Rice |
| | Wheat |
| (b) Light Manufactures | Footwear |
| | Travel goods and handbags |
| | Clothing |
| | Furniture |
| (c) Knowledge-based Project Exports | Software |
| (d) Value-added | All branded Consumer Products |

Star Products

- ⇒ in which world markets are large
- ⇒ in which India already has a reasonable foothold
- ⇒ where above average growth is possible
- ⇒ where output is fairly export-oriented
- ⇒ where concentration is necessary on specific segments of a larger general category
- ⇒ Star Products include
- (a) Cut diamonds and gems
 - (b) Leather and Manufactures
 - (c) Readymade Garments
 - (d) Segments of Chemicals and Related Products like Pharmaceuticals
 - (e) Segments of Engineering products

Other Products

Besides the Sunrise and the Star products indicated earlier, we have, no doubt, many other products, which too have good export potential. However, in the short run, it is difficult to push them in the international market, partly because they have not yet had any significant market penetration and partly because in some cases, the domestic capacities are not sufficient to take care of both the domestic and export demands. Therefore, while many of these products need to be kept in view for the long term export marketing strategy, in the short run, they need not be given the priority and emphasis as the Sunrise and Star products.

Export of Sunrise and Star Products require a different regime of industrial planning, technology upgradation through imports, manufacturing flexibility, lower entry barriers and so on. We should plan to create an export oasis in these fields like what Japan and Korea did.

The list of products, therefore, on which emphasis should be laid are :-

- ⇒ Agri Products
- ⇒ Textiles & Garments
- ⇒ Engineering goods, such as auto components,
handtools, certain machine tools, Consumer durables
- ⇒ Two-wheelers, LCVs/automobiles
- ⇒ Electronics and computer software
- ⇒ Chemicals and Pharmaceuticals
- ⇒ Leather Manufactures and Footwear
- ⇒ Gems and Jewellery
- ⇒ Handicrafts

If India is to achieve the desired growth rate and the ambitious target proposed for 2001, we would have to ensure that all organisations in the country responsible for promoting trade overseas, join hands to collectively target both markets and products. It is equally vital that this exercise is done in conjunction with industry to identify the type of inputs required to meet the targets.

Some time back, the Ministry of Commerce, had undertaken an exercise to identify Indian companies which accounted for a major share of India's exports in a

particular commodity. These companies were thereafter asked to specify inputs required to meet export targets which were mutually settled between the Ministry of Commerce and individual companies. A similar exercise needs to be undertaken with these core group of companies, apex chambers and promotional bodies, so that appropriate inputs are identified and measures taken to provide them. The role that some of the promotional bodies should play will also have to be clearly defined and spelt out. Such a sectoral approach will give the necessary fillip to the companies which play a major role in exports of a particular item to a market.

The Ministry of Commerce has already drawn up a matrix which identifies the 15 most important products from India and an equal number of the most important markets. Most of the products identified by this Sub-Group are common to the thrust category products identified by the matrix. Therefore, no time should now be lost for pushing the identified products in the specified important markets.

It is also necessary that certain targets are set for capturing a particular market share in each thrust product in a specific market. This goal should be pursued through the combined efforts of industry and all trade promotional agencies, with the requisite inputs made available by the Ministry of Commerce.

Target markets and Focussed attention

Export Markets

Prioritising export markets is just as important as identifying thrust products to ensure a more pin-pointed approach. As in the identification of products, a rationale for targetting markets has also been drawn up by the Ministry of Commerce as well as several Chambers of Commerce and Industry, Associations and a few promotional agencies. Once again, many cogent reasons have been put forward by them for targetting a select group of countries. The Sub-Group recommends the selection and classification of markets into two categories:-

- I. Markets where we are already selling and are firmly well-established with adequate market share in today's context; and
- II. Emerging markets which offer substantial potential, but in which our exports are currently limited with a marginal market share.

The 15 markets given below cover the range of products already identified in the preceding paragraphs as also the markets which account for as much as 80% of India's total exports.

USA	JAPAN	GERMANY
UK	HONG KONG	UAE
BELGIUM	ITALY	RUSSIA
SINGAPORE	FRANCE	THAILAND
BANGLADESH	NETHERLANDS	SAUDI ARABIA

The emerging markets which have proven that they are going to be equally important, if not more lucrative, than the established ones are :-

SOUTH AFRICA	ISRAEL	RUSSIA	CIS COUNTRIES
CHINA	TAIWAN	INDONESIA	SOUTH KOREA
IRAN	SPAIN	AUSTRALIA	MALAYSIA
BRAZIL	NIGERIA		

In one year our trade with Israel has gone up by 116% and with China by 180%. When ITPO took the initiative of organising an India Trade Fair in Johannesburg, South Africa, in 1994, it did not anticipate that trade with South Africa would go up by 114% in one year. It is estimated that by 2000 A.D, South Africa itself would provide a market of \$ 4-5 billion for Indian goods and services. The Russian Federation and other CIS countries too offer scope for multiplying our export base by taking advantage of factors like the debt re-payment system under which India is obliged to export worth \$1 billion per annum. The marketing policy for these countries would, of course, have to take into account the special circumstances obtaining in these countries and we cannot follow the same strategies which have been successful in other countries and markets.

Of late many of the ASEAN and Far East countries have shown an interest in both buying and selling to India. Singapore, Malaysia and Korea have been in the

forefront in the past, but recently, other countries like Thailand, Indonesia and Hong Kong too have shown interest in importing even consumer goods. These markets should be targetted, as they have already shown an interest in importing from India and can become important potential markets in the future.

Another good reason for India to prioritise its target markets is to see that it helps to maintain a high market share in each thrust product and market. It would be important to ensure that our cumulative share in the total imports of each country rises so significantly that we can become meaningful players in these markets. Annexe-I and Annexe-II give India's trade with emerging markets and India's trade in select countries and regions.

These cannot be ignored and will need to be pursued with added vigour, if the export goal of 30% increase is to be achieved.

For exploiting the full potential of both the groups of markets, it is essential to pool the resources of all organisations involved in exports. Sporadic efforts in different directions are unlikely to yield results. We would, therefore, have to ensure that if we enter a particular market with a set of products, it should be the responsibility of all concerned to work collectively to meet the assigned targets. Good examples of such marketing efforts are the British Initiative Programme, the forthcoming Australian Country Programme on India, the effort of the Singapore Trade Development Board and the well known efforts of JETRO and KOTRA. Even emerging economies of the ASEAN, countries namely, Malaysia, Indonesia and Philippines, are targetting India with well planned marketing strategies, determination and focus, rarely witnessed in the past. These are good examples to be emulated.

The role of Super Trading Houses/Trading Houses, Export Houses and the Small Scale Sector

Export Promotion in a planned and efficient manner is a massive and uphill task. An appropriate corporate export strategy, therefore, becomes necessary for players in the export market. Important lessons can be learnt from the Japanese and South Korean success stories and can largely be attributed to the performance of their large trading houses and companies. Even now the Japanese Sogo Shoshas and the

Chaebols of the Republic of Korea spearhead investment, production and market development. They provide the right orientation and direction along business lines. In a nutshell, the entire corporate strategy in Japan and Korea is geared to meet the challenges of marketing overseas and penetrating even the "difficult to sell" markets. This helps them to move in unison, avoiding inter-se competition or undercutting each other, as is the case in India.

The largest of Indian companies are smaller than even a modest company by international standards. The RBI has assigned 3,08,792 codes to exporters upto September 1995. It is also believed that about 5,000 exporters account for 80% of India's exports. The burden of dealing with the balance of more than 3,00,000 exporters, who account for 20% of exports, needs to be re-assessed..

Although it is not opportune to impose a minimum turnover for an exporter to operate in the international market, as was done in Korea, we should frame policies which will make many of the smaller exporters look at the more efficient and well established super trading/trading/export houses as the medium of exporting their products. The key problems of Indian exporters, namely quality and reliable delivery, could be substantially overcome through policy measures which will encourage fewer and more focussed exporters. This can only be done if greater advantage is taken of the infrastructure and capabilities of some of the more established exporters.

The objective of the Government to provide added incentives to larger trading bodies, such as super trading houses and trading houses, vis-a-vis export houses and individual exporters, is to encourage the more established companies with the necessary wherewithal to increase sales of Indian products through their networks by supplementing their outputs with products from smaller companies. Although this is the intention of the Government, smaller companies still prefer to export directly.

One of the major problems still encountered by buyers who want to source from India is the complexity of the resource base in India. A good example is of Indian exporters of apparel. With over 50,000 companies in the fray, it is virtually impossible for an individual importer, or even large overseas corporate houses, to quickly identify companies with whom they could form a partnership to promote exports out of India.

Similarly, frequent knocking of doors of overseas importers by a large number of Indian exporters, who want to sell similar products to the same overseas company, has evidently led to the importer shutting his doors to potential Indian sellers because of being pestered by such a large number of Indian exporters. This situation is likely to only get worse in the future and further diminish the possibility of overseas companies looking to source products from India.

One of the ways to curtail or overcome this problem is to get more individual exporters to use established channels of recognised exporters who can provide instant buyers and marketing channels. Established super trading/trading houses and in some cases even large export houses not only have well established marketing channels, but also the necessary resources for product and market development as well as publicity. To persuade small individual exporters to export through established super trading/trading/export houses, additional incentive can be given to them by allocating some licences of restricted items to them, if they export in this way.

Side by side, it needs to be considered whether to make the Super Trading Houses/Trading Houses to fulfil their obligation towards small exporters, who would be channelising their exports through them, a condition should not be imposed of about 1% of the gross turn over of Super Trading Houses/Trading Houses being put to good use for product development through small scale and other individual exporters.

Product Development

In the last decade, India has come a long-way in improving its marketing, product development and presentation. This is basically on account of the fact that initially when Indian companies found that they were unable to sell products they were making, they made a sincere effort in learning what was wrong with either their marketing effort or the product and incorporated changes, specially in the product profile, to achieve their export goals and targets. Unfortunately, our competitors have during the same period improved these very parameters much more than us and have, therefore, penetrated and captured a much higher market share. Reduced attention to product development and diversification has also resulted in a reduced acceptability of Indian products where there is fierce competition from other countries.

Indian companies in the field of textiles and related items penetrated one of the most discerning markets, namely Japan, because of careful nurturing and constant infusion of the latest design, colours and weaves. Exports to Japan increased very significantly in the initial stage, but growth declined as buyers sought a much wider variety of products of higher quality and competitive prices. This we were unable to match, as our focus on continuous development diminished.

To beat competition, we will not only have to continue to provide the latest range of products, but also, by adopting the latest technology, increase the productivity to maintain our competitiveness in international markets.

Imposition of Non-Tariff Barriers by Importing Countries and Methods of Overcoming them

Many developed countries, as well as a few others who are our primary markets have resorted to the imposition of various non-tariff barriers to curtail imports. Some of these have been specifically directed against developing countries, while a few have been applied across the board to check imports.

The complexities of these non-tariff barriers unfortunately cover many areas of operation, starting from environmental issues to packaging, specifications, labour standards, sanitary and phyto sanitary measures, tampering of GSP, restrictions on Entry Visa, Super 301, Safety hazards, Countervailing duties, Embargo on grounds of subsidy, etc.

The Ministry of Commerce, Government of India, has already set up a Committee to go into the details of these barriers in some of our major markets like USA, UAE, Germany, etc. The findings and recommendations of this Committee need to be completed at the earliest to assess the impact which they are likely to have on our marketing effort on products and markets. Thereafter, quick decisions will have to be taken to finalise ways of overcoming these obstacles and impediments to our exports.

It is becoming increasingly clear that counteracting these barriers in the countries importing our products will be a long drawn out process, which would be both

expensive and time consuming. It might, therefore, be more prudent to try and fall in line in some instances and quickly incorporate suggestions to meet standards for barriers like phyto sanitary measures, testing regulations, etc., rather than fight the administration of the importing country to settle these disputes in a court of law.

However, in regard to some of the more damaging non-tariff barriers like discrimination in the GSP Schemes, restrictions on entry visa, Super 301, embargo on products on grounds of subsidy etc., Government should provide a subsidy out of MDA to exporters to fight them in courts of law. It is a known fact that it is very expensive to fight legal battles in these countries, but for such cases there is no alternative to fighting them by appointing reputed law firms.

Yet another method of tackling these problems is to appoint reputable PR Agencies, at least in countries like the USA, where these lobbyists have access to parties in power and help solve problems by lobbying with the administration. We have already started using such companies for political purposes in Washington and it would be a good idea to extend this facility to the commercial field. The firm of lobbyists could either be the same company assisting our mission in political areas or a different one with previous experience of fighting such cases with access to the Department of Commerce in the USA and other bodies responsible for trade issues.

Warehousing Facilities

The importance of availability of appropriate warehousing facilities for Indian exporters in specific target markets has been discussed for many years. Although the issue is of great importance, it did not receive the type of priority it needed because a few years ago our export turnover was not large enough and therefore the need for warehousing was not as critical. Now that the volume of our exports to specific markets has increased significantly, the issue needs to be given immediate attention.

In the past, most Indian exporters did not have the necessary volume or the products to give 'off-the-shelf' delivery in both consumer and engineering items. With volumes having increased by leaps and bounds and many Indian exporters having matured in their marketing effort, exporters are looking towards providing better services in the case of consumer goods and 'just-in-time' deliveries in the case of engineering products.

Improved services and 'on-time' deliveries from India can be provided only by stocking goods in potential overseas markets. Although, with some effort, warehousing facilities can be located by Indian exporters, they might not be the most appropriate in terms of quality and price.

It will, therefore, be in the interest of the country, if the Ministry of Commerce, through apex chambers and/or some private sector companies, identify suitable warehouses in selected markets. Recent successful examples of the India International Marketing Centre, Rotterdam, which provides both marketing and warehousing facilities, as also the initiative of FIEO at Dubai are welcome measures. Many NRIs have warehouse space available in our potential markets and therefore the organisations identified for setting up these warehouses can be advised to liaise with them to tie-up warehousing facilities.

In some of our major markets only one warehousing facility might be adequate, but in countries like USA, Russia and Western Europe, multiple facilities would have to be created to cater to the marketing needs of Indian exporters. Some of the NRIs, who have contacted the ITPO after meeting the Chambers of Commerce & Industry and Associations in this regard have been advised to offer marketing assistance along with the warehousing facility to make it more lucrative. A few good examples of facilities available with NRIs brought to the notice of ITPO recently are one in Toronto, Canada and another in Virginia, USA.

Another point that needs to be kept in mind when working out these warehousing agreements is to see that, wherever possible, some association with a Government or quasi Government body or even a public sector company of the Government is favourably considered, as the perception of importers in most countries is greatly enhanced wherever a Government agency is involved/linked.

Markets like Russia, CIS countries, some Latin American countries, South Africa and a few countries of the Middle-East and Africa are also those which cannot be serviced satisfactorily without warehousing facilities. It is well known that most of the CIS countries cannot make payment against L/Cs and the only method of trading with them is to provide off-the-shelf delivery through warehouses. Although the

situation is not exactly the same in Russia, the time is fast approaching when it would be advisable to have such warehouses even in Russia to beat competition.

Our trade with Latin America is insignificant because sailing and travel times are long and cumbersome. These can once again only be bridged by warehousing facilities in some of the more prominent markets like Brazil, Chile and Argentina. South Africa, which is likely to become one of India's lead markets in Africa, would need to be serviced through warehouses to cater to demands of not only the South African market, but also of neighbouring countries like Namibia, Botswana, Mozambique, etc. South Africa may have to be utilised as a staging point for shipping goods to Latin America.

Product Obsolescence and the Need for Technologically Updating Indian Goods

Most consumer products have a very short shelf life and product obsolescence is quick. The only method of maintaining or increasing market share and keeping pace with changing times is to continuously update design and product specifications.

In the last two years, the EEC has carried out over 8000 changes in product specifications. This is only one market in which such a large number of specifications/changes have taken place, but it is by no means the only one. Indian exporters need to be kept up-to-date on such changes as quickly as possible.

However, what is even more important is to keep pace with changing designs. Although Indian designers are well-known for their ability, continuous inputs of designers from potential markets or other close by countries should be provided, even if Government has to bear the cost on some of them.

As far as cost inputs by Government are concerned, it is felt that participation by Government in directly subsidising visits of designers need not be done. Government should facilitate or itself get information collected about individuals or companies who could help in evolving the appropriate design. Government could also provide inputs to institutes like NIFT, NID, UNDP Development Centres, the Hand

Tools Institute, some R&D Centres of private companies and others to help improve and update Indian products for overseas markets. In specific cases of important products, Government could take the lead in getting some of the more prominent and important fashion designers, who would not ordinarily come to India, to visit, meet and help Indian companies to improve the designs of their products. The association of such top most designers with Indian companies will also help the latter in marketing their products.

Product Approvals - A pre-requisite for Market Entry

Product approvals are a pre-requisite for entry to many a market. These are expensive and time consuming. There are also set methods for obtaining these approvals, which are laborious and tedious, and exact knowledge is required for filling application to obtain approvals.

Promotional agencies of Government, along with apex Chambers of Commerce and Associations, should obtain details from the target markets where these conditions are normally imposed and provide them to Indian exporters when required.

The Government should also include expenditure on this activity as one which is partly reimbursible from the MDA reimbursement scheme.

It should also be the responsibility of the promotional organisations, which are responsible for exports of Indian products, to keep exporters informed of any changes in these requirements that take place in target markets as well as provide the organisational support in filing for product approvals with the help of the subsidy provided by the Ministry of Commerce.

Need for Study of Environmental Issues in Potential Markets

Many developed countries are today using the environment issue as a non-tariff barrier. The lead taken by EEC countries in bringing legislation to deny access to goods from developing countries needs to be tackled on an emergency basis. What is even more important today is not what checks have already been imposed by the

EEC and other countries under this non-tariff barrier, but what is likely to be done in the future that will hamper our export effort.

No purpose would be served by fighting the EEC on these issues, because these are more political hindrances than product related. It would once again be in the interest of Indian companies to educate them about the changes required to meet market requirements and new standards of the importing countries to be incorporated in our products.

A key element in this context is to ascertain what lies in store for us in the future. Collection of information on this aspect of the problem is much more important. Information on this issue needs to be not only collected, but it should be done well in advance, so that adequate facilities can be created in India to meet new obligations when imposed. Wherever possible, both political and legal pressure could also be brought to overcome problems. ITPO is negotiating with the Government of Netherlands to appoint a consultancy company from that country with expertise in this line to undertake a detailed study on environmental issues of the EEC and their likely impact on Indian exports. This study will specifically cover additional environmental issues likely to be raised by the EEC countries in the future and how developing countries like India can counter them. More such studies need to be commissioned by the Ministry of Commerce with the help of Governments in the potential markets or even without their assistance. With the data collected, we could take a long term view of the problems in the right perspective and find solutions.

Patenting of Indian Products and Services and their Promotion

The patenting of Indian products/services and their promotion overseas would not only help in building our image, but also provide an alternative method of marketing Indian products in potential markets. It is, however, expensive to obtain patents overseas and, therefore, it would be necessary for the Government to provide subsidy or a MDA Grant to Indian companies to register their patents abroad.

Accordingly, provision needs to be made for this expenditure in the budget of the Ministry of Commerce for the 9th Five Year Plan under the Head "MDA Grant" or

else a suitable provision be made by the Planning Commission to provide partial reimbursement from other concerned Economic Ministries.

Brand Promotion in Overseas Markets

Most marketing experts agree that for a country like India, which has a very large and diverse basket of products to sell in overseas markets, it is essential to promote products under their own brand names. This will eventually result in the identification of quality products coming from India and will provide continuity to the export effort. However, brand promotion overseas is both difficult and expensive. In addition, it is also time consuming and requires persistent efforts in establishing individual brand names.

The Ministry of Commerce has already initiated the scheme to form a corpus of funds for this purpose. This scheme needs to be put into operation at the earliest, because there are many Indian companies that have the requisite expertise and products to embark on the exercise of establishing brand names in overseas markets. Expenditure on this account is likely to be fairly substantial, as this would be the first time that Indian companies would be promoting their brand image in markets in which competition is fierce and brand loyalty well established. It is also well known that leading retail outlets are willing to provide opportunities to competitive overseas vendors to promote their products through their retail outlets, provided the cost of promotion is borne by the vendor. Funds for the purpose likely to be earmarked by the Ministry of Commerce need to be made available to such companies through a transparent and established procedure for quick disbursal.

It is equally essential that the brand image of India is promoted simultaneous to brand promotion of individual companies, as this would help in removing the ill conceived notion in some countries abroad of inferior or cheap products from India.

Improving the Image of India

The generally poor image of Indian merchandise in overseas markets is a major bottleneck. This is in spite of the fact that India has come a long way and many Indian products are comparable to some of the best in the world. A poor image, apart

from making the task of selling more difficult, also affects the unit value realisation adversely.

A quantum jump in exports can be achieved by substantially increasing volumes, but it is easier and more realistic to achieve increase in turnover by not only increasing volume, but also achieving a higher unit value. There is a strong correlation between image building and unit value realisation for most products.

Image building can be achieved in three respects :-

- ⇒ Marketing India
- ⇒ Marketing Industry
- ⇒ Marketing specific brands of individual companies.

Efforts, therefore, need to be made at different levels, i.e., Government, industry and individual companies.

A reference has already been made to the necessity of promoting the Indian brand image in overseas markets, alongwith the promotion of brands of individual companies. This cannot be done on a one-time-basis or by individual companies. We need to continuously provide information to Chambers of Commerce, Trade Associations, large Manufacturing Houses, leading Importers, etc. about what is happening in India. The type of information that needs to be sent to them is progress made, type of technology and products added to the vast arsenal of products already made in India, etc. Similarly, references also need to be made on advanced technology products available from the country. This information has to be provided both in the print and electronic media.

It would be ideal if a PR agency could be used in at least some of the selected markets to improve the image of India and its products and at the same time sell the concept of India as a resource base of the future.

The three objectives of marketing India, its industry and specific brands, must go hand in hand. In particular, the second aspect of marketing industry would have to provide much more focussed and indepth information on the specific Indian industries. Once again the print and electronic media need to give a panoramic view of India with

details of each specific industry. We should cover both Hi-tech, consumer durables and the consumer goods sectors. Each snippet on industry should give a good idea of modern plants which produce the items as well as the excellent range that the country can offer, with as many specifications as possible.

Many countries, who are today reputed suppliers of products and services, have gone through the same phase that India is currently going through. These countries like Japan, which once were synonymous with production of shoddy goods, today manufacture and offer products and services which are considered as industry standards. When passing through the phase that India is in today, most of these countries made sure that, as the quality of their products improved, they continuously promoted the image of their industries through success stories. Isolated examples of Indian success stories are also occasionally heard in Board Rooms overseas, but an organised effort to use this medium as a selling point has not been made effectively.

It is imperative that a nodal agency be identified to collect success stories from all over India and collate them in a manner which can be used by one and all to effectively promote the tremendous advances made by India. As many of the apex chambers are closely associated with companies which are examples of these success stories, it would be appropriate to get one of them to consolidate such a list of successes and circulate them to the other organisations in the country. ITPO could appropriately be used as the nodal agency for promoting this message in overseas markets. The offices of other Chambers, associations as also Indian companies overseas should also be used to promote the message in potential target markets.

The fact that India is the largest exporter of cut diamonds below 1 cwt, in the world is probably not known to many. Similarly, India is the second largest producer of pig iron in the world and the 7th largest producer of steel. The Government of India and individual companies spend millions of dollars on quality control. All this needs to be creatively utilised to make the statement on how the country is striving and achieving improvement in quality with each passing day. The information could even be circulated in the form of a newsletter which should be taken out by Indian missions in target markets. The contents of these newsletters could be varied by each mission to suit local requirements.

Consistency in Offering Agricultural Products to Overseas Markets

As agricultural products are going to play a very important role in the future export product-mix of the country, it is essential that our marketing policies in regard to them are in conformity with the market place. All importers of agricultural produce insist that if they are to buy agricultural products from India, they can not do so on a one-time-basis. If we are to enter markets with a specific item, we should be in a position to offer the same consistently over a period of time. This continuity in supply is essential to give confidence to buyers that if they make an effort to sell Indian products, they will be able to get the product for many years, so that their effort and resources are not wasted.

Buyers, both large and small, are also equally particular about the fact that once they have spent time and effort in accepting a particular agricultural produce, they continue to get the product of the desired quality and price for a number of years. This should be disseminated to all exporters and potential exporters of agricultural products.

India as a Major Player in World Sourcing

The world sourcing market is enormous. Of the \$4,000 billion world trade, approximately 50% is estimated to be in Manufactures. The Far East countries have built through experience a market share in the world sourcing market offered by international companies. India does not even appear on this map. This, however, can be swung in India's favour by projecting that, besides its capability of producing a large number of goods for exports to third countries, it also has a very large and lucrative domestic market. This will help in attracting foreign investment and ultimately exports of manufactures from India.

India must become a competent international standard supplier of intermediate and end-consumer products. This requires a logistic and service-driven approach to be developed. Only thereafter will the question of Indian brands and niche-driven-marketing arise.

We should of course not have the illusion that India is a source of exceptional attraction to international marketers. There are many other attractive competing countries. It is time that liberal policies to attract international companies to export are formulated and we actually go out and woo them. This once again should be done not only by promotional bodies of Government, but also through an active participation by well established exporters.

Use of Local Talent in Promoting Specific Products in Specific Markets

A number of countries use Public Relation firms to improve the image of the country and its products. These firms invariably have specialised wings for export marketing and they help through product development and marketing in getting some of the more reputed firms in the target markets to purchase from the country which hires them.

Other companies in the importing country follow industry leaders and increase exports. A good example is that of Meckenzie & Co., USA which was hired by LEPC for the promotion of Indian Leather Products in the USA with UNDP funds. Once again such an activity could be funded from the 'Indian Brand Equity Fund'.

Some of the more efficient and better known trade promotion organisations in competing countries like JETRO, Japan; KOTRA, Korea; HKTDC, Hong Kong and the Singapore Trade Development Board, Singapore use a number of experts in selected fields to do indepth market assessment on their behalf. The information collected is concise, up-to-date and live from the field. Wherever necessary, data is continuously updated so that the market survey remains up-to-date and relevant. This is yet another area of marketing which should be used by India to collect information on products and markets where we either do not have promotional offices or there is lack of information.

ITPO needs to play a similar role and be in a position to appoint consultants to gather information in a similar way for giving a boost to the country's export efforts. Of course, to enable ITPO to play this and other roles similar to competing trade promotion organisations of other countries, it should be given the Government funds

and support which other trade promotion organisations are getting from their Governments.

Once again, the local consultant would have to be selected very carefully and it should preferably be an individual or company which has knowledge of products and markets. These consultants will help supplement efforts of Indian promotional offices overseas in providing accurate and up-to-date data on products, markets, competitors, etc.

Trade Fairs as a Means of Market Penetration with Adequate Pre and Post Fair Work

Market penetration can be achieved through various export promotion tools and each market responds to a different approach. One of the most effective means of projecting our products for eventual marketing is organisation of trade fairs. They become a forum for instantly communicating and have business interaction which is difficult to achieve through correspondence and exchange of visits, etc. It is, therefore, important that we use the medium of trade fairs as a means of market penetration, as effectively as possible. Our experience has been that while we would have to continue participation in many key trade fairs abroad, the number of specific product related trade fairs to be organised within India would need to be increased to adequately take care of the various requirements of projection of a variety of goods and services in which we have strength. Over a period of time, in some of the important product related trade fairs organised abroad, we are not getting appropriate exposure and this is hampering the projection of our products properly. For these products, new international trade fairs could be started within the country. Where trade fairs is a preferred form of marketing, it should be ensured that the coverage of markets and products is extensive and professionally undertaken.

Most trade fairs in which we currently take part lack professionalism, specially relating to pre-fair and post-fair work. In the area of pre-fair inputs, adequate and more indepth identification of the target audience needs to be completed prior to participation.

Similarly, after having received either spot orders or extensive number of lucrative marketing leads, it is imperative that adequate follow-up be undertaken to not

only capitalise and bring to fruition the marketing leads, but to also show our seriousness in dealing with enquiries and companies who display an interest in our products.

How to Remove the Stigma that 'Trading with India is a Chore'

The answer to this can be obtained by asking why overseas buyers make this statement. The reasons given by buyers in almost all countries are more or less the same and many. They range from delayed response to queries and quotations, delayed deliveries, delays in obtaining answers on specifications and changes, difficulties in getting through to India on telephone/fax, adequate list of suppliers not readily available, frequent changes in telephone and fax numbers, non-availability of telephone/fax directories of different States, delays in receiving and sending samples to India, incorrect despatch position being given by exporters, bills of lading obtained through unscrupulous means and supplies not effected, quality of consignment not adhering to samples shown, not enough representation by Indian companies in potential markets, Indian promotional offices not advertising to indicate the services offered. The list can go on and on, but if India has to survive in the fiercely competitive global market, it is imperative that our marketing drive is continued and made more vigorous and effective. Some of these minor, but persistent, irritants in international trade need to be removed by disseminating their adverse consequences to exporters and would be exporters. This task needs to be done by the Ministry of Commerce, its organisations, apex Chambers, Industry Associations and trade promotional bodies. The two major drawbacks in the perception of India need to be addressed viz. procedural hurdles and delayed decision making. We rightly believe that we have made considerable progress in making India become export friendly. The basis of comparison unfortunately is past policies. However, the world is moving on and changing fast. The remarkable changes in China and Thailand in recent years are both cases in point. Comparing our policies with our past without adequate consideration of the product situation is a serious threat we must guard against. While we have to be irrevocably committed to more and more export friendly policies and systems for making quick decisions, the welcome changes made in this regard need to

be projected effectively as a part of the process of improving the image of India, which has been touched upon in this report earlier.

Rationalisation of Indian Export Promotion Organisations Operating in Overseas Markets

Indian industry is of the view that marketing should be left to individual companies and Government should focus on providing promotional support in overseas markets.

On the question of organisational support, it is felt that efforts of multifarious organisations should be channelised through a lesser number of promotional bodies. This will help in removing the impression of too many bodies stepping on each others' toes and at the same time providing the professional inputs required for overseas promotion. No other country has so many export promotion organisations. Multiplicity of such organisations also results in not only duplication of effort, but it also confuses buyers.

Need for Maintaining Presence of Indian Promotional Agencies in Target Markets

The members of the Sub-Group are strongly of the view that it is imperative that India maintains a strong physical presence in overseas markets in the form of export promotion offices. The presence of Indian organisations overseas is absolutely essential because no amount of information networking can substitute the presence and efforts of officials posted in different countries.

It is also observed that the number of offices of promotional bodies, both Government and the private sector, are extremely limited when compared to overseas offices of trade promotion organisations of other countries Chambers of Commerce/Trade Representatives. Countries with whom such a comparison should be made are Korea, Hong Kong, Japan, Malaysia, China, Indonesia etc. India's promotional offices in overseas markets are as follows :

ITPO	=	5 (in 5 countries)
EEPC	=	4
MPEDA	=	2
FICCI	=	6
Tea Board	=	3
Private Sector(CII)	=	9 (in 8 countries)

These offices, taken collectively, are inconsequential as compared to the presence of overseas offices maintained by our competitors, as would be evident from the figures given below:-

HKTDC	=	43 (in 20 countries)
KOTRA	=	81 (in 65 countries)
JETRO	=	78 (in 57 countries)

If we are to organise a meaningful export effort, we need to ensure that whichever trade promotion body is allowed to open overseas offices, is adequately represented to properly cover both markets and products. This will entail the opening of many more offices. It will also have to be seen that the offices are appropriately manned.

If a decision is taken by Government to open additional overseas offices of organisations like ITPO, which is a must for the kind of export marketing efforts required to reach the export target of US\$ 75 to 100 billion by the turn of the century, it should be ensured that adequate resources are made available to these offices to fulfil the targets and functions assigned to them. The Government should also study the possibility of providing professional manpower from other specialised organisations in the form of Experts in different products and commodities to strengthen organisations like ITPO that already have the requisite expertise to efficiently run overseas offices and provide advice on the do's and don'ts of operating and marketing in overseas countries.

This Sub-Group feels that the existing institutional infrastructure can be used much more usefully if it is suitably strengthened through professional inputs and additional resources. A look at the operation of trade promotion offices of other

countries not only confirms this point, but also strengthens the belief that such a step would be to India's great advantage in the future.

A comparison has also been made in the past between the functions and operating style of some of the efficient trade promotion offices in other countries like HKTDC, Singapore Trade Development Board, etc. and ITPO. This too has clearly established that the channelisation of export promotion efforts through a limited number of bodies will bring much better results and would also be in conformity with our expectations.

Limit on Export Promotional Organisations Operating in Overseas Markets

Keeping in tune with the suggestion of avoiding multiplicity of promotional bodies in overseas markets, it is also recommended that the overseas offices or such bodies be of a restricted number. It has already been recommended that if there is a need to have professionals in some selected fields for the promotion of a few selected products in specific markets, it would be better to assign them to organisations like the ITPO that already has the requisite expertise and capability in not only effectively running these offices but also in providing inputs on how to operate in overseas markets and can provide an impartial view.

The need of the hour, therefore, is actually to strengthen the existing promotional bodies who are operating in overseas markets like ITPO, and see that not only they open more offices to cater to the needs of our potential target markets but are also given the necessary resources to effectively carry out the mandate of the exporting community of India. This should be given much higher priority than opening of more offices of other organisations.

Give Adequate funds to ITPO to play its assigned role

If the country has to achieve exports of \$100 billion by the turn of the century and if ITPO has to compete in the international market through aggressive trade promotion efforts and project the correct image of the country, ITPO must be given the kind of funding support that trade promotion organisations of other countries like Hong Kong, Korea, Japan etc. are being provided by their respective Governments.

Our recommendations for the restructuring of ITPO to enable it to fulfil the role it should legitimately play for promotion of trade so as to reach the high export target of \$100 billion are as follows :-

- ⇒ Increase resource availability to ITPO like the HKTDC, KOTRA, JETRO, CETRA, etc. These funds should either flow from the Government budget or be collected in the form of a percentage cess on the total volume of exports. As obtaining funds from the Government budget is always a difficult proposition, it is recommended that ITPO be allocated funds based on a certain percentage of cess on the total volume of exports of the country, just as is being done in regard to the active trade promotion organisations of other countries that have had great success in boosting exports. To start with, this cess could be 0.01%% of the total value of exports.
- ⇒ With the availability of additional funds, ITPO should open offices in key countries for mobilising trade promotion efforts. At present, ITPO has only five such overseas offices and due to paucity of funds, these offices are not only understaffed, but also do not have the requisite wherewithal for playing an aggressive trade promotion role. To start with, such overseas offices of ITPO should be in all the 15 countries that have been identified by the Commerce Ministry as the thrust countries for targetting and energising our export efforts. In the second phase, the number of overseas offices of ITPO could be expanded to reach approx. 30 to cover other important countries and regions. In this way, its organisational sweep would come somewhat at par with the trade promotion organisations of other countries that are in the business of active Government backed trade promotion.
- ⇒ If it is felt that the imposition of a cess will take some time, funds from the Ministry of Commerce should be given for running of its overseas offices. This is a trade promotion activity and it should, therefore, be funded by the Ministry of Commerce either through a separate budget or by using MDA funds. MDA grant is even today disbursed to super trading/trading export houses for part funding running of their overseas offices. ITPO too should be given these funds and in the case of ITPO an even higher percentage of reimbursement of

expenditure on running of overseas offices should be allowed as they service the entire Indian industry.

ITPO as Nodal Promotional Agency Overseas

A coordinating agency in India for events to be organised overseas has been recommended to be located in the Ministry of Commerce. It is equally necessary that a similar coordinator is appointed in our principal markets. ITPO already has five overseas offices, which have been functioning efficiently for many years. These offices have been responsible for coordination and organisation of many trade promotion activities like participation in trade fairs, market surveys, sales missions, Buyer Seller Meets, Contact Promotion Programmes, National India Fairs, etc. With the expertise acquired, they could serve a useful purpose in coordinating future promotional activities of Indian organisations in the targetted markets.

Wherever necessary, the ITPO offices should be strengthened with manpower by diverting some of the personnel from Commercial Sections of the Indian Missions overseas to the existing ITPO offices. Moreover, as already mentioned earlier, additional offices of ITPO need to be opened in phases. The fifteen thrust countries identified by the Ministry of Commerce need to have ITPO offices urgently. In the second phase more offices can be opened to cover at least 30 key countries. ITPO needs to be more frequently used for commercial exploitation of a country and the handling of daily commercial work in which thorough knowledge of trade policy and products are necessary. These functions that have been advocated for ITPO should be undertaken by knowledgeable and experienced officers with the necessary expertise and background.

Publication of More Trade Related Journals Specially Catalogues

India badly requires composite industry specific catalogues and/or other journals which have been used very successfully by many countries. The only ones of international quality produced in India are those which have been made by ITPO and IMTMA. Once again ITPO should be made a focal point or nodal agency for bringing out such publications, as in the case of KOTRA, MASTRADE, HKTDCC, etc. If some

funds are made available to ITPO, it could expand its activities of publishing trade related journals and other material, as also improve the quality of its existing publications.

Open Large Retail Shops at Airports to display and retail Indian products already being sold in Overseas Markets

Display and retail of Indian products, currently being sold the world over, (specially branded products) need to be made at most international airports. It should be our endeavour to see that not only is the latest range of products displayed, but the range shown is the most extensive. The presentation too has to be world class. This method is followed by most airports to earn revenue and at the same time provide exposure to the products of the country.

Some of the products which are recommended for exposure and retail through these retail outlets are - leather goods; sports goods; jewellery (both precious and costume); fashion accessories; shoes; clothing; home furnishings; knitwear; floor coverings in silk, wool, jute, cotton and coir, builders' hardware, electronics (both consumer and professional), software, electrical fittings, telecommunication equipments, handicrafts etc.

invite Commercial Journalists from Overseas Trade and Technical Magazines to Publicise India

The Department of Tourism, Government of India, gives approximately 150 mandatory passages to invite reputed journalists from the travel and tourism trade to visit India. These individuals on their return write lead articles publicising India. The Ministry of Commerce too may give 50-100 mandatory passages every year for inviting commercial journalists from reputed trade and technical magazines. The visits could be on terms similar to the Tourism Ministry to include international travel, local hospitality, in-city and intra-city travel.

It is the experience of ITPO and many others in India that these journalists, more often than not, provide very extensive publicity at a little cost to the exchequer. Good examples of the experience of ITPO in this regard are the leading and exhaustive articles published in major magazines like GAP magazine, Hi-Fashion Magazine, Japan; Textil Wirtschaft, Germany; Interior, U.K.; etc. It has also been

observed that not only was the publicity very extensive, but even the cost of publicity provided was equivalent to hundreds of million rupees through a single article. Action on this aspect needs to be taken immediately, so that some mandatory passages with local hospitality are available to invite journalists in early 1997.

Encourage India Promotion in Leading Department Stores Abroad

Earlier the Trade Development Authority (now ITPO) had very successfully exploited the medium of Department Stores to promote the exports of a very wide range of Indian merchandise through this well established marketing channel. These very successful and lucrative programmes have unfortunately been reduced because of inadequate funds. There is also a misconception that because India is able to fully utilise its quotas in apparel and textiles, there is little purpose in promoting what was already selling. With the abolition of MFA and the establishment of a quota free regime, we will have to face such a competition, which India has never witnessed before, and thus have to be prepared for it well in advance.

Similarly, with more and more markets seeking better quality merchandise at competitive prices, it would be necessary for Indian manufacturers to also provide similar merchandise, which will have to be internationally competitive and saleable through the well established medium of Department Stores or specialised stores.

Promotions through overseas Department Stores result in not only significant spot purchases of Indian products for sale during the promotion, but the spin off effects are so enormous that they run into millions of dollars. These Promotions help in creating a bigger market in the importing country through advertisements as also by compelling other retailers, importers and wholesalers to quickly jump into the fray to offer similar products which show potential. The massive publicity undertaken by Stores for the sale of products purchased for the promotion also runs into millions of dollars. Full page advertisements in leading dailies, posting of special catalogues highlighting Indian products to millions of households in the importing country are some of the other means of promoting Indian products. It might be pertinent to mention that the cost of a full page advertisement in a national daily in the USA is over \$100,000/- at current prices.

The fact that there is normally a long queue of countries requesting a Store to organise a promotion in its various branches is proof enough of the fact that such an activity pays rich dividends. That earlier the TDA (now ITPO) was able to do 30 India Promotions with most reputed Stores of the world only goes to show the effectiveness and perseverance of the organisation. If this effective tool is to be used by the country again, it is necessary for India to once again offer lucrative terms to the Stores to organise these events, so that our marketing efforts do not lag behind others. Sufficient resources need to be made available to ITPO for not only continuing this activity, but to increase it, wherever possible.

ITPO/NCTI to act as a Nodal Agency for Creating Data Base in Promotional Agencies and Selected Commercial Sections of Indian Missions Abroad.

The erstwhile TDA had taken a decision to provide all the commercial sections of Indian Missions in major target markets with various volumes of Directories etc., produced by promotional agencies in India like EPCS, Commodity Boards, Chambers of Commerce and other promotional bodies. This exercise was undertaken for one year, but was thereafter stopped because of shortage of funds. It is virtually impossible for any promotional office or commercial wing of a Mission to provide appropriate information and function effectively, if it is not supported by an excellent data base from the country it represents. Equally important is the acquisition of suitable trade directories etc., of the potential market for the reference library of such organisations.

Experience has shown that procuring overseas trade directories is simpler, as compared to acquiring those produced by various Indian organisations. As many organisations are unwilling to send these directories free of cost to such a large number of missions and promotional offices of India in overseas countries, ITPO should be nominated as the nodal agency for ensuring that a minimum number of publications giving proper trade data and information on Indian products and companies are sent to some of the more important Indian offices in principal markets abroad.

Once again, funds for purchasing these directories, which are essential to form a good data base, need to be made available from the MDA. Alternatively, an outright allocation of funds should be made to ITPO for purchase and despatch of these publications/directories to suitable missions and promotional offices abroad by the Ministry of Commerce.

Need for Corporate Publicity on ITPO and Other Promotional Offices

A reference has already been made earlier for increasing the presence of Indian Promotional Agencies in some of our principal target markets abroad. This effort will need to be supported by an impressive corporate publicity plan to make companies in target markets aware of the fact that promotional agencies are available to answer queries and provide information on Indian products and companies in the target markets.

To start with, efforts should be made by the promotional agencies to meet the maximum number of companies and individuals and to make them aware of the fact that they are based in an overseas market to cater to their needs by not only establishing one to one contact, but also through making available publications of trade associations, chambers of commerce, etc.. The magazines of these associations and chambers should also be utilised to promote this message. As this type of publicity would be insufficient to disseminate this message to all parts of a target market, it would be essential to at least once a year selectively publicise the presence of promotional agencies through the print media of trade and technical journals/magazines.

The Ministry of Commerce needs to provide a special budget from the MDA for this purpose. The extent of assistance to be given by the Government to these agencies for promoting their corporate image in the target markets should not be less than 60 to 70 % of the anticipated expenditure.

Linkages with Offices of Overseas Buying Houses in India

Offices of overseas buying houses in India have played a critical role in increasing the exports of a number of products from India. They have also been instrumental in getting substantial product development work done. These offices continue to not only identify new products that can be sold from India, but they also act as a conduit for continuing the process of product development/ adaptation/ modification. These offices and individuals are also important commercial ambassadors of India, as they liaise not only with Indian suppliers, but are instrumental in conveying information on the development of an industry and product in India to their overseas principals, who are major buyers.

Information relating to the overseas buyers represented in India and the type of work that each of them is doing at present is unknown to the Government. Earlier, it used to be a practice that approval for opening of offices was given by the Ministry of Finance and at times information could be collected from the records of the Ministry. However, with liberalisation, many companies have started operating either as agents or a number of overseas companies have opened their offices in India about which information is not available. Steps should be taken to gather such information and, at the same time, ascertain from them the type of inputs which they might require to further improve their functioning in India to facilitate increase of exports from this country.

Use of the Electronic and Print Media

Most of the developed countries and many developing countries are very effectively using the print and electronic media to publicise the enormous progress made by them with the introduction of the latest technology and the production of both Hi-tech and consumer products in their manufacturing process.

This method of informing potential markets about the availability of products is a continuous exercise for which specific sums of money need be allocated at all times by the Ministry of Commerce through the MDA for promoting India and its products.

We need to use this method to update the list of potential buyers, availability of products from India as well as the progress being made in Hi-tech engineering and consumer products from time to time in the country.

Publicity via the electronic media need not necessarily be restricted to TV or radio. The latest method of promoting products is through diskettes and modems. A good example of this approach is the catalogues brought out by HKTDC and KOTRA, which, in addition to being available in the print format, are also available on diskettes.

No effort has been made in the country till date to promote products through interactive diskettes in which a very substantial amount of data on the country and its products can be effectively stored and illustrated.

Once again a special sum of money from the Brand Equity Fund has to be kept aside for the preparation of diskettes to promote the country as a brand conscious one that can supply branded products as well as a host of other items.

Strengthening Information Base and Publicity by Using Internet Web Page

The Internet Web Page has become a very popular and useful medium of publicity which has still not been effectively utilised by India to promote its industry and products. A beginning was made by the CGI, New York in putting a few aspects of India on the Internet, but this is not enough. The Internet Pages are quite inexpensive and a much more extensive usage of this medium should be made immediately to enable millions of users worldwide to be able to access information on India, its industry and products.

The use of the Web Pages is the fastest growing medium of information and a more complete and comprehensive coverage of India should be done by the NCTI or any other body which the Government designates to professionally insert information on India and continuously update it in this medium.

The information on the net work should be such that whenever somebody down-loads India, he should have access to all the information we can supply on industries, products and promotional institutions that they can approach in the event of information being sought not being available. Promotional bodies too would have to ensure that they figure not only under the heading of India, but under various heads. The same holds true for different industries and products and we should ensure that

we have adequate coverage under different categories, so that we are not missed when somebody is looking for a particular product and industry or a promotional institution.

Use of Online Networking

This is another area which requires improvement. The success of our export effort is dependent on regular flow of information and feedback in regard to emerging business opportunities overseas, product development, appraisal of quality and variety of other related matters. This information has to be made available on demand round the clock.

The strengthening of the information base would require the remodelling and strengthening of our commercial departments in the Missions as well as computerising networks in our promotional offices overseas. They should also be provided the necessary back-up services of modems and diskettes by potential importers and investors. This will help them establish telecommunication networking and linkages with the concerned agencies.

Access to the latest and timely information is vital for all business decisions. This is particularly so in international trading because the players are from all over the world and the competition is fierce. There has been rapid transformation in the field of information technology in the recent past and the use of Online Information Systems has become very common. In developed countries most of the data and information are available online. However, developing countries are still lagging behind in this area. Since in international trading, Indian companies face competition from all over the world, they are put to disadvantage in the absence of availability of Online Information. It is, therefore, essential that Indian exporters have easy access to Online Information through INTERNET or any of the other data networks. Moreover, it has to be ensured that the cost involved for using the network is not high, so that there is widespread use of the facilities available.

National Centre for Trade Information (NCTI), set up recently, has been given the task of collecting and disseminating information through the use of Online Information Networking. NCTI would be using high speed NICNET National Info Highway for collection and dissemination of information.

It is suggested that the Government provides adequate subsidy, so that use of Online Information Network gets within the reach of small scale exporters. In this connection, it may be mentioned that TIIC, Singapore, had made available Online Information Network to anybody free of charge for six years, and only recently have started charging very nominal price. We could possibly follow the example of TIIC to popularise the use of Online Information System. This would, no doubt, make Indian exporters more knowledgeable on what all is happening in overseas markets. They would have easy access to latest trends, prices supply position in competing countries, import export trends in specific markets for specific products and such other information that would be very useful for timely action and decisions.

Coordination in the Export Promotion Effort of the Country

There is an urgent need to set up an export promotion coordination cell in the Ministry of Commerce which should preferably be headed by Secretary to the Ministry of Commerce himself. The members of this Committee could be all Additional Secretaries/Joint Secretaries in the Ministry of Commerce, Member Customs of the Central Board of Excise and Customs as well as senior representatives of all Indian trade promotion bodies operating in overseas markets.

This Committee can consolidate and review, whenever such a review, is necessary, irrespective of the time period, programmes which are proposed to be undertaken by all the Indian trade promotion organisations in overseas markets. The screening of these programmes can be done to avoid duplication as well as coordinate efforts in a particular product or market.

The need for such coordination has been urgently felt by all because there is no central place from where the bibliography of activities either concluded or to be implemented in the next few years can be obtained. The availability of this information would help a number of organisations to re-work their priorities to avoid duplication and draw upon other organisations to supplement their effort. Overall coordination of this type would also help institutions to seek assistance of others who are not working on a particular event and country at the same time.

If this coordination is carried out at the level of the Ministry of Commerce, every organisation will cooperate at the highest level and help frame programmes which will be beneficial not only to individual organisations, but to the country as a whole .

At this forum, the Ministry of Commerce could also bring to the attention of members of the Coordination Committee, programmes which it feels ought to be given priority and identify organisations which can implement them.

Government to Purchase Properties Overseas and Lease them to Promotional Organisations

An analysis of the expenditure on Trade Promotion Offices operating in overseas countries has revealed that 70% of the total expense is incurred on administrative and overhead expenses. Of this, a major part is accounted for by rental of properties for both office and residential accommodation. Promotional offices operating in overseas countries are, therefore, always searching for methods to get adequate funds to meet increasing expenditure on renting of properties.

To avoid this run-around and to release adequate funds for development work, it is suggested that the Government purchases properties in the country's potential markets and leases them to promotional agencies at highly subsidised rates.

Opening Offices of Trade Promotion Organisations at Major International Airports

In most countries of the Far-East, trade promotion organisations have been made to open offices at the major international airports to receive and see off buyers. It is quite exceptional how much impact this service has on buyers.

Important buyers and dignitaries also recognise the importance that is given to them by such a gesture and this invariably helps them to look at the products of a country more favourably. This softening of the buyer is not only on account of hospitality, but the professionalism which is exhibited while servicing him from the moment he arrives in the country to the time he leaves the country.

Need for Quick Action on Companies Exporting Sub-Quality Merchandise

A decision has already been taken by the Ministry of Commerce to penalise Indian companies who damage the name of India and Indian exporters by supplying sub-standard or shoddy merchandise. The mechanism needs to be made more responsive, so that exporters who default are penalised quickly.

Quick action would help in not only stopping companies who have exported sub-standard material from doing so again, but will also act as a deterrent to others.

Effect on the Marketing of Indian Agri products, Textiles & Apparel as a result of Setting up of World Trade Organisation (WTO)

The World Trade Organisation (WTO) has become operational with effect from January 1, 1995. India, one of the founder members of the WTO, has accepted all the agreements in totality and it, therefore, is bound by institutional framework, dispute settlement machinery, trade policy review mechanism and balance of payment committee under the auspices of the GATT Agreement. The new agreement has set into motion rule-based multi-lateral trading system covering trade in goods, services, foreign direct investment, protection and enforcement of intellectual property rights, etc.

Agriculture, textiles & clothing, and computer software are the three areas, which were earlier not covered by the GATT agreement, but are likely to be affected most as a result of the setting up of the WTO. This is apart from the problems relating to the Food, Chemicals and Pharmaceuticals sectors which are going to be affected on account of the Imperatives of changing the Patent Regime from Process Patent to Product Patent by January 2005.

India is basically an agro-based economy and it is expected that GATT Accord would have favourable impact on India's export prospects for agricultural products. The favourable impact of reduction of domestic support to the agro based products in developed OECD countries, particularly the USA and EEC, and tariffication of import

barriers to these products and their subsequent reduction should improve market access for Indian agro products and improve price competitiveness due to reduction in agricultural subsidies. The advantage would be mainly in the commodities, such as coffee, tea, tobacco, horticulture products, processed foods, etc. The emerging prospects can be translated into export growth by technological upgradation, removal of export restrictions, improvement in infrastructure, adoption of export production (rather than export surplus) approach and above all pro-active marketing to project India's capabilities and professionalism.

World Trade in textiles, hitherto governed by a separate trade agreement known as Multi Fibre Arrangement (MFA), has now been brought in the ambit of GATT agreement and would be governed by the WTO regime. The agreement visualises the removal of quota restrictions on the textile trade in four phases during a transition period of 10 years beginning from 1-1-1995. The dismantling of MFA is backloaded as 49% of products are to be made quota free during the last year of transition. These products may be most important for developing countries like India who has utilised its quota and the removal of quota restrictions would improve the marketing access for Indian textiles. However, the country will have to face renewed competition from newly emerging textiles exporters, such as Indonesia, Malaysia, Bangladesh, Sri Lanka, Vietnam, several African countries such as Madagascar, Tanzania and the Caribbean countries. The countries like South Korea, Taiwan, Singapore and Hong Kong are likely to upgrade their technology and vacate the low-tech textiles for the developing countries like India. Such a situation will necessitate modernisation of India's textiles and apparel industry with improved productivity to meet new challenges which will be put up by the newly emerging textile exporters.

Registration for Pharmaceutical Products in Overseas Markets

There is still a long way to go to realise the full potential of export of pharmaceutical products from India. It is unfortunate that even though many of these products and their manufacturing processes have been inspected and tested by most of the potential overseas markets and found to be of international quality, we have been unable to sell our formulations on account of registration formalities in the importing countries.

It is high time that this impasse was broken and the industry took upon itself the cudgels of exploiting markets which show potential for Indian drugs and pharmaceuticals. Markets in which ITPO and others have done work and which show considerable potential are: Russia, CIS countries, a number of countries of the Middle-East, Africa and Latin America. It is also a fact that in pharmaceuticals, multinationals play a very vital role in acting as hindrances to Indian products. The extent to which they can stoop to put obstacles in our path is the disinformation campaign, which they have launched in many markets of the CIS countries as well as pressures that they have put on the markets of Middle-East, Africa and Latin America to ensure that Indian exporters of pharmaceuticals are unnecessarily harassed in exploiting the full potential of the region. In spite of these drawbacks, the industry would need to form a strong consortium in India which should pursue registration as one of the goals of the industry in the next two years.

Indian Missions and the Government will be required to stand behind the industry and offer it maximum assistance, wherever possible.

Larger Presence of Indian Companies in the Form of Offices required Overseas.

A number of Indian exporters have come to accept the need of maintaining a presence in target markets abroad in the form of either representation or overseas offices. This link helps maintain continuity and provides better services.

In conditions of today, doing business through different forms of communication is also not the most effective method of dealing with importers based thousands of miles away. Recognising this fact as well as others, such as providing instant information through faxes, telephone and if necessary, even a visit, helps to minimise misunderstandings and information gap and at the same time provide better service.

Many importers have also asked ITPO, through its overseas offices, names of companies that have representative offices overseas, so that they could cut down on lead times in obtaining quotations, samples, etc.. If necessary, exporters could also tap ITPO and/or other organisations to assess the possibility of a desk in these offices to establish their offices. This will help in keeping overhead expenditure to the bare

minimum ITPO has already offered such a facility in its office at Kyiv, Ukraine and if required, it would study the possibility of doing so in other offices too.

Establish a Venture Capital Fund for Launching of Indian Products Overseas

As India sets an ambitious target for its exports, it is necessary that it develops and markets products which can be sold by millions of units. This will involve the development of innovative products in niche areas of our expertise and to sell them worldwide. The capability of creating products of this nature is already available in Indian industry, such as computer software and electronics.

If Indian exports have to be eventually sustainable, it will become increasingly necessary that the products/services are more and more technologically intensified. Such a technology intensity for products made in India also carries with it an initial risk while launching. Indian firms do not have the financial clout to market their niche expertise worldwide. It is well known that launching products world wide requires substantial sums of money. It is, therefore, necessary for the Government to set up a Venture Capital Fund which will cover such products/services in a focussed manner and thus create new niches for our export milieu.

The launching of "WINDOWS'95" by Microsoft is one recent example. The kind of finances required for such launches is difficult to find with Indian companies. To enable Indian producers do likewise in future it is proposed that Government set up a Venture Capital Fund, as stated above. Subscription to such a fund can also be made by private business houses in the form of equity.

This venture capital fund would adopt products developed by Indian entrepreneurs for global launch. For the fund to attract subscription, Government should announce substantial tax incentives on contribution and earnings out of this venture. Further, it is important that the relationship between the product developer and the venture fund is synergistic and not cannibalistic, so that many more entrepreneurs are attracted to this scheme. Profits/losses out of this Venture Capital Fund should carry tax benefit to attract private business houses.

Facilitation for Overcoming barriers that may arise through contest of Intellectual Property Right (IPR) in Foreign countries

As Indian exports pick up, there are strong possibilities that competitor countries would raise the issue of violation of an Intellectual Property Right (IPR). The TRIPS/WTO compliance in many countries would lead to reversal of the burden of proof, i.e., those who accuse IPR violation need not prove, but those who get accused have to prove that they have not violated. In some cases there could also be some violation of IPRs (which include patents, copyrights, designs, trade marks, etc.) in some marginal forms.

Most of our exporters and companies are not equipped even to understand these issues. Therefore, it is important to have a facilitation mechanism of studying important products and formulate strategies and tactics on how to face possible litigations etc. as also to take preventive measures.

This involves not merely an understanding of the issues of patents in a very aggregated form or lectures on IPR, but one has to get into the nitty-gritty details of each product, etc. The task involved requires considerable data search/collection, interpretation of analysis by technology specialists, legal specialists (law as in the countries where the rights are contested). A small beginning has been made in a few institutes in India. The Department of Science & Technology (DST) has initiated a Patent Facilitating Cell at the Technology Information Forecasting & Assessment Council (TIFAC).

For the exporters, however, a battle has to be fought on foreign soils and courts. This will involve considerable expenditure. It is, therefore, essential that the Government through a suitable forum creates a special Fund of the order of about Rs.15-20 crores during the 9th Plan period to facilitate this work. In addition to generally informing our exporters of the issues involved in IPRs, detailed work will be done by groups of specialists for particular products/services of the exporters. TIFAC could also help the designated agency in setting up a network of specialists for specific cases which will have to be fought or where preventive action needs to be taken. The

concerned industry would have to pay a reasonable part of the expenses, with the Fund covering a certain amount of risk as an incentive, at least during the 9th Plan period.

Compilation of Dossier on Data Bases available in India

It is the experience of many promotional organisations as well as Indian companies that it is easier to obtain information on products, companies and industries in most of our overseas target markets through data bases and other published literature. Obtaining similar information in India is difficult. This is in spite of the fact that there are data bases available, but enough is not known about them. It is felt that an organisation in the country be assigned the task of compiling data bases available within the country on products, companies, industries, etc. Once again while there are many information systems available in the country, like NICNET, BIS-NET, FIEONET, all of them need to be either networked or made in to a single format for the ease of reference.

After compiling the dossier of data bases, gaps identified should be targeted and suitable data bases prepared on each to complete the availability of information on India.

The technology dimension of marketing should also be added to the list of data bases.

Liberalise Usage of 25% of Export Earnings Allowed to be retained Overseas for Export Promotion Efforts

The current policy of the Government allows retention of 25% of export earnings of selected exporters for export promotion. However, in this limit of 25% there are additional ceilings on what percentage can be used for various types of export promotion work. The Sub-Group feels that if an exporter is able to increase his exports by using this 25% on any particular item of export promotion, there should not be any other limits on the amount of expenditure that he can incur on any one particular head.

Many industries need to spend large sums of money on particular elements of promotion to increase their exports. This they are currently unable to do because of the limit stipulated in the ongoing policy. A good example is the case of the pharmaceutical industry where the single most important obstacle to be overcome in exports is 'registration'. Every single drug or formulation which an Indian exporter wishes to sell in most of the potential overseas markets has to be 'registered' in the importing country. Country 'Registration', as is well known, is an expensive and time consuming process and cannot be achieved by limiting expenditure of an Indian company to only 10% of the 25% export earnings, which is available to it for export promotion. The pharmaceutical industry is of the view that even if the policy is modified to let them use the entire 25% of their export earnings for 'registration', it might not suffice to get every 'registration' but it would at least release adequate funds to pursue some of the more important ones.

In view of the fact that the marketing effort of Indian industry has matured significantly and the need for funds to increase exports in overseas markets is fairly acute, specially as identified in the case of the pharmaceutical industry, it would be advantageous to both Government and Indian industry to let Indian exporters use the entire 25% of their export earnings on the promotion of their products overseas. A condition could always be imposed that records be maintained to indicate expenditure on various heads.

Need to Give Quick Clearances with Greater Transparency for Setting-up Pharmaceutical Units in Overseas Markets

The Indian pharmaceutical industry has been accepted by overseas markets as one which possess the requisite technology and quality for the sale of products in overseas countries. As a result of this reputation, the Indian pharmaceutical industry is keen wherever possible, to set up manufacturing units or expand existing ones or acquire units in the importing countries to avoid registration and establish capacity quickly to capture market share. While pursuing this path, Indian companies have to not only get clearance from the importing country, but they also have to simultaneously obtain clearance from the Indian Government or more so the RBI. It is well known that if any company wishes to either set up a manufacturing unit or purchase a

running establishment in the importing country, time is of essence. Many Indian pharmaceutical companies which have entered the fray have found to their disadvantage that the time taken by the RBI and the lack of transparency in giving clearances has often resulted in potentially lucrative deals being lost.

The present policy allows acquisition of overseas companies in a target market upto US \$ 4 million without prior clearance etc. However, this figure is grossly inadequate when it comes to the question of pharmaceuticals and other similar industrial units in potential markets. The industry and this Sub-Group feel that there is an urgent need to review the ceiling immediately and increase it from \$ 4 million to \$ 15-20 million.

Simultaneous to the increase in the limit for purchase of overseas companies by Indian manufacturers, it is also suggested that the process of clearance be made much quicker and transparent. RBI clearance needs to be given within a definite time period. Although there is a current stipulation that clearances be given within 21 days, generally additional queries on proposals are invariably sent when the period is about to be over. This system should be changed, so that queries, if any, on a proposal should be raised within one week of the submission of an application and all clearances completed within 21 days.

CONCLUSION

In conclusion, aggressive, well coordinated and systematic export marketing is of crucial importance for increasing exports of our country and reaching the higher target envisaged for them by the turn of the century. The suggestions made by the Sub-Group in this report are conducive to attaining this objective and imparting a new momentum to export marketing. While the main burden and responsibility of increasing exports has to be borne by the individual companies, whether in the private or public sector, the role of the Government and trade promotional agencies is no less important. The key to success in export marketing is making available the requisite on line information and promoting the image of our country. Institutional arrangements need to be made to see that information is easily available to exporters and potential exporters in regard to the happenings in the international markets, import demands, potential buyers etc. Simultaneously, we have to also strengthen the data base

relating to the profiles and strengths of the domestic industry, exporters and potential exporters in different sectors and other relevant information about our own country.

By avoiding the multiplicity of trade promotional agencies, certain trade promotional organisations like ITPO, which already have the requisite experience and track record in regard to this work, should be given the necessary financial support and assigned a clear role in regard to coordination and primacy in trade promotion. As there is no substitute for personal contacts, offices of ITPO need to be opened immediately in 15 thrust markets identified by the Ministry of Commerce and gradually increased to cover 30 important countries where there is a good potential of exports from India.

With the help of the Brand Equity Fund, concerted efforts have to be made by the Government, industry and trade promotion organisations for promoting the image of India and its companies and products. It needs to be always kept in view that there is fierce global competition in the international market and the free trade regime ushered in by the setting up of the WTO will only accentuate it. While the whole export marketing effort has to be coordinated by the Ministry of Commerce, trade promotion organisations, like ITPO, need to be given the same support as other countries, which have achieved great success in exports and are known for export-led growth, e.g. South Korea, Japan, Hongkong and Taiwan, give to their respective trade promotion organisations. The additional funds, which would flow out of the Government exchequer for this purpose would reap rich dividends by increasing exports, which are vital to the success of Economic Reforms and can provide a new momentum to the economic growth of our country.

Indeed, if the afore-mentioned factors relating to export marketing are taken care of in the 9th Plan period and simultaneously other problems relating to export production and finances are sorted out, there is no doubt as to why India cannot reach the target of exports of 100 billion US dollars by the turn of the century and, in all probability, surpass it.

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Working Group on Exports for the Ninth Five Year Plan

Section II . 5

**Sub-Group Report on
Infrastructure Requirements
for Exports**

314-371

**Convenor : T S Vijayaraghavan
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II.5

PART-A

**PORT
SECTOR**

1. CARGO, CAPACITY AND INVESTMENT PROJECTIONS

1.1 Cargo handled by and capacities at Indian ports

- 1.1.1 A surge in India's foreign trade from US \$ 68 bn in 1995-96 to US \$ 180 bn by 2001-02 is envisaged in the ninth plan. This effort needs to be underpinned by an adequate and efficient port infrastructure, a feature now not quite present as utilisation exceeds capacity by 19%. The Tables below set out the position.

Table 1 CARGO HANDLED AT MAJOR PORTS

Year	Cargo (MT)	% Increase
1950-51	19.38	-
1960-61	33.12	-
1970-71	55.58	-
1980-81	80.27	-
1990-91	152.86	3.24
1991-92	157.60	3.07
1992-93	166.61	5.71
1993-94	179.26	7.62
1994-95	197.26	10.03
1995-96	214.92	8.92

(Source IPA)

The coastal cargo handled in 1995-96 was 63 MT out of the total of 214.92, that is, about 30.5%.

- 1.1.2 The capacity of major ports and utilisation as reassessed by the Ministry of Surface Transport is shown in Table as follows.

Table 2**TOTAL CAPACITY OF MAJOR PORTS**

Commodity	Capacity(MT) as on			
	31-3-92	31-3-95	31-3-97	
			originally planned	reassessed now
P.O.L.	78.00	78.00	95.75	99.50
Iron Ore	41.50	41.50	43.50	41.50
Coal	7.00	8.00	42.50	23.50
Fertiliser	7.95	7.95	7.95	7.95
Container	6.83	8.98	11.23	8.98
General Cargo	27.95	29.58	36.16	34.28
TOTAL	169.23	174.01	237.09	215.71

(Source MOST)

Table 3**CAPACITY UTILISATION OF MAJOR PORTS**

Port	Capacity utilisation 1994-95
Calcutta	86.0
Haldia	86.5
Paradip	132.3
Vishakhapatnam	128.6
Madras	133.5
Tuticorin	131.8
Cochin	76.7
Mormugoa	115.8
Bombay	119.6
JNPT	84.9
Kandla	127.4
AVERAGE FOR ALL PORTS	113.4

Source: IPA

1.2 Cargo projections at the end of the 9th plan

- 1.2.1 Presently about 70% of the two way trade, by value, is sea borne. On this proportion of the estimated value of trade of US \$ 180 bn. in 2001-02, US \$ 126 bn. would be sea borne. This would involve carriage of 396 MT adopting the current weight to value ratio of sea borne trade of 3.15 MT of cargo per billion dollars of value. The coastal cargo at 30.5% of this volume may be about 118 MT. The total cargo handled at ports would thus, be about 514MT. However, the Weight to Value ratio is likely to shift with increasing share of manufactures in exports.
- 1.2.2 Sub groups constituted under the Working Group on Ports by the MOST have projected the cargo at 360 MT by 2001 assuming a growth rate of 9%.
- 1.2.3 The CII has estimated the cargo tonnage by 2001-02 at 650.75 MT, consisting of 450.68 MT of overseas cargo and 200.07 MT of coastal cargo. It has concluded that at 70% capacity utilisation 928 MT of capacity needs to be created. At a cost of RS. 70.4 crores per MT of additional capacity the investment required at 1992 prices will be RS. 53,082 crores and at current costs RS.. 75,000 crores.
- 1.2.4 The Ministry of Industry estimates, as set out in the Table 4 below, the tonnage to increase to 419.89 MT by 2001-02. A growth rate of 13% in 1996-97 that stabilises at 8.9% in 2001 is forecast.

Table 4 ESTIMATED TOTAL PORT TRAFFIC IN MILLION TONNES

Year	Container	POL	General & bulk	Coastal	Total
1995-96	18.77	46.42	83.35	62.71	211.25
1996-97	22.61	50.39	100.17	65.64	238.81
1997-98	28.95	56.32	114.28	68.57	268.12
1998-99	36.84	62.69	129.60	71.50	300.63
1999-00	46.47	71.98	145.67	74.43	338.55
2000-01	57.58	82.15	160.88	77.37	377.98
2001-02	70.82	92.44	176.33	80.30	419.89
2002-03	86.02	104.02	190.87	83.32	464.23
2003-04	104.23	118.20	206.08	86.16	514.67
2004-05	124.38	130.28	219.16	89.09	562.91
2005-06	147.24	142.72	231.20	92.02	613.18

(SOURCE : IPA)

1.2.5 The eastern ports, Cochin and Bombay handle sizable coastal cargo vide table 5 below:

Table 5 SHARE OF COASTAL CARGO

Ports	Overseas Cargo %	Coastal Cargo %
Calcutta	59.0	41.0
Haldia	66.0	34.0
Paradip	58.0	42.0
Vishakhapatnam	68.0	32.0
Madras	61.0	39.0
Tuticorin	40.0	60.0
Cochin	44.0	56.0
Bombay	67.6	32.4

The Ministry of Industry estimates a low growth rate of 4.01% for coastal cargo and 13% for overseas cargo. Experience has been to the contrary. Coastal cargo grew by 28.3% and overseas cargo by just 3.5% between 1993-94 and 1994-95.

1.2.6 Domestic bulk cargo may have to be increasingly moved through coastal shipping as railways are strained. Also, Minor and Major ports may have to be linked with select container transshipment ports through feeder coastal services for carriage of overseas cargo. All things point, therefore, to an increased share of coastal shipping. The current share of coastal cargo of 30.5% is likely to continue.

1.2.7 The estimates of the Ministry of Industry of a total cargo of 419 MT with a coastal share of 70 MT are recast in the Table 6 adopting,

- (i) an increase in the capacity of each port of 2.49 times which is the ratio of 339 MT of overseas cargo expected by 2001-02 to 137 MT carried in 1994-95.
- (ii) current ratios in each port of overseas to coastal cargo.
- (iii) 80% utilisation, requiring capacity in excess of the projected by 1.25 times.

Table 6 PORT WISE ESTIMATE OF CARGO IN 2001-02 (MILLION TONS)

Port	Cargo handled 1994-95		Cargo projected 2001-02		Total	Present capacity
	Overseas	Coastal	Overseas	Coastal		
Calcutta	3.43	2.38	8.00	5.00	13.00	6.75
Haldia	9.73	5.00	24.00	13.00	37.00	17.03
Paradip	5.84	4.28	14.00	10.00	24.00	7.65
Vizag	20.33	9.69	45.00	21.00	66.00	23.35
Madras	17.85	11.58	44.00	28.00	72.00	22.07
Tuticorin	3.20	4.84	8.00	12.00	20.00	6.10
Cochin	3.83	4.80	9.00	10.00	19.00	11.26
New Mangalore	6.94	1.07	17.00	3.00	20.00	10.00
Mormugao	17.44	1.44	43.00	4.00	47.00	16.30
Bombay	21.66	10.39	53.00	27.00	80.00	26.80
JNPT	4.88	0.15	12.00	1.00	13.00	5.90
Kandla	21.82	4.68	53.00	10.00	63.00	20.89
TOTAL	136.96	60.30	330.00	144	474.00	174.01

1.2.8 Thus a total cargo of 474 MT is forecast consisting of 330 MT of overseas and 144 MT of coastal cargo. The additional capacity required is 300 MT. The estimated investment for the purpose will be about RS. 30,000 crores at RS. 100 crores per MT of additional capacity. At 80% utilisation 587 MT capacity would be required on ground. However the additional capacity on this account is proposed to be created through a container transshipment port and through development of Minor ports.

1.3 Cargo mix

1.3.1 The cargo mix for the tonnage of cargo (MT) forecasted is given in the following table. Port wise allocation is not attempted here as this is best decided by the MOST having regard to the proposals set out in this report on diversion of

specific cargo to ports in the light of logistics and concentration of containerisation at two nodal ports.

Table 7 COMMODITY WISE CARGO HANDLED & PROJECTIONS (MT)

	CARGO HANDLED		PROJECTIONS					
	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Liquid Bulk	82.15	96.55	109	123	139	157	177	200
Iron Ore	34.82	34.53	35	36	37	38	39	40
Fertilizer	8.49	9.5	8	10	12	12	14	15
Coal	29.89	33.75	40	47	55	65	76	90
General	26.44	23.33	29	34	39	48	55	65
Container	15.43	17.60	23	27	34	42	52	64
TOTAL	197.26	215.26	244	277	316	362	413	474

1.4 Creation of two container transshipment ports

1.4.1 The Industry Ministry envisages a mere three fold increase in container traffic by 2001 and a doubling thereafter by 2006. Massive containerisation is a prerequisite for upgradation of port infrastructure. Containerisation inefficiency costs the country about US \$ 70 million annually. A major thrust in containerisation is suggested by creating one container transshipment port on each coast to handle 5 million TEUS(60 MT) each. The estimated cost is about RS. 10,000 crores. One of these should be established in the 9th plan and the other by 2006. These would be in addition to the capacity increases projected in table 6.

1.5 Minor ports

1.5.1 Minor ports now handle about 18.2 MT annually. This should be raised to 50 MT in the 9th plan. Inadequacy of rail capacity for goods haulage by over 60 MT is

likely to persist. Minor ports can cater to coastal traffic and handle POL as well. Besides these can provide the reserve to account for capacity utilisation. Locations for developing new Minor ports have been identified in Gujarat, Maharashtra, Karnataka, Andhra Pradesh and Orissa. The investment on these ports is expected to be made by the private sector and may amount to about RS. 5,000 crores for an additional capacity of 45 MT.

1.6 Total investment

- 1.6.1 The total investment required for creation of the additional capacities set out will be about RS.. 45,000 crores.

2. CHARACTERISTICS OF INDIAN PORTS AND UPGRADATION REQUIRED

2.1 The chief characteristics of Indian ports that tend to depress productivity and cost efficiency are set out below. These issues have to be resolved in the 9th plan simultaneous with investing on facilities and expansion.

2.2 Large number of small ports-Major and Minor

2.2.1 There are in all 169 ports in the country over a 6000 Km coast line. Of these 11 are major ports under the domain of the central govt. and handle 90% of the cargo. The rest are minor ports under the control of state governments catering mainly to coastal trade. Few countries in the world have so many ports. The eastern ports mainly handle traffic relating to the east and Australasia. The western ports are the gateways to the world.

2.3 Significant share of coastal cargo

2.3.1 Coastal cargo forms a sizable portion (30%) of the total cargo handled by the eastern major ports and Bombay. The coastal transport consists mainly of domestic cargo, reflecting,

- (i) failure to develop minor ports despite the vast potential that exists and
- (ii) an overloaded railway, inadequate to fully cater to the internal freight traffic.

2.4 Indian Ports are service ports

2.4.1 Ports in India are service ports. They each conduct with their own staff and equipment, all port operations such as pilotage, towage and other marine services, cargo handling and on shore storage. Only stevedoring and pick up of cargo for delivery are undertaken by private sector firms.

2.5 Fragmented Handling

2.5.1 Cargo handling at both conventional and unitised berths is fragmented, that is, cargo is handled by several entities with different objectives, management structures and working practices. Pre arrival planning and work scheduling. are inadequate.. Coordination between the traffic department of the ports, stevedoring companies, customs, and transport operators needs improving. Improvements are also necessary in equipment acquisition and positioning, allocation of storage space, information systems, vehicle deployment and labour organisation.

2.6 Productivity is low

2.6.1 Productivity at ports despite improvements over the last decade is comparatively low and is attributable to the entire logistics. Productivity would appear to have stagnated since 1994. However, it did increase at Bombay, Calcutta, Cochin and Kandla but collapsed at Madras in 1994 distorting the 93-94 average.

2.6.2 Cargo is not unitised; consignments are small and paletisation uneconomical; ship to land delivery vehicles are small; cargo is not pre-slung as consignees are tardy in clearing cargo and congestion results. There is shortage of forklift trucks. There is resistance to change.

2.6.3 Ship productivity is lowest at Calcutta with an average output per berth day of 930 tons at Calcutta and highest at 8,214 tons per day at New Mangalore.

2.7 Non working time at ports high

2.7.1 The average non working time per vessel in Indian ports is 42% whereas the optimal figure should be 10%. The best achieved was 19.8% for breakbulk and 16.5% for container ships. Pre berthing delays attributable to port account for 21% of the turnaround time.

2.8 Higher costs at port

2.8.1 Container delays cost about US \$ 70 million per year while excessive ship waiting time costs about US \$ 100 million. More serious is the poor international shipping technology that serves Indian ports. The cost of moving in feeder services utilising first and second generation technology is estimated at US \$ 250 million per year.

2.9 Pre-berthing and detention times are high

2.9.1 The average ship turn around time in India was 6.9 days in 1993-94 compared to 8 hours in foreign ports. Ship pre-berthing detention time is also high. Abroad, a berth is allotted on arrival. During 1994-95 detention times increased at the heavily utilised ports. The portwise delays is shown in Table 7.

Table 8 SHIP PRE- BERTHING AND TURN AROUND TIME

Port	Ship turn around time		Pre berthing time	
	1993-94	1994-95	1993-94	1994-95
Calcutta	9.8	10.6	0.9	1.1
Haidia	5.5	6.8	1.4	2.2
Paradip	6.0	6.0	1.6	1.7
Vizag	6.4	6.1	1.3	1.2
Madras	6.7	7.9	1.6	2.4
Tuticorin	4.9	5.2	1.4	1.9
Cochin	4.4	4.3	0.8	0.8
New Mangalore	5.8	5.4	2.3	1.7
Mormugao	7.0	7.2	1.2	1.0
Bombay	8.6	9.6	2.2	3.5
JNPT	6.0	5.8	1.2	1.5
Kandla	7.6	9.6	2.9	4.4

2.10 Crucial Productivity Indicators

2.10.1 Main line vessels are deterred from calling at Indian ports by the crucial productivity indicators summarised in the Table below. Shipping lines rather prefer the cargo to be fed into neighbouring countries' ports.

Table 9 SELECTED PORT PRODUCTIVITY INDICATORS AT 11 MAJOR PORTS

	1984-85	1988-89	1991-92	1993-94	1994-95
Av. pre-berthing time (days)	3.6	2.8	1.4	1.8	1.98
Av. turnaround time (days)	11.9	8.9	6.5	6.9	6.86
Output per ship berth/day all ships and all cargoes (T)	2314	3549	4668	3963	4646
Output per ship berth/day containers (T)	NA	1310	1430	1571	1728
Output per ship-berth/day break bulk/general cargo (T)			737	823	891
Idle time at berth to total	39	40	42.3	42.8	39.66

(Source IPA)

2.11 Outdated vessels contribute to delays

2.11.1 Most of the container vessels calling at Indian ports are outdated, are incapable of handling cargo expeditiously and perform below international norms.

2.12 Institutional set up

2.12.1 The major ports are organised as Port Trusts under the Port Trusts Act 1963. Their financial autonomy is confined. Planning is centralised in government.

2.13 Limited private sector participation

2.13.1 Monopolistic colonial companies deterred free private initiative in port operations save in stevedoring, in shore cargo handling and transport. Efficiency was

impaired, labour discipline declined, productivity suffered responsibility was diluted and port trusts had make all the investments.

2.14 Import Traffic predominates

2.14.1 Indian ports came into being as colonial import gateways. The export and import cargo mix of the ports is as follows:

Table 10 SHARE OF EXPORT AND IMPORT CARGO PORT WISE

Ports	% imports	% exports
Calcutta	70.7	29.3
Haldia	67.7	32.3
Paradip	32.3	67.7
Vishakhapatnam	45.2	54.8
Tuticorin	85.5	14.5
Cochin	83.3	16.7
New Mangalore	20.5	79.5
Mormugao	10.3	89.7
Bombay	52.6	47.4
JNPT	62.8	37.2
Kandia	84.9	15.1
Total	55.7	44.3

14.2 Out of 137 MT of overseas cargo handled in 94-95, 80.6 MT was import cargo. Increase in total tonnage handled by the major ports in 1994-95 was entirely due to increase in import tonnage. The new ports at New Mangalore, Mormugao, Paradip and Vishakhapatnam handle large volumes of iron ore export cargo and are exceptions; at other ports import cargo predominates.

2.14.3 The import orientation is aptly brought out in the older ports which have a large number of berths of small capacities for general cargo. Small berths permit only

small vessels. Therefore a larger number of vessels have to be turned around attended by delay and detention. Only 18 out of the 203 berths are container berths. The distribution of berths among the major ports is as follows:

General/Breakbulk cargo	144
POL and liquid bulk cargo	28
Dry bulk cargo	15
Container	18
Total	203

This perhaps is a prime reason for the lagging port efficiencies and the tardy pace of port modernisation and for the late onset of containerisation.

Import emphasis gave no fillip to door to door sea container operation. This has led to displacement of normal sea container mode of transport by costly air carriage. The neglect of containerisation began to tell when expanding foreign trade became a major objective.

2.15 Staffing

- 2.15.1 The total establishment of the Port Trusts and the Dock Labour Board is 126,000 plus about 40,000 unregistered workers which is high. There is resistance to reforms. Restrictive practices are perpetuated.

2.16 Uneconomical through costs

- 2.16.1 The throughput costs at Indian ports is much higher than at other Asian ports. The cost of moving an import container is US \$ 500 to 520 compared to US \$ 330 to 350 in foreign ports. For export containers the Indian cost is US \$ 420 compared to US \$ 340 at foreign ports.

2.17 Mismatch between commodity specific capacity and cargo handled

- 2.17.1 The table below sets out the mismatch between capacities installed and the tonnage handled of specific commodities.

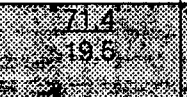
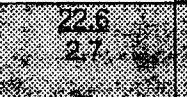
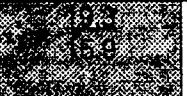
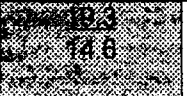
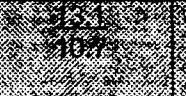
**Table 11 IMBALANCE IN TOTAL PORT CAPACITY AND UTILISATION
COMMODITY WISE MACRO LEVEL**

Type of cargo	% of port capacity	% cargo handled
POL & other liquid	44.8	41.6
Iron ore	23.8	17.7
Coal	4.6	15.2
Fertiliser	4.6	4.3
General/ Breakbulk	17.0	13.4
Container	5.2	7.8

(Source IPA)

2.17.2 Created capacity for coal handling is exceeded by 250% and for containers by 50%. Iron ore capacity is under utilised. General and breakbulk berths number 144 in the total of 180 berths, but have small individual capacities, constitute only 17% of the total capacity and are put to unintended uses. Table 10 shows where the rub lies in regard to individual ports. The dark shaded areas show the areas where capacity created to handle a commodity is considerably underutilised. The lightly shaded areas indicate where capacity is significantly overstretched. It is this imbalance that the 9th plan should address itself to.

Table 12 CAPACITY UTILISATION IMBALANCE PORT WISE (MICRO LEVEL)

Port	POL	Iron ore	Coal	Fertiliser	General	Container
Calcutta	 3.1 10.9	NIL	NIL	<u>NIL</u> 1.7	 9.8	<u>NIL</u> 11.4
Haldia	 10.9 9.4	NIL	 71.4 19.6	 22.6 2.7	 2.2 13.4	
Paradip	<u>NIL</u> 0.46	 9.6 5.4	<u>NIL</u> 18.8	<u>25.1</u> 5.5	<u>5.9</u> 6.6	NIL
Vizag.	 5.7 13.7	 19.3 15.9	<u>NIL</u> 25.5	<u>4.4</u> 19.9	<u>9.3</u> 13.9	<u>NIL</u> 0.82
Madras	<u>10.9</u> 14.6	 19.3 14.6	<u>NIL</u> 20.9	<u>NIL</u> 15.3	 13.1 10.7	 2.1 13.5
Tuticorin	 1.3	NIL	 28.6 14.7	<u>NIL</u> 6.5	<u>7.1</u> 7.7	<u>NIL</u> 4.2

Cochin		NIL	NIL	<u>5.0</u> 5.9		
Mangalore	<u>1.3</u> 0.9	<u>18.1</u> 17.4	NIL	<u>NIL</u> 1.5	<u>3.8</u> 4.1	NEG
Mormugao	<u>1.9</u> 2.4	<u>33.7</u> 45.0	NIL	NIL	<u>1.5</u> 4.4	NEG
Bombay	<u>23.1</u> 24.5	NIL	NIL	<u>NIL</u> 10.9		<u>18.3</u> 40.6
JNPT	--	<u>NIL</u> 1.6	NIL	<u>36.5</u> 15.4	<u>NIL</u> 0.5	
Kandla	<u>21.8</u> 23.2	NIL	NIL	<u>6.3</u> 13	<u>10.4</u> 20.6	<u>NIL</u> 5.2

3. CONTAINERISATION AND NEUTRALISATION OF COST DISADVANTAGES

3.1 The insufficient productivity of Indian ports has resulted in, but is not the sole cause of, increased costs in both throughport and sea transport costs.

3.2 Containers

3.2.1 The total throughport costs for all major Indian ports is compared below with those of other Asian ports.

Table 13 **THROUGHPORT COSTS, CONTAINERS**
(Distribution of costs for one import TEU (12 MT), in US \$ equivalent 1991)

Import	Bangkok	Singapore	Colombo	Bombay	JNPT	Madras	Calcutta

a) TO SHIP

Port charge	6.1	2.1	3.4	2.1	7.2	5.2	5.5
Stevedoring	32.4	129.6	114.7	23.5	76.5	62.2	27.5

b) TO CARGO

Terminal	128.6	172.8	63.6	200.8	99.0	229.6	245.7
Wharfage	97.5	0	33.0	9.8	0	21.2	4.7
Cstm Agent	102.5	15.4	30.0	196.1	196.1	117.6	176
Sundry	25.5	0	25.5	78.4	117.6	58.8	47.1
Others	0	24.7	65.0	0	21.6	0	0
TOTAL	392.6	344.6	334.7	510.7	518.0	494.6	507.0
Ship share	9.81%	38.22%	35.29%	5.01%	16.16%	13.63%	6.51%

(Source World Bank report)

3.2.2 The import throughport cost in India is US \$ 500 to 520 per box compared to US 330 to 350 in selected foreign ports. This corresponds to a cost differential of upto US \$ 190 per box. The corresponding figure for exports is US \$ 420 per box

in India and US \$ 340 in comparable foreign ports. The estimated impact on the Indian economy is about US \$ 70 million per annum disregarding lost export potential.

3.3 Breakbulk

3.3.1 Indian ports would appear to be competitive with other ports as Table below seems to illustrate.

Table-14 **THROUGHPORT COSTS, BREAKBULK**
Distribution costs for 12 MT Break bulk cargo (in US \$ equivalent)

Import	Bangkok	Singapore	Colombo	Bombay	Madras	Calcutta

a) TO SHIP

Port charges	5.8	7.9	9.0	15.6	10.1	11.6
Stevedoring	16.5	48.1	43.8	47.1	32.9	58.8

b) TO CARGO

Shore/ transport	29.4	92.9	300.0	0.2	23.7	0.0
Wharfage	0.0	7.4	23.4	11.8	18.8	56.5
Custom agent	720.0	185.2	360.0	352.9	352.9	470.6
Sundry	308.3	0.0	300	117.6	58.8	23.5
Others	0.0	222.2	180.0	0.0	0.0	0.0
Total	1080.0	563.7	1216.2	545.2	497.3	621.0
Ship share	2.06	9.93	4.34	11.50	8.65	11.34

(Source World Bank report)

3.4 Container and Breakbulk costs equal

3.4.1 Import/export of goods as break bulk bear about the same port through-cost per ton as containerised cargo. Port through costs per ton are about US \$ 45 per ton of breakbulk and US \$ 40 to 50 per ton of containerised cargo whereas at other

Asian ports the cost is about US \$ 30 per ton of containerised cargo and US \$ 85 per ton of breakbulk. The reasons for this anomalous situation are:

- a) low handling costs in Indian ports by using depreciated equipment to handle breakbulk traffic carried by old vessels with a low cost per day. Though ship time at berth is increased port cost per ton is reduced..
- b) Abroad breakbulk operation is exceptional and more costly as economies of scale are less and cost of port labour higher.
- c) cross subsidising in Indian ports between other cargoes (oil and other bulk) and breakbulk.
- d) the breakbulk mix is not identical with that of other ports of the region.

3.5 Comparison of the structure of containerisation costs

3.5.1 The comparative structure of throughport container costs indicates:-

- (a) Though the labour intensive port operation in India does not seem a disadvantage in fact productivity is only 50% of that of other ports in the region.
- (b) Port charges are not significantly higher than in other ports.
- (c) Stevedoring charges are lower than in other ports; relatively low stevedoring charges translate an imbalance between ship charges and cargo charges.
- (d) Terminal charges are higher in Indian ports except at JNPT; obsolete and inadequate facilities increase handling and delivering costs by 30% to 40%.
- (e) Procedural complexities hike administrative charges in Indian ports. Included in sundry charges 'speed money' is calculated at about US \$ 50 to US \$ 100 per container compared to 0 to US \$ 30 in other ports. Additionally stuffing and destuffing of containers for customs control accounts for 30% of the terminal cost.
- (f) Customs agents charges are higher in Indian ports by 100%.
- (g) Larger container vessels in Bombay, JNPT, and Madras suffer a cost disadvantage compared to smaller carriers, because they bear higher ship to port charges, though their consignment size is the same as that of smaller vessels.

3.6 Onset of Containerisation in India

3.6.1 Containerisation was introduced in India only in the 80's when the importance of exports emerged. Only JNPT and Madras have large container berths. Bombay has acute constraints in spite of having the maximum number of berths. Tuticorin and Kandla have no specialised berths yet handle containers; Cochin with two container berths handled only 86,00 TEUs in 1994-95. The capacities at and containers handled at the various ports are set out below.

Table- 15 STATUS OF CONTAINER BERTHS IN INDIAN PORTS

Port	No of berths	Capacity	Traffic (94-95)	TEUs
Calcutta	3	1.55	1.76	112
Haldia	1	0.30	0.08	6
Paradip	-	-	-	-
Vizag.	-	-	0.13	11
Madras	2	1.92	2.02	200
Tuticorin	-	-	0.65	57
Cochin	2	0.96	0.70	86
N. Mangalore	-	-	-	1
Mormugao	-	-	0.01	2
Bombay	7	1.25	6.27	487
JNPT	3	3.00	3.00	250
Kandla	-	-	0.80	51
	18	8.98	15.42	1263

(Source IPA)

3.6.2 Container traffic in India increased from 3,34,000 in 80-81 to 6,81,000 in 90-91 and to 12,63,000 in 94-95. At Singapore the increase was from 16,99,000 in 1985 to 52,24,000 in 90-91, to 106,00,000 in 1994 and to 12 million in 1995. Singapore has since overtaken Hongkong and proposes to treble its capacity to

36 million in the next 5 years. The working group of MOST has pitched the container traffic at 70.82MT, or 6 million containers by 2001-02.

3.7 Factors deterring containerisation in India

3.7.1 Export import imbalance makes container repositioning expensive.

3.7.2 High throughport costs discourage import containers compounded by adverse transport ,customs and labour union regulations.

3.7.3 Shipping lines prefer not to call at Indian ports but to have the cargo fed into neighbouring countries' ports because of the productivity indicators below.

Table-16 COMPARATIVE PRODUCTIVITY INDICATORS (1991)

Port	Container per ship/hr	per crane/hr
Bombay	5.9	
Calcutta	5.9	
Haldia	6.8	
Madras	8.5	
JNPT	10	9.5
Bangkok	38	20
Colombo	30/40	15/20
Singapore	69	25
Penang	22	
Busan	23	
Tanjunk Priok	18	

(Source World Bank report 1995)

3.7.3 Container traffic at Indian and foreign ports is compared in the Table below.

Table 17 CONTAINER TRAFFIC AT INDIAN AND FOREIGN PORTS (1000 TEUs)

Port	1990-91	1991-92	1992-93	1993-94	1994-95
Calcutta	49	58	74	96	112
Haldia	22	9	7	6	6
Paradip	-	-	-	-	-

Table continued

Port	1990-91	1991-92	1992-93	1993-94	1994-95
Vizag	8	8	9	9	11
Madras	109	106	127	162	200
Tuticorin	20	28	35	48	57
Cochin	49	52	56	71	86
Mangalore	2	2	2	2	1
Mormugao	-	-	1	2	2
Bombay	324	280	315	428	487
JNPT	55	112	145	177	250
Kandla	43	28	28	51	51
Hong Kong	5101	6162	7972	9204	11266
Singapore	5224	6354	7560	9046	10600
Bangkok	-	1171	1303	1274	NA
Kaohsiung	3495	3913	3961	4636	5202
Rotterdam	3667	3766	4123	4161	4475

(Source IPA)

3.8 9th plan approach to containerisation

- 3.8.1 The dedicated container handling facilities in Cochin, Madras, Bombay and Haldia should perform to technical design. Operational procedures need to be developed regarding pre-arrival planning, container movements, stacking supervision. Documentation, communications and information systems need upgradation in line with the integrated terminal concept
- 3.8.2 Institutional reform is needed, supported by profound changes in management organisation and style.
- 3.8.3 No forecasts are available of the internal distribution of container traffic between railways and roads. The railways are not yet poised to sustain a steady flow of container traffic. Critical road links between ports, cities and hinterland have to

be improved to facilitate multimodal transport. These are identified in the report on road infrastructure

- 3.8.4 The Working Group recommends a step up of containerisation from the 94-95 level of 12,63,000 containers (15.4 MT) 70,00,000 containers (60 MT) by 2001-02 more than a fivefold increase which will raise the level of containerisation from its present level of 8.% to about 13%. This will require increasing the berth capacity from 8.98 MT to about 64 MT. The container berths are heavily overutilised presently. Apart from increase of port capacity to handle 474 MT by 2001-02 as projected in Chapter I one transshipment port to handle 5 million containers (60MT) of cargo should be created during the 9th plan. A second of like capacity should be established by 2005-06.
- 3.8.5 The throughport costs for containers should be reduced by about US \$ 150 to 190 per box (increasing if necessary the breakbulk costs) as only such an expedient can increase the pace of containerisation. To discourage breakbulk transportation would conform to international trends.
- 3.8.6 The output of containers per hour is low in India mainly because of constraints posed by handling equipment. At the identified 4 container ports the full complement of handling equipment must be installed. At other ports unit modules for conveyance of containers to the designated container ports can be considered rather than providing container berths at all ports.
- 3.8.7 Constraints in inland transportation and documentary procedures result in most import containers being packed and unpacked in ports. The advantages of containerisation are, thus lost. Customs physically check 10% of each consignment; Creation of a network of Inland Container Depots (ICD) and Container Freight Stations (CFS) to feed the ports is on hand.

- 3.8.8 Many customs and freight agents ill equipped to participate in multimodal transport and adopt trading practices. The multimodal Transport of Goods Act is now limited to exports. A schedule for country wide introduction of intermodal transport on both legs by 2001-02 is recommended.

4. STRATEGIES RECOMMENDED IN THE NINTH PLAN

4.1 Government and Private participation in Facility creation and services

- 4.1.1 The size, number, draft at and physical characteristics of the berths at the older ports do not lend themselves easily to change. Bombay is an important and preferred port with the western, central and northern hinterland but offers no scope for expansion; Calcutta is beset with operational problems; Madras is congested and overutilised; the preponderance of import cargo at various ports will continue; major structural changes are not easily accomplished during a 5 year period; expansion projects are capital intensive and involve long gestation periods. 9th plan strategies to strengthen port infrastructure are pragmatically founded on medium term considerations. Private initiative in creating capacities and in performing port services needs to be harnessed.

4.2 Productivity

- 4.2.1 The sub group on Productivity, Surplus manpower, Equipment and Modernisation of Ports has made recommendations at paras 2.15 and 2.16 of its report on measures for improving productivity. However, no specific levels or targets have been set. The following goals are proposed:-
- (a) In accordance with the Memorandum signed with the All India Labour Federation an annual increase of 7% in all productivity parameters that is, gang shift output, turn round time, idle time at berth, etc. should be achieved.

- (b) The idle time at berth is lowest at Kandia (13%) and highest at New Mangalore (53%). The all port average should be brought to 13% by 1997-98.
- (c) The ratio of average output per gang shift to the maximum should be not less than 90%. A maximum of 140% has been already achieved and the average presently varies between 70 to 95%.
- (d) The throughport costs for containers should be reduced by RS.. 230 per ton by improvement of ship at berth time to moderate international standards.
- (e) The gang strength and productivity for container handling should be fixed independent of breakbulk norms.
- (f) Presently in India each dock labourer handles 500 tons of general and container cargo per year. In Australia the figure is being raised to 4000 under the waterfront reform and in France to 15000 from the existing level of 7000 tons. A scale for increasing the output per workable to a comparable level needs to be set and realised attrition of surplus workforce being programmed accordingly.
- (g) The average ship turn around time was 6.9 days in 1993-94. Ship pre-berthing detention time is high in Indian ports and increased during 95-96 at most of the heavily utilised ports. Under a scale of progressive improvement the ship turn around time needs to be reduced to an average of 1 day by 2001-02 and ships should be allotted a berth within 6 hours.

4.3 Corporatisation

- 4.3.1 The Major Port Trusts may be constituted into autonomous corporations competent to decide on major investments and on modes and degrees of privatisation. The model of the Port of Singapore which is locating the sovereign functions in a Governmental Authority and corporatising the port services could be considered.

4.4 Integral terminal concept

- 4.4.1 Port operations should be based on the integral terminal concept. Port trusts would evolve from service ports to landlord ports. Facilities may be leased to operators making private investment.

4.5 Development of Intermediate and Minor Ports.

- 4.5.1 There are 139 operating minor and intermediate ports located along the coastline of nine maritime states in the country. Some of these ports are well developed, provide all weather alongside berthing facilities and handle over 1 MT of cargo per annum. The traffic handled by these ports has been as under:-

Table 18

Year	Cargo (MT)
1990-91	10.44
1991-92	11.26
1992-93	13.09
1993-94	14.23
1994-95	18.40

- 4.5.2 State governments should be helped to develop Intermediate and Minor ports at the following locations to start with, to handle coastal and liquid bulk cargo.

- (a) Gujarat: Bhavnagar, Hazira, Mithirvirdi, Simar, Mundhra, Jafrabad, Magdalla, Positrall, Dahej, Vansi, Maroli, Okha, Porbandar, Sikha, Bedhi, Wadinar
- (b) Karnataka: Karwar
- (c) Andhra Pradesh: Kakinada, Krishnapatnam, Machilipatnam
- (d) Tamil Nadu: Cuddalore, Nagapattinam
- (d) Orissa: Gopalpur, Bahabalpur.
- (e) Maharashtra: Alewadi, Dighi, Dabhol, Jaigrah, Vijaydurg, Ratnagiri, Redi.
- (f) Allepey

The volume of cargo handled by Minor ports should be raised to 50 MT by the end of the 9th plan.

4.6 Suggested cargo allocation and berth deployment

4.6.1 The mismatch between capacity created and tonnage handled commodity wise at ports is set out in Chapter 2. It is to be considered whether all ports should handle an assortment of all commodities as now obtains or whether specific cargoes are not better allocated to select ports having regard to logistics. The MOST is not in favour of cargo specialisation at ports. This working group feels that,

- (a) Development of Minor ports to handle coastal and bulk cargo can relieve the older metropolitan ports with a large number of breakbulk berths of uneconomic and voluminous bulk traffic.
- (b) The new ports with deep draft and limited number of large berths are better employed exclusively to handle bulk cargo only.
- (c) Iron ore export which constitutes the major part of dry bulk export traffic is apt to progressively. The capacities created for this commodity can be deployed to handle liquid bulk and coal.
- (d) Proliferation of Containerisation is ill advised.. If one transshipment port on each coast is ultimately proposed to be created other Major ports need only have compressed module container terminals that will permit of a continuous despatch of compact volumes of their own originating container traffic through coastal transit to the transshipment ports.
- (e) Transshipment is not advisedly planned in the Indian context without originating export traffic from India as the major concern. Transshipment ports should therefore be planned where traffic is heavy as of now.
- (f) The all purpose general berths at the major metropolitan ports can be converted into functional container berths.

Thus a pattern of cargo diversion and berth redeployment on the following lines merits consideration .

4.7 Iron ore

4.7.1 A shift away from iron ore exports which offers relatively low returns, demands high DWT vessels, deep draft ports, strains the rail capacities and poses environmental problems at the metropolitan cities is inevitable over the next decade. Meantime, Mormugao which is heavily overloaded has to be supplemented with arrangements for mid sea loading by private investments rather than on shore investments. Mangalore still has marginal excess capacity and any private initiative to economise on loading and transportation costs or to create capacity through innovations such as mid sea loading at special stations erected away from the ports should be welcome. Loss of traffic to the ports on this account should not be a consideration at all.

4.7.2 On the east coast iron ore traffic is ideally confined to Vishakhapatnam and Paradip which have a spare capacity of 7.6 MT between them, to Krishnapatnam, a Minor port north of Madras in A.P. under development in the private sector, and to Gopalpur a Minor port in Orissa. Madras should be relieved of this low value commodity and congested as the port is. The port in many ways presents the best setting for a major container terminal on the east coast and to function as a transshipment point.

4.8 POL and liquid bulk

4.8.1 POL capacities are fully stretched almost at all ports and this trend will persist. Additional capacity has to be arranged for all over. It is here that Minor ports can help in fair measure.

4.9 Coal

4.9.1 Utilisation of the coal handling capacity at Haldia is poor. Consequently Vishakhapatnam and Paradip are strained and made to handle a commodity they were not designed to cater to. The imbalance needs correction. At Madras which was not meant to handle coal the operation should be totally shifted to the proposed satellite port.

4.10 Fertiliser

- 4.10.1 Paradip is under worked and operations have to be shifted to it from Vishakhapatnam which exceeds its rated capacity by 400%. Bombay has to contend with a large volume of fertiliser cargo for which no capacity exists. This is due to shortfall at JNPT. This load has to be taken of from Bombay.

4.11 General and Breakbulk

- 4.11.1 Productivity problems at Calcutta/Haldia depress utilisation of existing capacities; consequently Vishakhapatnam and Paradip. are overloaded. Madras is also under utilised. Concentration of this cargo at Madras and Calcutta/Haldia is recommended. On the west coast Mormugao is overloaded and cargo could be transferred to under utilised Bombay. Excess of breakbulk at Kandla can also be diverted to Bombay. Kandla needs to be considerably strengthened to handle breakbulk and general cargo being the preferred operating port for the north western hinterland.

4.12 Containerisation

- 4.12.1 Containerisation is recommended to be concentrated at Bombay, JNPT and Madras as transshipment ports. Calcutta which has a number of general cargo berths and Haldia can be employed as a container aggregation ports to the eastern and northern hinterland transferring containers received by it to Madras.

4.13 Pattern of Cargo

4.13.1 On the basis set out above the cargo capacity mix at the major ports could be as under.

Table 19

Port	Cargo Capacity distribution
Calcutta	POL-35%, Breakbulk-35%, Containers-20%, Fertiliser-10%.
Haldia	POL-50%, Coal-40%, General-6%, Fertiliser-3%, Containers-1%
Paradip	Coal-55%, Iron ore-20%, General-15% POL- 5%& Fertiliser-5%
Vizag	POL-35%, Coal- 25%, Iron ore-25%, General-10%, Fertiliser-5%
Madras	Container-40%, POL-25%, Coal-20%, General-10%, Fertiliser-5%
Tuticorin	Coal-50%, General-25%, POL-15%, Fertiliser-10%
Cochin	POL-70%, General-10%, Container-10%, General-10%
New Mangalore	Iron ore-80%, POL-10%, General-10%
Mormugao	Iron ore-85%, POL-10%, General-5%
Bombay	POL-50%, Container-35%, General-15%
JNPT	Container-70%, Fertiliser-25%, General-5%
Kandla	POL-60%, General-30%, Container-10%

PART-B

**AIR
SECTOR**

AIRPORTS AND AIR TRANSPORT

I. THE PRESENT SCENARIO

Air Transport sector has come to play an increasingly significant role in the domestic and international movement of cargo and passengers. Air transport infrastructure has emerged as a critical requirement for attracting foreign investment and achieving globalisation. The civil aviation sector has posted high growth performance since the launching of economic liberalisation programme as opposed to the stagnation witnessed in 1990-91 and 1991-92.

The demand for air transport services are estimated to increase at a higher rate than in the past keeping with the increased tempo of industrial and economic growth. According to the Airport Authority of India, the profile of air transport demand by 2000 AD is expected to be as follows :

AIR TRAFFIC FORECAST - 2000 A.D.

Type of Traffic	Annual Growth	Base Year (1992-93) (Million)	2000 A.D. Forecast (Million)
a) Passenger Traffic International Domestic	9% 12%	8.62 18.80	15.77 42.28
b) International Tourist Traffic	20%	1.90	5.67
c) Air Cargo (Tonnes)	20%	0.30	0.80

The liberalisation process in civil aviation took wings in April 1990 with the cargo "Open Skies" policy which allowed international airlines to operate cargo flights without any restrictions and the operators were allowed to charge rates without reference to the Directorate General of Civil Aviation. The Air Taxi Operators Scheme launched in 1990 played a feeder role to Indian Airlines as non-scheduled operators. Only four parties ventured in this area at that time due to the restrictive environment.

The Air Corporation Act, 1953, repealed on March 1, 1994, ended the monopoly of Indian Airlines, Air India and Vayudoot over scheduled air transport services. Six private operators, who were hitherto operating as air taxis, have since been granted scheduled airlines status. In addition, 19 air taxi operators have been given permit for charter/non-scheduled air transport services.

The competitive environment on domestic services has been, in effect, existent since April 1993. By November 1995, 28 aircraft in the 120 plus category, belonging to private air taxis, were in operation. The natural consequence of creating a competitive environment in this sector was that by March 1995, 35.6 per cent of the market was being catered to by private air taxis. The number of passengers carried by air taxi operators has increased from 15,000 in 1990 and 36 lakhs during 1994.

Indian Airlines, on the one hand, had to share the market on its profitable trunk routes. On the other hand, it faced the threat of loss of critically skilled personnel to private operators who offered much higher emoluments. This affected its ability to optimally deploy its existing aircraft capacity.

The International Airport Division (IAD) of Airports Authority of India (AAI) manages, operates and develops the five international airports at Bombay, Calcutta, Delhi, Madras and Thiruvananthapuram. Passenger and Cargo traffic handled by IAD were 228.9 lakh and 494 lakh tonnes during 1994-95 which were higher by 9.2 per cent and 12.9 per cent respectively than in 1993-94. It has undertaken construction of terminal complexes at various international airports and improvement and upgradation of runways and terminal buildings. The new domestic terminal at Calcutta commenced in January 1995. The work at international terminal (Phase III) at Bombay is in progress.

A number of projects like modernisation of air traffic services at Bombay and Delhi airports, installation of airport surveillance radar at Ahmedabad, Guwahati, Hyderabad and Thiruvananthapuram, development of 12 model airports for upgradation of facilities and improvement in the quality of services at airports have also been taken up.

Investments in airports of the North Eastern region are not economical; yet a large number of works have been taken up there. Sixty per cent of investment on projects which have the prior approval of the NEC, is borne by the North Eastern Council. Development work in other remote areas like Jammu and Kashmir, Lakshadweep, Himachal Pradesh, Andaman and Nicobar are also being taken up.

The airport infrastructure demands heavy investments, large expenditure on servicing, replacements and renewals. Keeping in view resource constraints, domestic and foreign investors including NRIs, have been invited to participate in the development of new international airports and the expansion of infrastructure support at some other domestic airports.

International Airports division of AAI has also decided to privatise the ground handling at Delhi and Bombay in a bid to enhance efficiency, decongest airports and also to improve the craft turnaround time.

Airport Authority of India is currently vested with the responsibility of creating and managing a large number of airports. A few airports are however under the control of other agencies. In response to the new policy of inviting private sector investment, a number of State Governments, public sector undertakings and private sector companies including foreign airlines and NRIs have evinced interest in new airport projects.

The most important development is the growing interest of the governments in setting up airports and air cargo complexes. Andhra Pradesh, Haryana, Maharashtra, Madhya Pradesh, Kerala, Uttar Pradesh and West Bengal are some of the States which have already prepared new airport projects or formed joint ventures. It will be necessary to bring about greater co-ordination between the Airport Authority, the State government and potential investors to facilitate speedy implementation of such projects.

At the same time there are also number of airlines who have shown interest in setting up and operating air cargo complexes. It will be necessary to develop a master plan for airport and airport facilities to be created in the country. This will facilitate well co-ordinated expansion of the Air Transport Infrastructure.

The "Open Sky" policy has facilitated larger international cargo movement capacities and substantial expansion in the domestic passenger capacities. Apart from the Air taxi operators and the scheduled airline services offered by the private sector, a number of private sector/joint sector proposals have also been made for the setting up of cargo airlines. The private airlines are not however permitted to operate on the international circuit.

The policy of permitting joint venture, in the civil aviation sector is welcome. The inter-airline agreements that some of the private airlines have entered into are also beneficial to customers. It will be desirable to explore the possibility of greater co-operation between Indian airlines and the private airlines for their mutual benefit and for the benefit of the customer.

II. AIR CARGO : GROWTH TRENDS

In the international movement of goods, the role of Air-transport is well-recognised. Amongst the different modes of transport viz. sea and river, rail and road, and air, the air transport has the advantage of:

- (i) taking least time for carriage; and,
- (ii) handling high valued or perishable goods.

The disadvantages are:

- (i) comparatively high transportation cost; and,
- (ii) unsuitable for transportation of bulk commodities.

Thus the relative economy in the carriage of merchandise in the international trade by air, vis-à-vis other available modes of transport is conditioned by the factors such as unit value of commodities, need or adherence to delivery schedule, nature of commodity (perishable/non-

perishable) location of partner countries' ports in relation to in-country, originating centre etc.

The nature of growth of air-borne trade is presented in Table-I. The total value of air-borne trade (Exports & Imports together) of India during the year 1994-95 and 1993-94 stood at Rs. 42261 and Rs. 41611 crores, respectively. The share of exports by air to the total export for the year 1994-95 was about 31% while the share of imports by air to total import during the year was 19%. The growth of export and import by air during 1994-95 compared to the preceding year was about 7% and -6% respectively.

In terms of cargo handled by different airports (Table-II & III) there are fluctuations during last ten years in case of imports. In case of exports, it had been showing a positive growth all along excluding 1994-95. The growth rate in case of total volume of trade had also been positive for all the years excluding 1994-95. Highest growth rate in case of export has been observed during 1991-92 and that of import in the year 1992-93.

Analysis by Airport

Airport-wise value of India's exports & imports during the year 1994-95 is presented in Table - IV, whereas their percentage shares are given in Table - V for the year 1993-94 and 1994-95 separately. It can be seen that the share of five major ports viz. Sahar, IGI, Meenambakam, Dumdum & Bangalore constitute more than 97% of India's foreign trade by air in 1994-95 as well as in 1993-94. The share of Sahar Airport in case of export was more than 63% in 1994-95 and 55% 1993-94 respectively. The share of import in Sahar Airport is also high as compared to other major ports. The percentage shares of imports in Sahar during 1993-94 & 1994-95 are about 74% & 65% respectively.

The quantum of cargo handled by the major Airports is presented in Table- VI. It can be seen from the table that the contribution of Sahar Airport was about 44% during 1994-95 and 34% during 1993-94 respectively, whereas the contribution of five major ports viz. Sahar, Meenambakam, IGI, Bangalore & Dumdum together constituted about 99% during both the years 1993-94 and 1994-95. In case of IGI (Palam) the contributions were 38% & 55% during the years 1994-95 & 1993-94 respectively. In terms of volume of cargo handled for export by these five major ports the contribution of Sahar Airport was the highest followed by IGI during 1994-95. These two Airports cover more than 82% of total exports cargo in both the years under review. In case of import the contribution of Sahar Airport was the highest followed by IGI in 1994-95.

Growth pattern - Airport-wise

The progress of air-borne trade over last 10 years is shown in three tables viz. Table - I, Table - VII & Table - VIII. Table-I presents the progress of airborne trade during the decade 1985-86 to 1994-95. Table-VII presents the value of export and import trades during 1994-95 in respect of the major Indian Airports while their decennial growth rates are shown in Table-VIII. At current prices during the last one decade the airborne trade went up by 714.93% in case of exports and 619.18% in case of imports. As regards percentage share,

the increase was from about 28% during 1985-86 to about 31% during 1994-95 for exports and from nearly 12% during 1985-86 to 19% during 1994-95 for imports. From these data, it can again be inferred that during the last decade the share of Air-borne export and that of import have increased substantially.

Trade pattern of Major Airports

Analysis of export/Import trade of principal commodities through various major ports is an important study. This study helps in many ways, especially, for formulating plans and programmes in the various airports. To meet this requirement Tables 9 to 12 (2 for exports and 2 for imports) have been included in this report. It is observed from these tables that Cotton ready-made garments is main export item through Palam and Bangalore Airports. Similarly, in case of Sahar and Meenambakam the main export items are Gems and Jewellery and Leather and Leather manufactures respectively. The main imports on the other hand from Bangalore, Calcutta, Meenambakam & Palam Airport are Electronic Goods. In case of Sahar the main import item is Pearls.

Planning for air cargo complexes

Cargo operations constitute only about 8 to 10% of the revenue earned by Airports in India. Because of this, creation of cargo handling facilities do not always receive the prime attention it deserves from the point of promoting exports.

Cargo operations by themselves are good revenue earners. For example, during the last four years the revenues of AAI from International cargo operations have gone up from Rs. 40 crore in 1992-93 to about Rs. 100 crore in 1995-96 (nearly two and a half times). The total revenue earned during this period is estimated to be Rs. 250 crore on a capital investment of only about Rs. 90 crore.

In view the rising trend in air-cargo volumes investments in cargo complexes, both from private as well public organisations, should be encouraged. In order to give a boost to cargo operations, there is a need for delinking investment in cargo facilities from over-all investment in airports.

III. RECOMMENDATIONS TO IMPROVE AIR CARGO SERVICES

1. Permanent data collection mechanism

- a) In order to correctly assess air cargo transport facilities required as well as for construction of new air cargo complexes a permanent system is required for collection, compilation and analysis air cargo data. The system should be adequately equipped to make forecasts for various commodities/airports for planning of air cargo capacities and for development of commodity specific nodal airports.

- b) Export Promotion Councils (EPCs) and exporters should be required to file advance information about air cargo evacuation requirements in terms of nature, volume and routes with a nodal agency for proper planning. This would help the Airports and the Air Cargo Complexes to plan their operations better.

2. Air Cargo Complexes

- a) For setting up of new air cargo complexes/setting up of temporary facilities in the interim period/nodal complexes for specific commodities, permission must be given to both private and public agencies.
- b) Private sector entry should be facilitated with the help of transparent guidelines
- c) Flexible approach should be adopted regarding the actual location of cargo complexes (on the port and off the port facilities)
- d) All Clearances should be given through a single point. At present there are about 22 agencies from whom either a clearance or co-ordinated action is required. Some of the key areas where timely clearance will be required are:

- Land acquisition/lease by AAI
- Nomination of custodian by customs
- Sanction of additional customs staff/other clearance agency staff
- EDI linkage with Airport/Customs/Airlines
- Link road infrastructure by local authorities
- Security and escort arrangements
- Quarantine facilities wherever required
- Simplified procedures for import of equipment and systems and tariff
- Environment Clearances
- Land use Clearances

3. Augmentation of Existing Air Cargo Facilities

AAI has already proposed expansion of cargo handling facilities at international airports. These include common use domestic cargo terminals, air freight complexes, separate courier express cargo terminals, perishable cargo terminals, mechanisation of air cargo handling, warehouses and storage systems and idle parking areas. While the new terminals and freight complexes will take considerable time before they are made operational, immediate steps are required to augment existing facilities in terms of more x-ray machines, handling machinery, storage facilities etc.

4. Security Facilities

Immediate measures should also be taken to improve the security to cargo by providing Closed Circuit TV and Special security area for theft prone cargo. Security of Cargo needs also to be ensured through clear demarcation of security responsibility between custodian and airlines/carriers and by prior declaration of theft prone cargo by shippers/agents. It will also be necessary to regularly screen and frisk all personnel moving in and out of the complex.

5. Traffic Facilities

Most of the air cargo facilities do not have adequate approach facilities. Approach roads, parking facilities, vehicle handling systems and earmarked area for unhindered loading & unloading require only small investments. These need to be provided immediately.

6. Pre-planning of Loading and Unloading

Lack of pre-planning for loading and unloading together with cumbersome procedures result in very long dwell time at air cargo terminals. In case of import cargo the average dwell time in our air cargo complexes is about 21 days as compared to less than a day in most of advanced and mechanised terminals abroad. Loading of cargo could be expedited by immediate unitisation of cargo cleared for loading by Airlines as well as by use of Euro Pallets. Clearance of import cargo can be facilitated by advance filing of Bills of Entry and timely action by customs and banks.

7. Cargo Information Systems

Detailed brochures on Air Cargo facilities at different airports and dedicated commodity specific cargo terminals as well as User manuals (standardised) on procedures and customs and other clearance processes should be prepared to help shippers. Electronic Bulletin Board facilities should be introduced to indicate cargo/customs clearance status. A consolidated schedule for freighter operations from all airports will also be helpful to the exporters and importers.

8. Private Sector participation

A transparent and independent regulatory framework will facilitate greater flow of investment into the civil aviation sector. As in the case of many other areas of infrastructure, regulatory and operational functions in the civil aviation sector are with the same set of authorities. It will be necessary to create an independent regulatory body and subject all operators both private and public to well defined regulatory mechanisms and operational quality parameters.

9. Airport Service Co-ordination Committee

A high level airport service co-ordination committee may be formed as a permanent mechanism to deal with co-ordination issues and formulate standardised guidelines to be followed by every agency involved in air transport.

10. Full Scale Adoption of EDI

EDI should be adopted for documentation at all airports, so that international cargo can be booked at any airport. The custom clearance however may be carried out at the notified airports with the help of agents nominated by exporters.

PART-C

ROAD SECTOR

ROAD TRANSPORT

1.0 THE PRESENT SCENARIO

1.1 Poor Quality - The Key Issue

The road network in the country has almost the same geographic density as in the United States. (60.8 km in India as compared to 66.5 km in the US per 100 sq km of area). The density of the Indian road network is far higher than in many developing countries. However out of the 2.03 million km of total road length, just about half (1.01 million km) is surfaced. Almost half of the unsurfaced roads are non-motorable. A little more than a third of the surfaced roads are made of water bound Macadam.

The National highway network of about 34,000 kms has only 700 kms of four-lane roads. 6,674 kms are of single intermediate lanes. Only the balance are double-lane roads. According to a World Bank study, only 4 per cent of the two-lane roads and none of the intermediate and single lane roads have internationally accepted quality of structural condition and pavement formation.

The road quality standards have not also kept pace with the changes in vehicle and freight technologies. Indian roads are designed for single axle vehicles with axle load up to 8.2 tonne. Multi-axle vehicles and container carriers require roads which can take higher axle loads. The bridges and culverts in use in the National highway system have inadequate capacities and are ill-maintained. As per the Ministry of Surface Transport Survey in 1986, out of the 929 major bridges, 240 were suffering from serious distress and another 313 from non-serious distress.

1.2 Mounting pressure on roads

The road network has come under tremendous pressure because of the rapid growth in vehicle population as well as in cargo and passenger traffic. Between 1950-51 and 1994-95, the share of road transport as compared to railways has gone up from 11% to 60% of goods traffic. During the same period, the share of road transport in passenger traffic increased from 28% to 87%.

The vehicle population registered a phenomenal growth of 13 per cent per annum between 1980-81 and 1993-94. The number of vehicles per sq.km of area has increased from 2.1 in 1982-83 to 7.7 in 1992-93. The situation is further accentuated by the fact that while the vehicle population has increased 90 times in the last 45 years (from 3 lakhs in 1950 to 270 lakhs in 1994), the road length has increased only 5 times from 4,00,000 kms to 21,00,000 kms in 1994. Obviously the road capacities have been stretched beyond limits.

Most of the traffic on roads is concentrated in the national highway network. About 40 per cent of the total volume of the traffic is estimated to be handled by the national highways which constitutes only about two per cent of the total road length. The national and State highways put together account for about 10 per cent of the road length and 70 per cent of the traffic. The road network also suffers from poor connectivity to villages. As of 1991-92, only less than half (46.2%) are connected by all weather roads.

1.3 Economic and Social Costs of Road Deficiencies

(a) Unsafe Roads

The deficiencies of the road network result in heavy loss of human lives and competitive advantage. In 1991, as many as 56,525 persons were killed in road accidents. The rate of accidents and fatalities is very high in India and has few parallels in the world. Accidents per thousand vehicles in India is as high as 28.4 as against 8.97 in Japan and 11.27 in the US. The fatality rate in India is almost 25 times that of the US.

(b) Reasons for High Costs of Road Transportation

(i) Congestion:

Slower growth in the road network of about 4.6 per cent over the last three decades coupled with fast increase in the vehicle population has created a vicious circle. The spurt in vehicle population has led to heavy congestion which in turn brings down the average speed of vehicles ending up with more congestion. Heavy traffic on roads also result in faster degradation of road quality which again adds to congestion on roads.

Poor quality of roads and heavy congestion result in longer turnaround of vehicles. These also result in very high energy consumption and wear and tear. These lead to higher transportation costs.

(ii) Avoidable Delays:

It is estimated that 30 per cent to 46 per cent of the effective travel time of trucks is lost at checkpoints. This brings down the average speed of vehicles on highways. A latest study estimates it to be around 28 km per hour on national highways. This, in turn, increases the demand for road space since the number of vehicles that can be cleared during any period of time gets reduced to the extent of the fall in average speeds.

Checkposts are also points of harassment and lead to avoidable delays. The undue delays on roads also lead to high freight rates. If the check posts are removed, there is scope for bringing down freight rate in the road sector considerably.

The difficulties faced in road transportation also lead to over-loading of vehicles beyond axle load restrictions. This results in heavy damage to the already bad roads.

(iii) Poor Maintenance:

An expert study commissioned by the Central Road Research Institute and the World Bank has shown that because of bad pavements and because of poor maintenance of roads, the Indian economy is losing Rs. 15,000 crores p.a. because of the increased vehicle operating costs.

The problems faced in the road sector have a compounded impact on the cost of transport. While a 20 ft container can be moved from Bombay to Hamburg for a freight of US \$ 1050, its movement from Delhi to Bombay by road, for eg., costs around Rs. 19,500. (nearly half the sea freight)

2.0 ROAD TRANSPORT : FUTURE DEMAND

Cargo traffic by roads has increased from 6 billion tonnes kilometres in 1951 to 350 billion tonnes kilometres in 1994 and passenger traffic has increased from 23 billion passenger kilometres in 1951 to 1500 billion passenger kilometres during the same period.

By the year 2001, the population is expected to be of the order of 980 million - 1000 million. It is also expected that the percentage of urban population would grow to 30 per cent which would give rise to greater demand for inter-city passenger transport and urban passenger transport. Continued economic growth of around 5-6% accompanied by 8-10% growth in industrial output and 20-25% growth in exports would result in considerable growth in the demand for freight movements.

India's transport sector comprises a number of modes such as Railways, Roads, Overseas Shipping, Coastal Shipping, Inland Water Transport, Air Transport, Pipelines and Aerial Ropeways. Railways are generally catering to long distance movement of bulk commodities and long distance passenger travel. Coastal shipping accounts for about 1% of the freight movement in terms of tonne km. Inland water transport in spite of its economic advantage and least environmental impact has a limited scope and is catering to about 0.4 per cent in terms of tonne km. Pipelines are mainly used to transport petroleum products. Aerial ropeways find limited use in short distance transfer of people and material. Road transport is the main mode of transport for inter-regional and intra-regional movement of men and material and generally is the preferred mode for short and medium distances because of its obvious advantages of versatility and door-to-door service.

2.1 Road lengths and capacity

A number of exercises have been made so far to estimate the future demand for Road infrastructure. The Lucknow Plan which projected the demand for roads upto 2000 AD aimed at increasing the density of roads from 0.46 km per square km to in 1981 to 0.82 km per square km by the turn of the century. Towards this end it recommended substantial expansion of the road network to reach a total road length of 27.2 million kilometres.

Category wise road length targets and the actual road length built upto 1994-95 which are indicated in the following table openly show the wide gap that still needs to be covered with in the ninth five year plan.

Category	Road length target 2001	Achieved upto 1994-95 in thousand km
Expressways	2	Nil
National Highways	66	34
State Highways	144	128
District Roads	298	N.A.
Village Roads	2212	N.A.

Recently, a Task Force Constituted by the Technology Information, Forecasting and Assessment Council (TIFAC) and co-ordinated by FICCI has made the following projections about future transport demand after reviewing the previous estimates and methodologies. The expected growth in road traffic is projected to be as follows:

Table - I
Estimate of Annual Growth in Road Traffic

	1992-96	1997-2000	2000-2015
Freight Traffic	5.3%	10%	6%
Passenger Traffic	8%	15%	6%

Assuming these growth rates, the anticipated volumes of freight and passengers traffic have been worked out to be as under:

Table - II
Projected volume of Road Traffic

Year	Freight Traffic in Billion Tonne km.	Passenger Traffic in Billion Tonne Km.
1992	384	1751
1996	480	2382
2000	760	4166
2015	1821	15174

The freight traffic in 2000 and 2015 as compared to 1996 will be 1.61 and 3.85 times respectively and the passenger traffic 1.75 and 6.37 times respectively.

A recent ADB study on Expressways has established the need for 15000 km of four lane National Highways and 10,000 km of Expressways by the year 2015. A large length of the existing State Highways also needs to be four-laned particularly around the state capitals. The road length and capacity in urban areas also will have to be enhanced because of increase in existing population and influx from the rural and other areas. The road length for the arterial system of the road network on the basis of connectivity criteria as suggested in the 1981-2000 plan would be sufficient. However, a qualitative change in the capacity augmentation of existing highways and construction of Expressways will be necessary, and the need for increase in multi modalism, more multi-axle vehicles would enhance.

It is estimated that for high traffic density corridors, new generation roads like expressways or four laning will be required. For medium traffic zones, carrying upto 15,000 passenger car units, roads are required to be widened and strengthened to proper two lanes to cater to increased traffic and cumulative axle loads. For roads in low traffic zones, improvement of roads and side shoulders should be planned.

There is also an urgency to improve the design and operational efficiency of both passenger and freight vehicles. The use of multi-axle vehicles and truck trailer combinations need to be encouraged to reduce the wear and tear of pavements and for achieving savings in vehicle operating costs.

Equally important is to improve the road design and construction standards to international levels to contain the increase of accidents. Proper designing of junctions, ensuring adequate visibility, standard curves and erection of proper road signs. It is also necessary to introduce efficient maintenance management systems for optimum utilisation of available meagre resources.

A World Bank study shows that on an average, estimated returns on projects involving primary maintenance are almost always as high as those on projects involving mainly new constructions. It is estimated that for every dollar not spent on maintenance, 3-4 dollars are required annually for premature reconstruction. It is, therefore, urgently necessary either to make full budgetary provision for maintenance or find ways of involving the private sector in this process.

3.0 MAJOR RECOMMENDATIONS:

- 3.1 Introduction of super highways will take at least seven to ten years to materialise. In the meantime, a strategy should be adopted to undertake four laning national and State highways. Four laning and

road maintenance could be also done on the basis of tolls or through a fund generated by tax on fuels. A crash programme for four laning could be undertaken by involving the private sector through the offer of substantial auxiliary incentives such as opportunities for real estate development and provision of auxiliary services. At present, maintenance expenditure on National Highways is only about Rs. 5,000 per km as against a requirement of Rs. 35,000 to 50,000 per km.

- 3.2 In order to support industrial growth and facilitate accelerated exports, mere augmentation of capacities and removal of physical deficiencies will not be enough. Management innovations are required in policies and procedures to facilitate the most optimal utilisation of the road infrastructure.
- 3.3 Octroi, entry tax and other tax instruments that hinder free flow of traffic must be abolished.
- 3.4 A Green Card system needs to be introduced for loaded trucks/containers to move without checking en route. Whatever checking is required may be done at the starting point and a certificate issued which may be verified only at the destination.
- 3.5 Traffic management needs to be vastly improved with the adoption of modern systems. Private agencies may be engaged to use video cameras to track road down offenders. A part of the fines collected therefrom could be used to meet the costs.
- 3.6 Bus and truck stops should be created outside the pavement area of roads at all places and particularly in villages and towns that fall on the highways. All round efforts should be made to improve the average speed of vehicles on roads. Special attention needs to be paid to widening road intersections and building railway over-bridges.
- 3.7 Considerable delays occur when vehicles move through cities, towns and villages. Financial assistance may be extended to Panchayats and local bodies to police traffic movement effectively and efficiently on the highway segments.
- 3.8 Steps should be taken to introduce energy-efficient, less-polluting and more safe vehicles including multi-axle vehicles. Vehicles must be subjected to stringent testing to ensure that they are road-worthy and safe.
- 3.9 From the point of view of promoting exports, it is important that highest priority is given to the creation of link road infrastructure to ports, airports and ICDs with the primary road network consisting of National and State Highways.

4.0 ESTIMATE OF INVESTMENT REQUIREMENTS

Because of the resource crunch, allocation for new roads as well as for maintenance, both at the Central level and at the State level, have not been adequate. During the 9th plan equal attention will have to be paid to both the removal of the qualitative deficiencies of the present network and building of new roads. The investment requirements for achieving these twin objectives are estimated as under :

Table III
Estimate of Investment Requirements upto 2015

	Estimate	Cost (in crore Rs.)
(i)	Cost of removal of deficiencies as estimated with VIII Plan	52,000
(ii)	Construction of four-laning of balance two-lane road in high density routes 13,000 kms @ Rs. 3.5 crores/ km	46,000
(iii)	Cost of land acquisition and relocation of utilities for 13,000 kms @ Rs. 3.0 crores/km	39,000
(iv)	Cost of construction of 13,000 kms of Expressways @ Rs. 9 crores/km	1,17,000
TOTAL		2,54,000

5. A SPECIAL NOTE ON PRIVATE SECTOR PARTICIPATION

- 5.1 It will be difficult to find the requisite resources for the development of an efficient road infrastructure. It will be therefore necessary to involve the private sector in a big way.
- 5.2 In various parts of the world, highway development which used to be primarily the function of the Government, is now being increasingly permitted to be given for development and commercialisation to the private sector. This is either under the BOT (Build, Operate and Transfer) concept or its various BOOT (Build, Own, Operate and Transfer) concept etc. This basically involves permitting the private sector to construct a road, operate it and have the right to collect tolls for a fixed concession period. These toll roads reflect a practical reality that though roads are needed for economic development, the financial and managerial capacity of the public sector is limited. China is planning many ambitious toll roads like the Guang Zhau Shanzen Super Highway. Pakistan has already constructed a 347 km. long expressway from Lahore to Islamabad.

Malaysia has constructed \$ 2.3 billion North South Toll Motorway with the help of private sector and so on. France has an impressive 6,000 kms of toll roads partly run by the public sector and partly by the private sector. The toll roads concept is very old in our country, although it has been on a much smaller scale. Under the Indian Tolls Act, 1960, the State Governments were empowered to charge toll on bridges and ferries in their respective territory.

Since 1977, the Central Government has been levying fee on bridges and ferries under the amended National Highways Act, 1956. The National Highways Act was amended further in 1993 to permit levy of fee on sections of National Highways. Construction of toll roads in the public sector was made possible with this amendment.

- 5.3 The Central Government subsequently decided to involve private sector directly in the development and maintenance of National Highways on BOT basis, and the National Highways Act was amended further in June 1995 to provide for the enabling provisions in this regard. Central Government can now, under the June amendment, assign any section of a highway for development and maintenance by a private party for a specified period on such terms and conditions as may be agreed upon between the entrepreneur and the Government and to authorise the entrepreneur to collect and retain fee directly from the users. The entrepreneur shall have powers to regulate and control the traffic in accordance with the provisions contained in Chapter VIII of the Motor Vehicles Act, 1988 on the sections of National Highway assigned to him.
- 5.4 The amended Act also provides that in order to discourage encroachments on the highway land and to protect the highways property, any act by any person which renders the National Highway impassable or less safe to travel or conveying property, shall be punishable with imprisonment of either description for a term which may extend upto 5 years or with a fine or both. With these provisions having been made in the NH Act, effective legal basis is now available for private sector participation in National Highways.
- 5.5 Some of the States like Maharashtra, Gujarat, Madhya Pradesh, Haryana, Uttar Pradesh, West Bengal, Rajasthan, Karnataka, Andhra Pradesh etc. have already gone ahead and have decided to involve private sector in the development of highways on BOT basis by amending the Motor Vehicles Act to provide a legal basis for this purpose. Thus, the concept of toll roads has found wide acceptability in the different regions of the country with varied political entities. In India, the scheme formulated throws the highways sector wide open to private entrepreneurs permitting profitable investment opportunities.
- 5.6 Concession periods upto 30 years could be permitted. Thereafter the facility will stand transferred to the government. Projects such as bridges, railway overbridges, elevated sections to avoid congestion for through traffic, interchanges etc. along the existing routes and bypasses and expressways on new alignments are open for private sector participation. The fees will be fixed by Government in consultation with the entrepreneur, keeping in view the capital, maintenance and operation costs, reasonable profit, traffic volume and other user benefits. Any fee less than or equal to the amount fixed can be collected by the entrepreneur during the concession period.

- 5.7 To ensure a fair selection of parties for undertaking BOT projects, a transparent procedure should be followed. Final selection of the entrepreneur will have to be made on the basis of least charge to the user. The entrepreneur must have full freedom in project implementation, but the Government has to be satisfied with regard to standards, specifications, safety of structures and satisfactory operation and management.
- 5.8 Under the new dispensation, the National Highways Authority of India has conceptualised a Plan involving construction of new expressways connecting important metropolitan cities and manufacturing towns of India to all the major ports of India and these have been named as Super National Highways. It has been decided by the Ministry of Surface Transport to open up the construction of Super National Highways which involves 33 sections for private sector participation, both from abroad as well as from India. As an initial step, in the month of July 1995, bids for conducting feasibility studies of these 13,000 kms of Super National Highways were called for and they have received bids from 22 big consortia including foreign consortia and these are being evaluated now. The foreign parties include well known firms from USA, Canada, Spain, France, UK and Malaysia.

Similarly, the Ministry of Surface Transport has also invited bids for 5 BOT projects including bridges and bypasses and it is understood that they have been receiving enthusiastic response on these also. The National Highways Authority of India is now proposing to invite further bids for certain additional city bypasses as well as railway overbridges in which the private sector would be invited to participate. It is evident that international parties involved in road construction, feasibility studies, toll road projects are evincing keen interest in the field of highways in India.

- 5.9 The Government has rendered full support to the private sector initiatives by :
- i) declaring a five year tax holiday for all firms engaged in highway projects. This five years tax holiday can be availed of in any period within 12 years of the starting of the toll road facility.
 - ii) Also announcing that 40% tax relief will be given to those financial institutions which invest in infrastructure projects provided they keep this income in a separate account.
 - iii) Declaring "roads" as an industry to enable private parties to take loan from financial institutions.

6.0 STEPS REQUIRED TO FACILITATE PRIVATE SECTOR PARTICIPATION

The initiatives already taken by the Government to facilitate private sector participation do not add up to a clear-cut policy framework within which private sector investment could actually materialise. Some of the key areas which need urgent attention are as follows:

6.1 Need for speedy action:

It takes atleast 5 to 7 years for major infrastructure projects from start to finish. The annexed chart I indicates the various stages involved in typical BOT projects. In view of this process it will be very necessary for the government to enumerate in clear terms transparent guidelines concerning private sector participation.

6.2 Need for innovative investment package:

The cost of creating such highways as also the rate of tolls required to recover the costs would be very high. It is, therefore, necessary for the Government to become a co-promoter in these projects and bring in low cost multilateral institutional funding to make the projects viable. In order to keep the tolls to a reasonable level, innovative incentive packages such as permission for real estate development in adjacent land area must be permitted.

6.3 Infrastructure Investment Board:

While the foreign investors setting up industrial ventures are able to get a single point clearance from the Foreign Investment Promotion Board, there is no similar mechanism from where investors interested in infrastructure investment could get single point clearance. Setting up of a Special Infrastructure Investment Board which can act as a single nodal point for approvals will facilitate enhanced flow of foreign investment into this vital sector. In most countries, there is a single agency which sets out the criteria and modalities for private sector participation. This results in uniform practices in evaluation processes. All project authorities may be asked to submit proposals for private sector participation to the Infrastructure Investment Promotion Board and all bids from the private sector may also be received by this single authority. The evaluation of the bids and the final approval may be done by the Board itself.

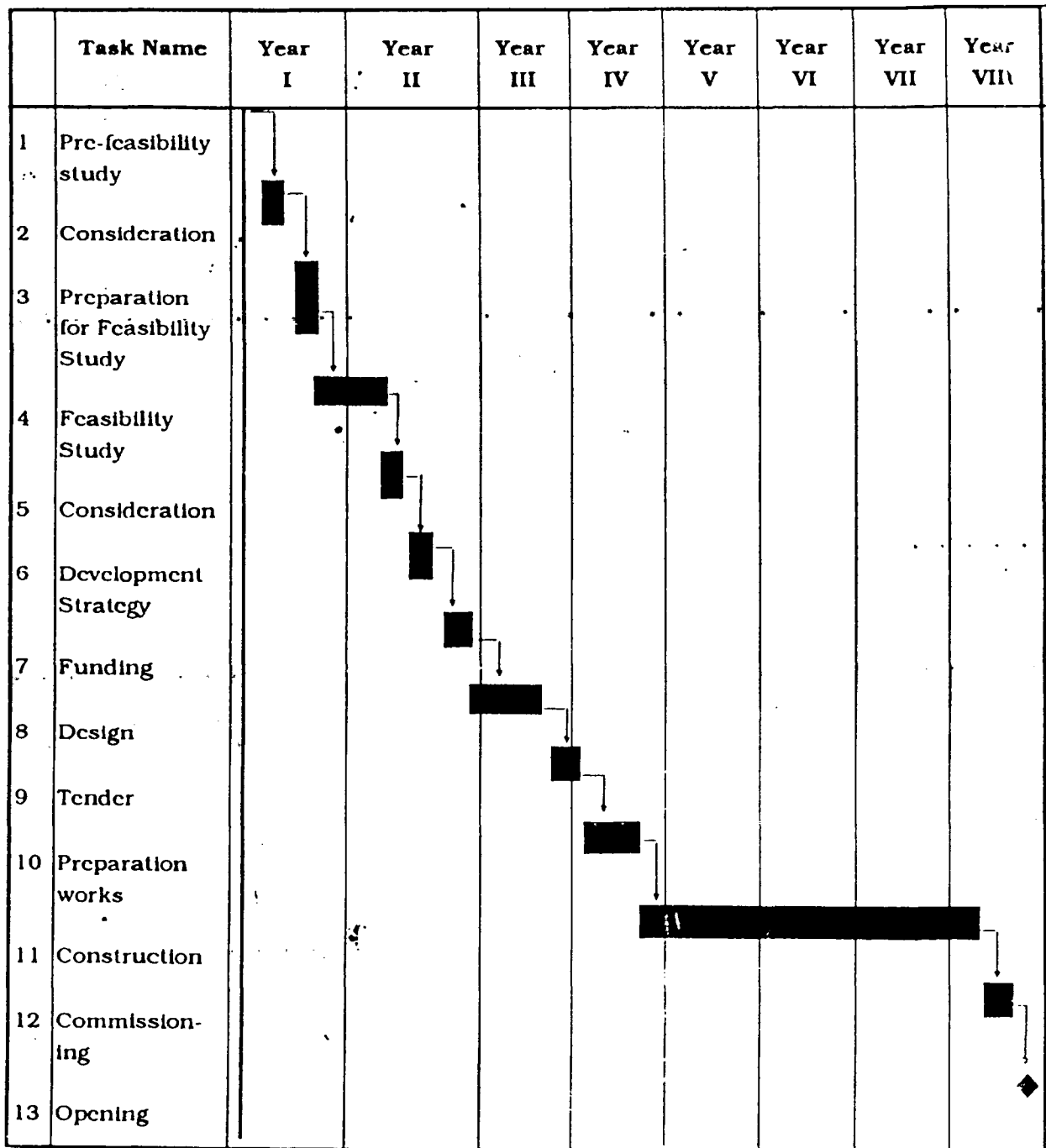
6.4 Independent Regulatory Authority : There is, at present, no clear indication of the criteria governing entry, operation and exit of private sector investors in the infrastructure area. It will be, therefore, necessary to set up an independent regulatory authority for the infrastructure sector which can deal with all disputes arising out of the private sector operations in infrastructure vis-à-vis government regulations as well as competition with existing operators either in the public or private sector.

- 6.5 Land use and zoning : Most of the transport infrastructure projects are land intensive and there are a large number of issues such as land use master plans, environmental limitations and the jurisdiction of local authorities over the concerned land which need to be resolved before the project could actually be implemented. As and when a project is conceived, it will be very important to have special project committees with the participation of the central, state and local authorities which can clear the land from all zoning angles and also undertake the availability of support infrastructure such as water, link roads etc.

ANNEXURES

Annexures I	Highways in the Country (in kilometres)
Annexure II	Vehicle Population & Govt. Revenue from Road Transport
Annexure III	National Highways & Expressways Estimate upto 2000
Annexure IV	Cost of Removal of Overall Deficiencies in the NH System as on 1.4.92
Annexure V	Expenditure on maintenance of National Highways

CHART - I



Highways in the Country 1992-93 (in thousand kilometer)

*Provisional

	1985-86	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93*
Length of Roads-Total	1726.0	1843.00	1905.00	1970.00	2037.00	—	—
Length of Roads-surfaced	825.00	888.00	920.00	960.00	1001.00	—	—
Length of National Highways-Total	32.00	32.00	33.00	33.70	33.70	33.70	34.00
Length of National Highways-Surfaced	32.00	32.00	33.00	33.70	33.70	33.70	34.00
Length of State Highways-Total	100.00	112.00	117.00	122.00	127.00	—	—
Length of State Highways-Surfaced	97.00	109.00	114.00	118.00	122.00	—	—
Number of Registered All Vehicles (Thousand Nos)	10489.00	14733.00	16920.00	19177.00	21310.00	23462.00	25299.00

Vehicle Population and Government Revenue from Road Transport

	1985-86	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
Number of Registered Goods Vehicles (Thousand Nos)	848.00	1101.00	1180.00	1290.00	1411.00	1528.00	1599.00
Number of Registered Buses (Thousand Nos)	223.00	265.00	278.00	313.00	333.00	377.00	381.00
Revenue from Road Transport Central (Rs. Crore)	2461.00	3057.00	3569.00	4073.00	4596.00	4786.00	4792.30
Revenue from Road Transport- States (Rs. Crore)	1553.00	2224.00	2571.00	2700.00	3035.00	3510.00	4763.80

**NATIONAL HIGHWAYS AND EXPRESSWAYS
ESTIMATE UPTO 2000**

	Year	Year	Year
1. Total Traffic	1950-51	1984-85	2000 (Estimated)
(i) Railway's share	89 %	40 %	35 %
goods/passenger.	72 %	15 %	13 %
(ii) Roads share	11 %	60 %	65 %
goods/passenger.	28 %	85 %	87 %
2. No. of vehicles	0.3 million	25 million	35 (estimated)
3. Road net work	0.4 million km	2.2 million km	2.7 million km
National Highways			
4. National Highways	19,181 km	34,058 km	66,000 km (estimated)

COST OF REMOVAL OF OVERALL DEFICIENCIES IN NH SYSTEM AS C
(at 1994 prices)

S. No.	Category of Work	Length to be covered	Amount required (Rs. crore)	Remarks
1.	Widening from single lane to two lanes.	4,000km	1,600.00	
2.	Improvement of two lane roads.			
	(a) Strengthening of weak	19,000	9,500.00	Length of 2 lane roads which have not been strengthened since 1985.
	(b) Widening to four lanes	14,000km	30,000.00	Includes all two lane roads expected to have traffic more than 15,000/- PCUs in 1995 and are not already four-lanes.
	(c) Construction of Expressway	1,000km	8,000.00	Selected corridors having traffic more than 40,000 PCUs in 1995.
3.	Construction of bypasses	44 Nos.	600.00	Land acquisition has been completed/in progress for these bypasses.
4.	Construction of missing links, improvement of low grade sections to single lane NH standards road safety, drainage and other misc. works.	L.S.	2,500.00	
		TOTAL	52,200.00	

**EXPENDITURE INCURRED THERE ON MAINTENANCE
OF NATIONAL HIGHWAYS**

Year	Length of NH	Funds Demanded	Actual Expenditure (Rs. in Lakhs)
1988-89	33612		14635
1989-90	33612		15796
1990-91	33689		16929
1991-92	33689		18137
1992-93	34058		16867
1993-94			
1994-95			
1995-96			

Source : Ministry of Surface Transport (Roads Wing)

Working Group on Exports for the Ninth Five Year Plan

Section II . 6

**Sub-Group Report on
Export Finance Aspects**

372-404

**Convenor : Dr (Mrs) V S Bharucha
Economic Adviser**

**Ministry of Commerce
Government of India**

II.6

REPORT OF THE SUB-GROUP ON EXPORT FINANCE

The Working Group on Exports for 9th Plan was constituted by Planning Commission to address policy linkages, infrastructure, credit and quality issues relating to achieving export targets and export projections being made for the 9th Plan. At its first meeting held on 1.2.96, the Working Group on Exports discussed the broad terms of reference; the Chairman of the Working Group constituted among others a Sub-group on Trade Finance and Fiscal Matters to be convened by Dr. V S Bharucha, Economic Adviser, Ministry of Commerce in order to address issues relating to export credit and fiscal matters and to give the major recommendations and policy suggestions relating to export projections for 9th Plan.

The Sub-group constituted its membership covering operational institutions concerned with provision of export credit (such as RBI, SBI, Punjab & National Bank, ECGC, Exim Bank), demand for credit and issues faced by users of credit (represented by ASSOCHAM, FICCI, FIEO & CII) and professional experts from RIS, NIPFP, IIFT and Ministry of Commerce. The composition of the Sub-group is as below :-

1.	Dr.(Mrs.)V S Bharucha Economic Adviser Ministry of Commerce	..	Chairman
2.	Shri R Nanjappa General Manager, RBI, New Delhi	..	Member
3.	Shri Ramesh Lai General Manager Punjab & National Bank, New Delhi.	..	Member
4.	Shri S P Paniyadi Dy. General Manager SBI, New Delhi	..	Member
5.	Shri S Sridhar Dy. General Manager Exim Bank, New Delhi	..	Member
6.	Shri S Mukherjee Regional Officer ECGC, New Delhi	..	Member
7.	Dr. R K Dhawan DG, FIEO, New Delhi	..	Member

8.	Shri Kanoria & Shri J C Srivastava FICCI, New Delhi	..	Member
9.	Shri H Ashok C Prasad IIFT, New Delhi	..	Member
10.	Dr. V L Rao RIS, New Delhi	..	Member
11.	Shri S Sen CII, New Delhi	..	Member
12.	Shri Anil Aggarwal & Shri Keswani ASSOCHAM, New Delhi	..	Member
13.	Prof. Indira Rajaraman National Institute for Public Finance & Policy, New Delhi	..	Member
14.	Ms. Anjana Dubey Dy. Director Ministry of Commerce	..	Member-Secretary

The Sub-group set its terms of reference, inter-alia, (i) to review the existing policy relating to trade finance and fiscal incentives for supporting exports; (ii) constraints being faced by the exporting community and bankers in meeting the demand for credit and competitiveness of credit; (iii) the export projection envisaged during the 9th Plan period and the consequent credit requirements to support realisation of these projections; (iv) the composition of exports to ensure availability of credit by specified sectors; (v) major policy recommendations to enable availability of adequate credit at competitive rates and special schemes for sunrise sectors in exports, services exports etc.; and (vi) the need for long term credit policy for exports including special schemes to facilitate raising adequate credit by the corporate sector and institutions.

The Sub-group held two major meetings and a few regional meetings in small groups. At its first meeting, the Sub-group focussed on major issues that should be covered and allocated work among core groups constituted to examine specific issues and render suggestions for further discussions. Members were requested to provide their inputs on the issues identified in the first meeting and assigned to the core groups constituted. Informal discussions were also held in small groups on various aspects being covered by the core groups and in supplementing the members of the Sub-group with information and ideas as they emerged during these discussions. On its second

meeting held in 22nd April, 1996 the Sub-group focussed on the specific recommendations that had emerged during discussions and also the inputs provided by the core groups in order to seek a consensus. Efforts were made to consolidate additional inputs on the gaps identified during the discussions. In the final round, the Convenor held discussions with RBI, Exim Bank, ICICI to seek response at the highest level regarding policy recommendations feasibility and also refinements required based on current developments. The major recommendations of the Sub-group were presented to the Working Group in the meeting held on 17.5.96 and were endorsed by the Working Group. This report presents the coverage of items and analysis of export finance facilities and fiscal incentives available, bottlenecks identified and recommendations for policy.

EXPORT FINANCE MECHANISM DURING 8TH PLAN AND EXPORT PROJECTIONS FOR 9TH PLAN

The export finance mechanism is instituted to help exporters to have credit arrangements for financing export business and to provide insurance cover to mitigate the risks involved in export ventures. Export finance schemes have been planned as part of monetary policy with a view to providing export credit at more attractive terms than normal commercial credit and to provide guarantee against financial, political risks. During the 8th Plan period, exports were expected to grow at 13.6 per cent per annum in real terms. During the first four years of the 8th Plan period 1991-92 to 1995-96 exports registered an overall annual growth of 15.8 per cent in dollar terms which is close to or slightly above the target fixed for the 8th Plan period. With the projected sustained growth at 20 per cent in dollar terms during 1996-97, it is likely that the targets set for the 8th Plan may be exceeded. It is projected that the overall growth rate for exports during 8th Plan would work out to 16.5 per cent in current dollar terms.

The Sub-group on exports carried out a detailed exercises for projecting exports during the 9th Plan which suggest that export values would be around dollar 90 billion by 2002. To realise this level of export values, a 20 per cent growth per annum in dollar terms is considered crucial; this level of export growth would also be required to sustain a projected level of imports during 9th Plan which is expected to be high in the initial years of the 9th Plan owing to imports of POL, fertilizers and items of mass consumption.

The sectoral composition of exports projected for the 9th Plan indicates that the share of agriculture and allied products would be around 14 per cent, ores and minerals at around 4 per cent with the share of manufactures remaining at around 80 per cent.

To achieve the high level of export growth projected for 2002, there is an imperative need for making availability of finance to sustain the growth rate, infrastructure and other support services. Finance being crucial for meeting working capital requirements of the export sector besides post-shipment risk insurance and competitive credit, the sub-group agreed that finance mechanism and credit policy would have to ensure availability of competitive credit; a reasonable, stable and supportive credit policy for exports during the 9th Plan period to meet cash flow requirements and post-shipment credit is considered to be crucial for realising 9th Plan export projections.

REVIEW OF EXPORT CREDIT FACILITIES CURRENTLY AVAILABLE

Currently special schemes exist for providing export credit at the pre-shipment and post-shipment stages. This includes export packing credit facility, rupee credit, dollar denominated credit, lower rate of interest on rupee credit as compared to commercial credit, issue of guarantees in favour of overseas buyers, establishing LCs for import of essential raw materials, bookforward contracts to hedge against exchange fluctuations besides providing counselling and market information to exporters in accessing global markets.

To ensure adequacy of credit RBI has mandated that commercial banks would provide atleast 10 per cent of net banking credit to the export sector, while interest rates are higher than those prevailing in the developing/competitor countries, special schemes have been initiated to provide foreign currency credit at slightly higher than libor rates of interest. While available data indicated that export credit has a share of net banking credit which works out to 12.8 per cent for all banks, exporters' apprehend difficulties in receiving adequate export credit at specific locations, export intensive areas and small scale sectors. It appears that while the average share of export credit may be higher than the stipulated percentage of 10% of net bank credit, the accelerated export growth at 20 per cent in dollar terms in recent years is likely to enhance credit requirements besides experiencing geographic pressure points which currently exist in the provision of export credit. Difficulties are also experienced in receiving special types of credit for meeting sectoral requirements such as cash flow requirements of the software sector, pre-shipment credit required by agricultural exports and special credit requirements of

project exports. A need for geographic thrust in availing export credit has been pointed out by the exporting community consequent on special problem in credit being faced while exporting to destinations such as CIS countries, Africa and Latin America.

The exim policy focusses on financing the export of capital goods and other manufactured goods as a result of deferred payment basis. Exim Bank finance is also available at production stage where the manufacturing cycle exceeds six months. The bank is empowered to finance consultancy in related services exports and associated Indian joint ventures in third countries. It is, thus, noted that while commercial banks take care of the short term needs of export financing, the Exim Bank provides medium to long term credit besides offering lines of credit to foreign companies and overseas financial institutions for import of goods and services from India besides it offers 100 per cent re-finance to commercial banks to extend deferred payment credit to exporters.

In addition to short, medium and long term credit needs as above, institutional support for protecting exporters from risk of non-payment is provided by the ECGC which offers three broad policies viz. whole turnover policy, specific policy and exchange fluctuations risk policy. The premium rates in these policies are closely related to the risk involved and vary according to the countries to which goods are exported. The export of capital goods and turnkey projects, construction work and services abroad are covered by specific policy cover; political risk is covered when required. The exchange rate fluctuation cover is provided for payment schedule over a period of 12 months or more, up to a maximum of 15 years. ECGC also provides various types of guarantees to the banks to encourage adequate credit and other facilities to the exporter. Bank loans given to exporters under pre-shipment schemes are eligible for coverage under packing credit guarantee, depending on the volume of business. Generally guarantee is extended only when the exporters hold an insurance policy of ECGC to cover the post-shipment risk. Besides this, ECGC also provides export production finance guarantee, export finance guarantee, export performance guarantee and transfer credit.

It is noted that a well developed institutional set up exists in India for providing export finance and related activities; however given the increased importance of export sector which is becoming an engine of economic growth, it is desirable to strengthen the entire set up to be more effective and responsible in meeting the requirements of Indian exporters. Hence, it is recommended that the commercial banks be urged to increase the share of export credit to net banking credit from the existing 12 per cent to a desirable 15 - 17 per cent gradually during the period of the 9th Plan. With the economic reform process in full swing and the results evidenced in terms of a high GDP

growth at 7 per cent, a reasonable agricultural growth at 4-5 per cent, industrial growth at 10-12 per cent, the existing credit structure and schemes would be required to address the increased credit requirements of all these sectors besides the growing need to finance infrastructural projects. It is likely that the banking system would be tempted to finance agricultural/industrial credit yielding presently a higher rate of return than providing enhanced export credit at the present relatively lower interest rates. Hence, there is a need to increase overall credit availability of the banks while ensuring an increased flow of credit to the export sector. This could perhaps be achieved by lowering the CRR and SLR requirements of the banks as part of the financial sector reforms and earmarking designated share of the enhanced fund availability for the export sector.

The need for procedural simplification needs no special emphasis. There is an urgent need to speed up the credit risk assessment process especially for the exporter as his activity is timebound and gets affected due to delay in shipment. It is recommended that request for export credit, enhancement of credit limits for exporters and request for transfer from SSI to non-SSI classification etc. be processed with export credit applications separately considered on a fast-track basis as distinct from other normal commercial credit applications. The need for a separate queue for processing export credit applications in a faster and timebound manner is crucial and it would reduce the response time in export activity and facilitate faster turnover besides reducing production cycles. Currently the response time to an export demand varies normally from 3-6 months as compared to 4-6 weeks in India's competitor countries.

There is a need to reconcile the risk perception of banks and the exporters expectations of increased credit. The credit risk assumption process can be speeded up by maintaining a central registry of background information of exporters by the RBI with commercial banks having access to this registry. There exists also a need to develop speedy transmission of export proceeds within the internal bank network system similar to the SWIFT system; it is necessary that all commercial banks dealing with international trade operations - whether import or export - are connected to SWIFT in all major cities and towns which are export thrust areas. This would enable an exporter to switch to the electronic mode of financial transaction and improve the credibility for exporters.

EXPORT CREDIT SCHEMES OF RBI

There are three schemes of RBI under which Export Credit is given to the Exporters. These are Pre-shipment Credit in Foreign Currency (PCFC), Post Shipment

Credit in Foreign Currency (PSCFC) and Export Bill Rediscounting (EBR). The scheme of PSCFC has been terminated w.e.f. 8.2.96. With the withdrawal of PSCFC Scheme the exporters will now have the option of availing of Export Credit at the Post Shipment stage either in Rupee or in Foreign Currency (under the EBR scheme) at LIBOR (London Inter Bank Offered Rate) linked interest rates. Export Credit Facility in Foreign Currency under the PCFC Scheme or in Rupees is also available to exporters at the Pre-shipment stage. The present rates of export credit specified by RBI are given below

I. Pre-shipment Export Credit

(A) In Rupees

- Upto 180 days .. 13%
- Beyond 180 days to 270 days .. 15%

(B) In Foreign Exchange (PCFC)

- Banks not having overseas branches .. LIBOR + 2.5%
- Other Banks .. LIBOR + 2%

II. Post Shipment Export Credit

(A) In Rupees

- Upto 90 days .. 13%
- Beyond 90 days to 180 days .. Free

(B) In Foreign Currency (EBR Scheme)

- Banks not having overseas branches .. (i) LIBOR + 2.5% (with recourse basis)
.. (ii) LIBOR + 3.0% (without recourse basis)
- Other Banks .. (i) LIBOR + 2% (with recourse basis)
.. (ii) LIBOR + 2.5% (without recourse basis)

NEW SCHEMES INTRODUCED TO FACILITATE EXPORTS

(a) Pre-shipment and post-shipment credit in foreign currency (PCFC and EBR Schemes)

With a view to making available export credit at internationally competitive rates, which has been the constant demand of exporters, the schemes of financing Pre-shipment Credit and Post Shipment Credit in Foreign Currency (PCFC/EBR) at rates

linked to LIBOR have been introduced from last quarter of 1993. These facilities will be additional windows along with the existing methods of export financing and be available in all convertible currencies to cover both domestic as well as imported inputs of the export goods. Banks have been permitted to use the foreign currency on-shore funds available with them and also have been allowed to arrange lines of credit from abroad or locally from other banks including Exim Bank and SIDBI. The ultimate cost to exporters should not exceed 2%-2.5% over LIBOR excluding withholding tax. With the introduction of these two new schemes, the exporter will have two options to avail of export credit. One to avail of pre-shipment credit in rupees. In this case, the post shipment will be available, either in rupees or in foreign currency under EBR scheme. The other alternative will be to avail of pre-shipment credit in foreign currency and discount the export bills in foreign currency. Once the exporter chooses at pre-shipment stage either rupee or foreign currency, he has to follow the routes mentioned above. All other relaxations extended to rupee pre-shipment credit are applicable to PCFC also except granting of pre-shipment credit for deemed exports. The PCFC and EBR schemes are also applicable to export transactions with ACU countries with effect from 1.1.1996. As all transactions under the Schemes are in actual foreign currency 'spot rates' of exchange are applied. No refinance from RBI is available to the banks for credit extended under the Schemes.

(b) Pre-shipment credit to sub-suppliers

Sharing of pre-shipment credit between the trader exporter and the manufacturer has been allowed since 1976, where the manufacturer is eligible for packing credit for supply of exportable goods only. Under the new scheme introduced in November 1994, sub-suppliers of raw materials components etc. of the exported goods are eligible to avail rupee packing credit at concessional rate of interest on the basis of domestic L/C opened by export order holder.

FLOW OF EXPORT CREDIT TO EXPORT SECTOR

Reserve Bank of India is closely monitoring the flow of credit sector both under Rupee Scheme and Foreign Currency Schemes viz. Pre-shipment Credit in Foreign Currency (PCFC) and Rediscounting of Export Bills Abroad (EBR).

The total export credit outstanding which stood at Rs.10695 crores (8.7% of total net bank credit) as of March 1992 increased to Rs.17018 crores, Rs.19693 crores and Rs.27970 crores as of March 1993, 1994 and 1995 forming 11.6%, 12.5% and 13.3% of total net bank credit respectively.

The export credit outstanding on a particular date may not indicate the actual amount of credit enjoyed by the export sector. To overcome this, RBI has also started collecting data on export credit disbursements from banks with effect from 1st April 1992. The position of export credit disbursements for the years 1992-93, 1993-94 and 1994-95 is given below :

(Rs. in crores)

Year	Pre-shipment	Post-shipment	Total	Total exports
1992-93	28724	32570 (12124)@	61294	53690
1993-94	39155	46719 (30120)@	85874(40%)	69751(30%)
1994-95	44583	60768 (35996)@	105351	82338(18%)
	(12004)+	(7945)@@	(22.7%)	
June 1995*	14424	21323	35747	22869
	(2717)+	(13343)@		
		(3007)@@		
+ PCFC disbursement				
@ PSCFC disbursement				
@@ EBR disbursement				
* Provisional				
% indicates increase over the previous year				

It will be noticed that growth in export credit disbursement is more than the growth in physical exports and the flow of credit to export sector has been satisfactory.

Level of outstanding and disbursement of bank credit and the share of export credit in it since 1992-93

Details of export credit outstanding and disbursement are given as under :

(Rs. in crores)

Period (Financial year/quarter)	Export Credit Disbursement	Export Credit Outstanding	Export Credit to net bank credit
1992-93	61294	17018@	11.6
1993-94	85874	19693@	12.4
1994-95	105351	27970@	13.0
1995-96			
June 1995	36008	27181	13.0
Sept. 1995	Not available	27323*	12.5
Dec. 1995	Not available	29311*	11.8
Mar. 1996	Not available	31758*	12.6

* Provisional

@ at the end of March

Banks are getting liberal refinance facilities from Reserve Bank against their export credit within RBI's overall monetary credit policy and also taking into account the relaxation of reserve requirements. With effect from the fortnight beginning April 13, 1996, scheduled commercial banks will be provided export credit refinance to the extent of 45 per cent of the total outstanding export credit eligible for refinance (Rupee credit and PSCFC taken together) as on February 16, 1996 plus 100 per cent refinance on the increase in such export credit over the outstanding level as on February 16, 1996. Although, initially the refinance to banks is likely to be reduced on account of this measure, in the long run export credit refinance to banks is expected to rise rapidly.

Developments in the areas of Export Finance and Exchange Control

(i) Rupee Export Credit Interest Rate Structure

The rate of interest on pre-shipment credit upto 180 days and beyond 180 days and upto 270 days has remained unchanged since 1st March 1993 and is available at 13% and 15% p.a. respectively on slab basis. There has been no change in the interest rate of 13% on post-shipment credit for total period up to 90 days including demand bills for transit period as specified by FEDAI since March 1993. The interest rate on post-

shipment export rupee credit for total period over 90 days and up to 6 months from the date of shipment has been freed from 8th February 1996 and banks have the freedom to determine the interest rate on such credit.

(ii) Exports to Asian Clearing Union Countries. Granting of export credit in foreign currency under Pre-shipment Credit in Foreign Currency (PCFC) and Export Bills Rediscounting (EBR) Schemes

In view of the separate method of payment prescribed for trade transactions with ACU countries, exporters to these countries were not eligible for credit facilities under PCFC and EBR schemes. Consequent on switching over to a dollar denominated trade among the ACU countries with effect from 1st January 1996, banks have been permitted to extend pre-shipment and post-shipment credit in foreign currency under the above schemes for exports to ACU countries with effect from 1st January 1996.

(iii) Payment Under ACU

Effective from 1st January 1996 all settlement of accounts under ACU mechanism are being made through ACU dollar accounts. Valuewise, there is no distinction between the US dollar and ACU dollar. Accordingly, there is no difference between trade carried out in convertible currency and trade with ACU countries settled through ACU dollar accounts. The exempted categories of payments will continue to be settled outside ACU mechanism as hitherto.

PROCEDURAL SIMPLIFICATION FOR SPEEDIER DISBURSAL OF EXPORT FINANCE

(a) Extension of pre-shipment credit for periods beyond 180 days

Banks allow pre-shipment credit for operating period or maximum of 180 days initially. RBI was giving extension upto 270 days in individual cases on request in writing. With a view to expediting clearance and also for giving operational flexibility to banks, banks have been permitted with effect from 12th March 1992 to extend the period of pre-shipment credit from 180 days to 270 days on merit of each case. Wherever necessary depending upon the cycle of production, banks have also been permitted to extend pre-shipment credit for a longer period ab-initio upto maximum of 270 days.

(b) Pre-shipment credit under 'Running Account' Facility

Banks are normally required to provide pre-shipment credit to the exporters on lodgement of letters of credit or firm export orders. Under the 'Running Account' Facility,

banks have been permitted to extend pre-shipment credit subject to production of Letters of Credit or firm order within a reasonable period and also liquidation of packing credit with proceeds of documents on first-in-first-out basis. RBI was extending this facility selectively by issuing separate circular instructions from time to time. From November 1967 to January 1992 facility was made available for 34 commodities. With a view to mitigating the hardship experienced by exporter in availing of this facility which was being allowed commoditywise, with effect from 14th March 1992, banks have been permitted to extend the 'Running Account' Facility in respect of any commodity depending on their judgement about the need to extend such a facility keeping in view the track record of the exporter.

(c) Relaxation in stipulation of liquidation of pre-shipment credit

Export packing credit was required to be liquidated with the export documents of the relative order only. While flexibility of first-in-first-out was allowed under 'Running Account' Facility to liquidate packing credit, no liquidation of existing account was allowed with export proceeds of documents against which no drawal was made. Substitution of commodity was allowed only on permission of RBI. With a view to allow operational flexibility to both banks and exporters, the above stipulations have been relaxed from 14 December 1994. While, the stipulation of repayment of packing credit with export documents will continue; this could be with export documents relating to any order covering the same or any other commodity exported by the exporter. The existing packing credit may also be marked off with export proceeds of documents against which no packing credit has been drawn by the exporter after ensuring the exporter has not drawn packing credit from any other bank against the documents submitted.

(d) Streamlining Sanctioning Procedures

RBI has advised the banks, on the basis of the recommendations of various Committees appointed by RBI, to streamline the sanctioning procedure of the credit limits for exporters. Some of the important relaxations/improvements made are as under :

(i) The sanction of fresh/enhanced limits for export credit should be made within 45 days, renewal of limits within 30 days and adhoc limits within 15 days. Needless, to add that the exporters have to furnish the complete data and financial accounts to enable the banks to serve them better.

(ii) The cut off point for compulsory consortium lending has been hiked from Rs.5 crores to Rs.50 crores.

(iii) Banks will have freedom to decide levels of holding of individual items of inventory and of receivables which should be supported by bank finance.

(iv) Banks have to evolve a system internally to ensure that grievances of borrowers, particularly exporters, in the matter of timely and adequate sanction are redressed promptly.

(v) Banks have been advised to delegate more powers to the various functionaries, especially in overseas branches, for sanctioning credit limits.

(vi) In order to ensure that the credit requirements of exporters are promptly met and additional credit requirements arising out of firm orders/confirmed letters of credit, not taken into account while fixing the regular credit limits, are met in full, banks have been advised to sanction such additional credit limits, even in excess of MPBF.

LONG TERM TREND IN EXPORT FINANCE VIS-A-VIS DEPOSIT AND CREDIT PROGRAMME AND FINANCE REQUIREMENTS TO SUSTAIN 9TH PLAN EXPORT PROJECTIONS

An analysis has been made of the past performance of the deposits and credits by commercial bank together with the share of export credit to total bank credit and presented in Table III enclosed.

Fitting a long linear trend it is estimated that the long term trend rate of growth of deposit during the fifteen year period from 1980-81 to 1994-95 (the latest year for which data is available) is 18% for aggregate deposit as may be seen in Col.3 of Table III enclosed.

Using the fitted equation the aggregate deposits would amount to Rs.1202757 crore (current prices) by 2001-2002 as indicated in col.2 of Table III.

Analysing the data on commercial banks credit it is seen that the rate of growth of deposit during the 15 year period is in the range of 11 to 21 percent, except for 1991-92 and 1993-94 when it has been rather low at 8.0% & 8.2% respectively. During 1994-95 growth rate has been significantly high at 28.7%. The data on aggregate deposits and percentage change total bank credit and total export credit are presented in Table IV enclosed.

The low growth of credit in 1991-92 can be explained in view of overall credit squeeze and import compression measures due to macro-economic imbalances and process of reforms initiated thereafter.

During 1993-94 the low growth of credit can be attributed to adherence of prudential norms of credit which led to some restriction in flow of credit. However, in the following year, the credit showed an all time high growth of 28.7%.

With these data, the long term trend rate of growth of credit works out of 15.7%. The estimates generated by this model give very low figures of banks-credit during 2001-2002 and consequent decline of credit-deposit ratio to 47% from current level of about 54%. Hence the estimates have been re-generated by imputing the trend rate of growth to inter-polate value of credit for 1991-92 and 1993-94, assuming them as normal years and then the model has been reworked. The new model gives the long term trend rate of growth of credit at 16.7%. This model gives the credit at Rs.654241 crore during 2001-2002 with the credit deposit ratio at 54.4%.

Analysing the data on pre-shipment and post-shipment credit by the commercial banks, it is observed that the share of export credit to total bank credit which was in the range of 4.5% to 8.3% during the period 1981-82 to 1991-92 increased substantially in the following years and was 11.2% in 1992-93, 12.0% in 1993-94 and further increased to 13.2% in 1994-95. It is expected that the share of export credit to total bank credit would further increase if the projected level of exports of about \$ 90 billion by the end of the 9th Plan period are to be achieved. The analysis shows that the share of export credit total bank credit would be about 16.9% during the terminal year of the Plan.

The above supports the need to increase the share of net bank credit earmarked for exports from the present mandatory limit of 10% to a minimum of 17% to be achieved during the 9th Plan period; this is required to ensure that export activity is not restrained for want of adequate credit. Further with a reduction in CRR and SLR ratios during the financial sector reforms, it is envisaged that lendable resources available to commercial banks would increase to support accelerated export production and marketing.

TRADE FINANCE SCHEMES IN DEVELOPING COUNTRIES

A package of trade financing schemes is being adopted by developing countries which covers national, sub-regional and regional trade financing, insurance and guarantee schemes. While the type of schemes and the institutions providing financing facility for export differs in various countries, it is noted that specialised trade finance institutions have been set up in practically all developing countries and the Central Bank provides direct support to trade financing; special guarantee schemes are offered to

exports and insurance facilities are provided to cover short, medium and long term risks both commercial and political risks; some countries seem to provide re-insurance facilities. A statement indicating the specialised institutions set up for providing trade finance, support provided by Central Bank's special guarantee schemes and provision of insurance facility and re-insurance schemes in respect of select developing countries is presented in statement V enclosed. The selection of countries has been made to compare with India in the stage of development and exports and competition offered to India in the international markets.

It is interesting to study the amount of exports covered by national credit schemes in other developing countries. It is observed that 38.33% of exports were covered by national schemes in Brazil, 36.76% in Uruguay and 34.67% in Zimbabwe. The percentage of national exports covered by financing schemes range between 5-7 per cent in Bangladesh, Columbia, Cyprus, Mexico and Tunisia. For India ECGC and Exim Bank provided cover to 17.65% of India's exports in 1992 as per comparable data available for other countries.

Export financing in developing countries as a percentage of exports through official and commercial banks varied substantially during 1991-94 as per data available from UNCTAD. It appears that many developing countries provided substantial support as pre-shipment credit with a few countries focussing on post-shipment credit. In countries such as Malaysia, Morocco, Nigeria, Pakistan, Republic of Korea and Indonesia pre-shipment and post-shipment credit provided through official institutions is substantial. Commercial banks in Indonesia, Malaysia, Sri Lanka played a significant role in providing pre-shipment credit. It is interesting to note that refinancing and co-financing is significant in South Korea, Indonesia, India, Malaysia, Mexico, Nepal, Nigeria and Pakistan.

While reviewing briefly the structure in terms of domestic export financing schemes, it is observed that the eligibility criteria differed in different countries. For instance, Columbia stipulates that buyers' credit worthiness is important for eligibility; Fiji provides export credit based on 40% local value-added criteria; India requires that exporter should bear a RBI code number or be a member of Export Promotion Council; Republic of Korea decides eligibility based on selected goods; Malaysia prescribes eligibility criteria as capital goods meeting local content/value added criteria of 30%/20% and manufactured goods meeting bank industry 50%/30% added criteria; Mauritius prescribes eligibility as 'all goods except sugar and molasses' while the Mexico prescribes for all direct or indirect exports except oil products; Morocco and Peru

Table V
Trade-financing, insurance and guarantee schemes in selected developing countries

Country/Territory	Specialized trade-finance institutions	Support from the Central Bank to trade financing	Special Guarantee schemes	Insurance Facilities	Re-insurance Facilities
India	Export-Import Bank of India (Eximbank) offers export marketing assistance, import finance, plant and equipment finance, pre- and post-shipment finance, technical assistance, refinance of bulk imports. Reserve Bank of India (RBI) offers pre- and post-shipment finance.	The RBI through its Industrial and Export Credit Dept. refinance export credit extended by banks operating in India. Banks provide export credit refinance against their outstanding export credits. At present no rediscounting facility is available.	Export Credit Guarantee Corp. of India (ECGC) * covers exporters and their lenders against commercial and political risks. Both specific contract and whole-turnover policies are available. ECGC covers: pre- and post-shipment guarantees, performance guarantees	ECGC offers: foreign exchange insurance, overseas investment insurance, pre- and post-shipment insurance.	n.a.
Indonesia	Bank of Indonesia Export-Import Bank of Indonesia (ASEI) provides pre- and post-shipment finance; supplier credits and buyer credits.	Central Bank rediscounting facility: post-shipment finance for exporters.	PT. Asuransi Ekspor Indonesia (ASRI) * provides guarantee against the risks of payments default; performance: guarantees, post- and pre-shipment guarantees In 1993, ASRI introduced securities guarantee against payment of securities issued by certain issuers.	. PT ASEI provides export insurance: overseas investment insurance, post-shipment insurance. . PT Askrindo (covers risks against loan default that were granted to a government-requirement type of small and medium scale loans - KUK loans -) whereby Indonesian banks are subject to hold 20% of its loan portfolio; . PT Jastindo (general service insurance) and private national & foreign insurances. Risk covered by these insurers: pre- and post-shipment financing, buyer's insolvency, political, management and commercial risk.	Indonesian export credit insurance companies may accept reinsurance of the Indonesian portion or co-insurance the contract with the lead contractor credit insurer. The central bank rediscounting facility is only available for rediscounting of export earnings

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<u>Country/Territory</u>	<u>Specialized trade-finance institutions</u>	<u>Support from the Central Bank to trade financing</u>	<u>Special Guarantee schemes</u>	<u>Insurance Facilities</u>	<u>Re-insurance Facilities</u>
Jamaica	National Export Import Bank of Jamaica (EXIMJ) offers import finance, pre- and post-shipment finance. EXIMJ's Export Development Fund provides funds to non-traditional exporters for importing raw materials. EXIMJ's Small Business Discount Facility refinances commercial bank pre-shipment loans.	n.a.	EXIMJ's Bankers Export Guarantee Facility offers post shipment cover of up to 80% for contracts of up to 180 days.	Post-shipment insurance covers both commercial and political risks.	n.a.
Jordan	n.a.	Central Bank of Jordan offers post-shipment finance. It refinances loans granted by commercial banks resident in Jordan.	The Jordan Loan Guarantee Corp. —	n.a.	n.a.
Kenya	n.a.	Central Bank of Kenya operates a pre-shipment finance schemes.	n.a.	n.a.	n.a.
Korea, Republic of	Export-Import Bank of Korea (KEEIM) offers import finance, pre- and post-shipment finance. Extends supplier and buyer credits.	n.a.	Korea Credit Guarantee Fund (KCGF) offers pre-shipment guarantees, technical assistance. Korea Export Insurance Corporation (KEIC) offers performance guarantees.	KEIC covers overseas investment insurance, pre- and post-shipment insurance.	n.a.
Lesotho	Comprehensive Export Financing Scheme (- CFS - in operation since 1983) offers pre- and post-shipment finance. It is supported by the export development fund.	Central Bank of Lesotho: . through the CFS offers pre and post-shipment finance. . through the Export Finance Division offers refinancing . issues counter-guarantees	Lesotho National Development Corp. (LNDC): this guarantee covers commercial bank's provisions of credit. The counter-guarantee facility issued by the Central Bank backs LNDC's guaranteeing activities.	n.a.	n.a.

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Trade-financing, insurance and guarantee schemes in selected developing countries

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Macedonia, Former Yugoslav Republic of	Narodna Bank na Macedonia -- National Bank of the Republic of Macedonia --	The National Bank offers rediscount credits for export financing until March 1994	n.a.	n.a.	n.a.
Malaysia	Bank Industri Malaysia Berhad offers: supplier and buyer credits, overseas investment credit.	Export Refinancing Scheme of Bank Negara (Central Bank) offers export credit refinancing for pre- and post-shipment operations	. Buyer credit guarantee repayment available for Malaysian banks at fixed and floating rate export finance loans. . Malaysian Export Credit Insurance Berhad (MECIB *)'S bond indemnity support facility. . Overseas investment guarantee: MECIB's coverage	MECIB offers comprehensive short-term policy performance guarantees, pre and post-shipment guarantees, buyer risks, country risks, confirming bank policy, short-term bank guarantees and other types of policies.	n.a.
Malta	Investment Finance Bank, Ltd.(IFB) (mainly an export credit agency) offers post-shipment finance	n.a.	IFB offers post-shipment guarantees Malta Export Credit Guarantee Company Ltd. (MECGC) offers pre- and post-shipment guarantees	MECGC offers pre- and post-shipment insurance	n.a.
Mauritius	Development Bank of Mauritius (DBM)	n.a.	DBM Export Credit Guarantee Scheme offers pre- and post-shipment guarantees, whole-turnover and specific-contract credit guarantees, favorable-termed guarantees to small exporters	DBM Export Credit Insurance scheme covers commercial and country risks, post-shipment insurance Whole-turnover post-shipment insurance covers exporters (commercial and political risks)	n.a.

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Trade-financing, insurance and guarantee schemes in selected developing countries

Country/Territory	Specialized trade-finance institutions	Support from the Central Bank to trade financing	Special Guarantee schemes	Insurance Facilities	Re-insurance Facilities
Mexico	Banco Nacional de Comercio Exterior(BANCOMEXT)* offers pre-post shipment finance. BANCOMEXT administers the Fondo para el Fomento de las Exportaciones de Productos Manufacturados (FOPEX) through which it offers short, medium- and long-term loans and guarantees. Import substitution loans are available.	n.a.	BANCOMEXT offers performance guarantees, pre- and post-shipment guarantees. Import substitution guarantees and guarantees against inability to export are available.	Compañía Mexicana de Seguros de Crédito S.A.(COMESSEC) offers pre- and post-shipment insurance. Since 1937 COMESSEC has insured commercial risk on export credits for its own account and political risks for the account of BANCOMEX. It also issues domestic credit insurance.	n.a.
Morocco	Banque Marocaine du Commerce Extérieur (BMCE). Centre Marocain de Promotion des Exportations.	BMCE offers export refinancing. Commercial banks are provided with 80% of the export finance from Central Bank; this limit could be raised to 90%.	n.a.	BMCE Société Marocaine D'Assurance à L'Exportation(SMAEX)** offers pre- and post-shipment insurance.	n.a.
Nepal	Nepal Rastra Bank and commercial banks offer export financing.	Nepal Rastra Bank (Nepal's Central Bank) offers pre- and post-shipment finance and refinancing.	Credit Guarantee Corporation offers pre-shipment guarantees only on priority-sector lending. It covers up to 75% of outstanding loans.	n.a.	n.a.
Nigeria	Nigerian Export-Import Bank (NEXIM) offers pre-shipment financing through the refinancing and the rediscounting facility; post-shipment financing through the rediscounting, foreign input and stocking facility; technical assistance.	Refinancing/Rediscounting Facility (RRF) of the central bank.	NEXIM offers post-shipment guarantees.	Industrial & General Insurance Company Ltd (IGI) offers post-shipment insurance. Africa Reinsurance Corporation offers insurance coverage.	NEXIM reinsures its risks through private, foreign-based companies.

Table V
Trade-financing, insurance and guarantee schemes in selected developing countries

<u>Country/Territory</u>	<u>Specialized trade-finance institutions</u>	<u>Support from the Central Bank to trade financing</u>	<u>Special Guarantee schemes</u>	<u>Insurance Facilities</u>	<u>Re-insurance Facilities</u>
Pakistan	State Bank of Pakistan (SBP) offers pre- and post-shipment finance	SBP refinances export loans made by other institutions.	Pakistan Insurance Corporation (PIC), offers post-shipment guarantees. PIC administers the Export Credit Guarantee Scheme	PIC offers pre and post-shipment insurance	n.a.
Peru	Corporación Financiera de Desarrollo (COFIDE) offers pre- and post-shipment finance; loans to promote exports of capital goods.	Banco de la Reserva del Peru	Export Credit Insurance Guarantee Fund of the Compañía de Seguro de Crédito a la exportación (SECREX) offers post and pre-shipment guarantees	SECREX offers pre-shipment insurance	n.a.
Philippines	-	Bangko Sentral ng Pilipinas (central bank)' rediscounting facility	Philippine Export and Foreign Loan Guarantee Corp. (PHILGUARANTEE) offers: Pre-shipment Export Finance (PEFG) Guarantee Program available through the Export Trade Finance Guarantee and the Revolving Export Loan Guarantee. Post-shipment Export Risk Guarantee (PERG) Program available through the Export Trade Finance Guarantee and the Revolving Export Loan Guarantee. General Facility for Medium and Large Industries. Automatic Guarantee Line covering the Pre and Post-shipment Export Finance Guarantee	n.a.	n.a.

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Trade-financing, insurance and guarantee schemes in selected developing countries

Country/Territory	Specialized trade-finance institutions	Support from the Central Bank to trade financing	Special Guarantee schemes	Insurance Facilities	Re-insurance Facilities
Senegal	Banque Nationale pour le Développement du Sénégal Agence Sénégalaise D'Assurance pour le Commerce Extérieur (ASACE) ** offers post shipment finance	n.a.	n.a.	ASACE offers insurance for both political and commercial risks for all Senegalese exporters. It also covers foreign exchange risk, domestic credit and costs of participating in trade fairs abroad.	ASACE offers reinsurance for political and commercial risks
Seychelles	n.a.	Refinancing scheme (concessionary): central bank charges 1% to commercial banks (1%) and banks on lend at 3% 15% surrender requirement on all foreign exchange receipts	n.a.	n.a.	n.a.
Sierra Leone	n.a.	Bank of Sierra Leone offers Pre-shipment finance	Export credit guarantee scheme available (discontinue since 1981)	n.a.	n.a.
Singapore	Singapore Trade Development Board. Local Enterprise Finance Scheme	Monetary Authority of Singapore (MAS)'s Rediscouinting Scheme for pre- and export bills of exchange, post-shipment finance	ECICS Credit Insurance Ltd * offers performance guarantees, pre- and post-shipment guarantees	ECICS Ltd. offers overseas investment insurance, pre- and post-shipment insurance	n.a.
Slovenia	Slovene Export Corporation, Export Insurance and Finance Corp. of Slovenia (EIFCS) offers post-shipment finance Ljubljanska Banka D.D. offers post-shipment finance. Slovenska Trgovna Druzba provides export credit finance and guarantees	EIFCS finances and refinances mid- and long-term export credits.	EIFCS offers post shipment guarantees	EIFCS offers post-shipment insurance	EIFCS reinsures against commercial risks

Table V
Trade-financing, insurance and guarantee schemes in selected developing countries

Country/Territory	Specialized trade-finance institutions	Support from the Central Bank to trade financing	Special Guarantee schemes	Insurance Facilities	Re-insurance Facilities
South Africa	Industrial Development Corporation of South Africa Ltd (IDC) offers post-shipment finance (in rands or US\$)	n.a.	n.a.	Credit Guarantee Insurance Corporation of Africa, Ltd (GCIC) * offers foreign exchange insurance, overseas investment insurance, pre- and post-shipment insurance. The agency usually provides whole-turnover cover, although individual shipment contracts are available.	n.a.
Sri Lanka	n.a.	Central Bank of Sri Lanka offers pre- and post-shipment finance and refinancing	Sri Lanka Export Credit Insurance Corp.(SLECIC) * offers pre- and post shipment guarantees, performance guarantees, technical assistance	SLECIC offers post-shipment insurance. In 1992, the Export Payments Insurance Policy was made available. It aims also at supporting small exporters. In addition, it offers bonus to clients with no claims and special guarantees to commercial banks.	n.a.
Swaziland	n.a.	Central Bank of Swaziland's Export Finance division provides pre- and post-shipment finance	Central Bank is the official credit guarantee agency. It provides post-shipment guarantees, small-scale enterprise investment guarantees	n.a.	n.a.
Tanzania, United Republic of	Export financing available from: Bank of Tanzania, National Bank of Commerce (NBC), Rural Development Bank	n.a.	Available from Bank of Tanzania	n.a.	n.a.

Table V
Trade-financing, insurance and guarantee schemes in selected developing countries

Country/Territory	Specialized trade-finance institutions	Support from the Central Bank to trade financing	Special Guarantee schemes	Insurance Facilities	Re-insurance Facilities
Taiwan Province of China	The Export-Import Bank of the Republic of China (T-Eximbank) offers post-shipment finance, import finance, fixed-rate re-lending, overseas construction credits, technical service credits, overseas investment credits.	n.a.	T-Eximbank offers guarantees for overseas construction, imports, ship exports, and turnkey plus exports, performance guarantees, post shipment guarantees	T-Eximbank, overseas investment insurance, pre- and post shipment insurance. Comprehensive export insurance policies for both documents against acceptance and documents against payments terms. Comprehensive general export insurance covers manufacturing costs before a promised irrevocable letter of credits arrives.	n.a.
Thailand	Export-Import Bank of Thailand is to be established as an arm of the Finance Ministry. As it is phased in, the central bank will discontinue issuance of export credits	Bank of Thailand (BOT) offers pre- and post-shipment finance. It refinances commercial-bank loans supporting exports of agriculture, small-scale industries' products and other priority goods.	Export-Import Bank of Thailand provides guarantee services	Export-Import Bank offers insurance services	n.a.
Trinidad and Tobago	Trinidad and Tobago Development Finance Company Trinidad & Tobago Export Credit Insurance Co Ltd (EXCICO) offers post shipment finance. Whole-turnover cover is the norm, but specific-contract policies are available	Central Bank of Trinidad and Tobago —	EXCICO offers pre shipment guarantees.	EXCICO offers post-shipment insurance	n.a.
Tunisia	n.a.	n.a.	n.a.	Compagnie Tunisienne pour l'Assurance du Commerce Extérieur (COTUNACE) offers pre- and post-shipment insurance	n.a.

Table V
Trade-financing, insurance and guarantee schemes in selected developing countries

Country/Territory	Specialised trade-finance institutions	Support from the Central Bank to trade financing	Special Guarantee schemes	Insurance Facilities	Re-insurance Facilities
Venezuela	Fondo de Financiamiento a las Exportaciones(FINEXPO) offers pre- and post-shipment finance. It refinances up to 50% of commercial-bank loans to non-traditional exporters.	Central Bank of Venezuela and the Venezuelan Investment Fund provides Finexpo's funding.	n.a.	La Mundial Venezolana de Seguros de Crédito offers pre- and post-shipment insurance, covers commercial risks	n.a.
Viet Nam	Bank for Foreign Trade of Viet Nam (VIETCOMBANK) offers post-shipment finance Viet Nam Export-Import Bank offers pre- and post-shipment finance	n.a.	Viet Nam Export-Import Bank offers post-shipment guarantees	n.a.	n.a.
Zambia	Zambia Export-Import Bank (ZEXIM) offers short term coverage and pre- and post- shipment finance. It finances medium- and large-scale industry, especially manufacturing and agriculture, by mobilising foreign exchange loans from external sources for re-lending to investors	n.a.	n.a.	ZEXIM offers pre-shipment insurance	n.a.
Zimbabwe	Reserve Bank of Zimbabwe promotes exports through retention schemes, bonus schemes and an export revolving fund. Both direct and indirect exporters are eligible for the revolving fund	Reserve Bank of Zimbabwe, offers post-shipment finance	Credit Insurance Zimbabwe Ltd.(CREDSURE) offers post-shipment guarantees, performance guarantees	CREDSURE offers pre- and post-shipment insurance; exceptions are: exchange rate fluctuations, default of an agent of the insured, non-compliance with import regulations, trade disputes, and risks generally covered by other insurance (e.g. fire, inland marine)	n.a.

Notes: * ECOWAS member; ** SADC member; n.a.: not available

Sources: UNCTAD secretariat, based on responses to questionnaire on trade-financing schemes, sent to financial institutions in developing countries; "Trade financing in developing countries: an assessment and evaluation of existing schemes and future requirements" (TD/B/1300/Supp. V, August 1991); Bank of America Project on Trade Finance: "World Export Credit Guide" 1994; Eurocomex Publications - First Washington Association: "The Trade and Export Finance Handbook, London 1994.

Table V Trade-financing, insurance and guarantee schemes in selected developing countries					
Country/Territory	Specialized trade-finance institutions	Support from the Central Bank to trade financing	Special Guarantee schemes	Insurance Facilities	Re-insurance Facilities
Venezuela	Fondo de Financiamiento a las Exportaciones (FINEXPO) offers pre- and post-shipment finance. It refinances up to 50% of commercial-bank loans to non-traditional exporters.	Central Bank of Venezuela and the Venezuelan Investment Fund provides Finexpo's funding.	n.a.	La Mundial Venezolana de Seguros de Crédito offers pre- and post-shipment insurance, covers commercial risks	n.a.
Viet Nam	Bank for Foreign Trade of Viet Nam (VIETCOMBANK) offers post-shipment finance Viet Nam Export-Import Bank offers pre- and post-shipment finance	n.a.	Viet Nam Export-Import Bank offers post-shipment guarantees	n.a.	n.a.
Zambia	Zambia Export-Import Bank (ZEXIM) offers short term coverage and pre- and post-shipment finance. It finances medium- and large-scale industry, especially manufacturing and agriculture, by mobilizing foreign exchange loans from external sources for re-lending to investors	n.a.	n.a.	ZEXIM offers pre-shipment insurance	n.a.
Zimbabwe	Reserve Bank of Zimbabwe promotes exports through retention schemes, bonus schemes and an export revolving fund. Both direct and indirect exporters are eligible for the revolving fund	Reserve Bank of Zimbabwe, offers post-shipment finance	Credit Insurance Zimbabwe Ltd. (CREDSURE) offers post-shipment guarantees, performance guarantees	CREDSURE offers pre- and post-shipment insurance; exceptions are: exchange rate fluctuations, default of an agent of the insured, non-compliance with import regulations, trade disputes, and risks generally covered by other insurance (e.g. fire, inland marine)	n.a.

Notes: * Ecuator Union member; ** Dakar Union member; n.a.: not available

Sources: UNCTAD secretariat, based on responses to questionnaire on trade-financing schemes, sent to financial institutions in developing countries; "Trade financing in developing countries: an assessment and evaluation of existing schemes and future requirements" (TD/B/L.300/Supp. V, August 1991); Bank of America Project on Trade Finance: "World Export Credit Guide" 1994; Euromoney Publications - First Washington Association: "The Trade and Export Finance Handbook, London 1994.

prescribe eligibility based on case by case basis; Tanzania prescribes eligibility as non-traditional exporters while Venezuela desires 30% of local content. In general, insurance coverage is for 85-100 per cent.

SECTORAL APPROACH TO EXPORT FINANCING

Studies have been carried out for an indepth current scenario of export credit arrangements and to give suggestions for providing easier export credit financing to specific sectors. Special studies have been made to focus on the textile and software sectors in which India could exploit her competitive strength.

TEXTILE SECTOR AND EXPORT CREDIT

It has been projected that by establishing appropriate institutional mechanism and infrastructural support India could attain a significant market share of 25-30 per cent in world textiles trade in the next 8-10 years which opens up new business opportunities for the Indian banking and financial system. Suggestions have been made to facilitate easier export financing and procedures for the textile sector which include the following ::

- A liberal assesment of export credit requirement as far as quantum of credit is concerned by assessing requirement based on turnover and projections and not driven by contracts on hand;
- Export credit should be granted in the form of revolving credit; renewals of credit facility should be made on a rating basis with appropriate enhancement in quantum subject to satisfactory conduct of account;
- Bills discounted and purchased under prime Bank L.Cs should be considered over and above the export limits;
- Margin requirements on facility need to be stipulated lower up to a maximum of 10% on FOB value at preshipment stage; margin at post-shipment stage may not be insisted upon since interest is recovered upfront on export bills;
- In order to make credit delivery more flexible pre-shipment credit shall be granted as a running account time and credit disbursement should not be subject to submission of underlying contract or L.C.; verification of underlying contract/L.C. should be built in as a separate process for estimation of drawing power and enduse monitoring;
- The Bank should permit utilisation of export facilities in multi currency with the option to choose currency given to the exporters;

Due to faster and easily accessible modern communication system like SWIFT, time taken for realisation of export bills in L.C. is lower; hence existing transit period shall be revised and made flexible and the tenure for discounting/purchase should be exporter driven than bank driven; To extend adequate export credit to manufacturing units, particularly small and medium units, part of the export credit facility enjoyed by merchant exporters should be made available only by way of back to back L.C.; Banks should be permitted to open back to back L.C. in the same currency of exports; sub-suppliers with access to bank facilities should be treated at par with exports for credit facilities and rate of interest and granted the option to draw multi currency credit at their discretion; bills covering despatch of goods to merchant exporters for eventual shipment should also be treated as export bill by sub-suppliers' bankers for the purpose of rate of interest and fulfilment of their obligation; to facilitate these requirements, RBI could permit inland movement of foreign currency from merchant exporters bank to sub-suppliers' banks to adjust multi currency preshipment and post shipment loans;

In order to meet precontractual expenses of garment exporters by way of sampling and design development, medium term finance for upto 3 years in foreign currency shall be made available at international rates to be repaid out of the export proceeds. Exim Bank could be designated as the disbursing bank for this purpose and could evolve specific schemes to help exports of garments, leather etc. where special sampling and design development is crucial.

Credit insurance schemes and procedures need to be made more liberal viz. insurance coverage percentage should be raised to 90% in all cases and insurance premium should be made negotiable; exporters can have the option to cover shipment selectively and buyerwise limit provision could be made liberally.

RBI could explore the possibility of selective introduction of factoring/ forfeiting facility through other banks/institutions for lower amounts to facilitate exporters to tap new markets; data based requirements of this activity could be supported by ECGC or Exim Bank.

The above suggestions on the schemes and the procedures would encourage banks to expand export credit, and exporters with good track record would benefit by flexible procedures. Contracts can be executed on more flexible terms while new

markets can be successfully tapped. Flow of credit to manufacturers would be smoothened and would meet more need based for exporters.

SOFTWARE SECTOR

Given the importance of software exports as a dynamic sunrise sector in India's export scenario by 2002 there is a need to draw a framework for a special funding programme for the software sector based on the exports of financing software companies and addressing the specific requirements especially of working capital needs. The financing requirement of the software export companies are quite distinct from the other export/domestic sectors. Founder's equity (promoters contribution) has been traditionally the primary source of funding and many software companies have grown their businesses by ploughing back internal accruals (bootstrapping). Exports as indicates that Indian software companies have ability to expand through commercial funding programmes and some software companies supplement working capital with advances from customers. Prudential norms applied by banks restrain the flow of funds and working capital to software industry by making internal generation of resources for financing. Considering the specific requirements for working capital in the software sectors a few broad types of instruments for financing software companies are suggested :

- risks sharing loans could be provided for use in financing expansion activity such as infrastructural creation or product development; these loans may carry conversion option;
- normally loans could be provided to mature companies as a revolving facility to tide over non availablility of bank financing;
- convertible preference shares could be used in place of or to supplement risk sharing loans;
- a need exist for a specialised institution for providing medium to long term credit to the software companies especially to encourage exports and to ensure that finance is not a constraint in export acceleration;
- the constitution, structure, organisation and working relationship of such an institution with other existing agencies/institutions needs to be evolved carefully; the institution would facilitate creating a capital base for financing the software industry in India on commercial lines and develop a set of instruments and appropriate financing models which could serve as the basis for preparing a stage of funding packages for the software industry.

- Funding for training institutions and for improving availability of trained manpower in advanced central areas would ensure that the software industry growth is not impeded by non-availability of human resources.

SUMMARY OF RECOMMENDATIONS

A GDP growth at 6-7 per cent, agricultural production growth at 4-5 per cent, industrial growth at 10 per cent and export growth at 20 per cent has been envisaged during the Ninth Plan period. Given the export projection for 20 per cent growth in dollar terms steadily by the year 2002, it seems necessary that export credit will have to grow at a satisfactory rate. The question is should export credit grow at 20 per cent to meet export projection. For export finance, various schemes are available. However, due to the increasing importance of the export sector and development of exports in the post liberalisation phase of the economy, it is desirable to strengthen and make the entire set-up more effective and responsible towards the need of the Indian exporters. Therefore, it is recommended that the commercial banks be urged to increase the share of export credit to net bank credit from existing around 12% to 17% gradually till the end of the Ninth Plan.

On the procedural aspect of commercial banks, there is a need to speed up the credit risk assessment process, specially for the exporters as this activity is time bound and gets affected due to delays in shipment. Therefore, it is suggested that there may be a separate queue for processing the exporters requirement which is faster and time bound.

The credit risk assessment process can be speeded up by maintaining Central Registry of background information of the exporters by the RBI with commercial banks having access to it.

There is also a need to develop speedy transmission of export proceeds within the internal bank net work system similar to the Swift System.

To enable adequate supply of export credit through the banking system the deposit mobilisation rate should also be increased steadily. Available indications are that domestic savings rates may go up by 15 - 16 per cent during the Ninth Plan. Other measures to encourage deposit growth (removal of TDS, fiscal incentives for savings) need to be considered.

Due to the low level of inventory or capital in services export, it is necessary to evolve separate norms and criteria for exports from this sector. ECGC could also work out a system for providing cover to services export with low premium to enable flow of funds as working capital to the services sector at the pre-shipment stage.

Investments in industries having an export orientation (export obligation for a minimum period of 5 years) should not require approval of Department of Company Affairs under Section 372 if such investment has been approved by the shareholders of the investor company.

To support services exports and availability of credit for this sector which has potential in the WTO regime, there is need to evolve a new policy package to encourage services export. India's potential lies in software services, operations and management services, consultancy services, hospital services and other business services besides constructive services. Given the low level of inventory or capital in the services sector and the predominant share of human services and value addition, it is necessary to evolve norms and criteria for banks on the basis of which banks can provide credit to services sector similar to the manufacturing industry. It would be useful to consider separate norms and criteria for merchandise and services exports during the Ninth Plan period since the current asset ratio may not be relevant to the services industry.

As part of the medium term financial sector reform CRR and SLR are expected to be brought down to 10 per cent or lower which could release funds for providing export credit.

Export community supports that funds released from reduction in CRR and SLR be earmarked for export credit.

Interest rates is still an issue affecting competitiveness for agricultural exports (rice, wheat). A special scheme to provide pre-shipment credit against warehouse receipt could be considered provided a higher margin is available to the banks similar to a scheme for oilseeds prevalent now. While normal bank margins against such credit are higher, it is suggested that a lower margins by banks can be stipulated for export credit against warehouse receipts.

RBI suggests that higher export growth is achieved by focussing on export products having a lower credit intensity; while this would reduce the quantum of export credit required, commodity focussed for exports would depend on India's competitiveness in sectors, growing international demand and market forces and not credit intensity factor.

Currently money to credit ratio for production is put at 1.7 or 1.8. This implies that higher industrial growth and GDP growth would require higher volume of credit which could preempt export sector. In our movement towards full convertability to be achieved in about 3 years concessional schemes of finance may not be required except schemes for making credit adequately available. A savings-investment balance needs to be restored; investment intention should not raise higher than savings and current asset deficit. If the level of savings is lower than required by high rates of economic growth, other than the credit requirement will have to be made by new schemes or by opening up cross border financing.

Cross border financing facility is required with flexibility to raise loans/equity abroad viz. (i) easier flow of loan/equity from abroad to supplement domestic saving investment balance (ii) private corporate sector to be allowed to raise loans abroad based on calculation of dollar cash flows required to repay FE loan; (iii) institutions like ICICI need to have greater flexibility to raise loans abroad and lend competitively.

Special financing scheme needs to be considered during the Ninth Plan period to promote a gradual movement towards full convertability. Cross border financing would be an important step towards achieving full convertability. Currently GOI approval for arranging loans is required which causes delay and difficult in negotiating lines of credit/loans. A special scheme to promote cross border financing by private corporate sector, institutions and foreign investors needs to be introduced which would ease the flow of credit besides allowing close to international interest rates.

Exim Bank could tap lines of credit given by ECA backed credit by export credit agencies. Exim Bank and IDBI could tap this credit for import of machinery for medium term up to 5 years which would be helpful to industry.

Exim Bank needs to go for forfeiting in a large way. Currently the facility is available to a limited number of countries. There is a need to propogate information available on this facility and to popularise this scheme.

Credit could be obtained from multilateral funded projects like ADB, EBRI, OECF which seems to have a 50 billion dollar opportunity and where international competitive bidding is required. Currently approximately 75 companies are already bidding on and off under the scheme through Exim Bank. The scheme is useful for both merchandise service exports as also industrial turnkey projects and could be a major earner of foreign exchange. This is the only route for Africa, CIS countries and the East Europe especially when ECGC cover is not available. EBRD funds could be tapped for private sector investment and exports to CIS countries.

To facilitate services export Exim bank has introduced new schemes to promote training of software professional institutions and firms at reasonable cost owing to low finance from Exim Bank. Working finance could be provided to software sector based on cash flow projects of six months. ECGC could work out a transparent system for providing cover to services exports with low premium based on the discussion with Banks which would enable flow of funds as working capital to the services sector at the pre-shipment stage.

The other schemes which need to be strengthened during the Ninth Plan period are product liability insurance finance for major engineering items, product development in the software industry to develop software package for marketing abroad, marketing finance support and training institutes to train professional engineers and software professionals.

Special lines of credit for achieving environment standards by Exim Bank.

Working Group on Exports for the Ninth Five Year Plan

Section II . 7

**Sub-Group Report on
Quality Aspects in
Export Promotion**

405-449

**Convenor : S M Acharya
Chairman**

**Agricultural and Processed
Food Products Export
Development Authority (APEDA)
Ministry of Commerce
Government of India**

II.7

EXECUTIVE SUMMARY

Under the working group on exports a sub-committee on 'Quality Issues' has been constituted 'to evolve a strategy for qualitative improvement in the export of manufactured/processed goods and introduce "Total Quality Management "(TQM) system in the Indian Industry. It has been further suggested that strategy should include means to achieve technology and quality upgradation of products.

The sub committee identified the following major reasons for export of sub-standard products . Therefore the committee was of the opinion that

- Unawareness of producers/exporters of "quality parameters" of importing countries.
- Non-availability of adequate quality of basic raw material, components and packaging material at competitive rates.
- Most of the manufactured/processed good industry have not installed Quality Assurance System to ensure that the finished product produced is of "assured quality" required by the buyer.
- In some cases non-availability of adequate testing facilities as well as internationally recognised certifying agencies deprives the manufacturers/exporters of getting its produce tested before being shipped.
- No mechanism of 'Quality Rating exist by which an entrepreneur can know in clear terms the extent of quality gap between his product and that of his competitors.

The major reasons identified for inferior quality products are as under:

- Upgradation of quality of Indian manufactured/processed goods.
- Upgradation of Quality of Packaging material & systems.
- Creation of awareness of the environmental issues among the entrepreneurs.
- Promotion of quality image of Indian goods

A) UPGRADATION OF QUALITY OF MANUFACTURED/ PROCESSED GOODS

- In modern times quality may be defined as a 'Degree of Excellence' of a product &/or system. Therefore Quality is no longer simply the responsibility of a quality control unit monitoring produce quality at a particular stage in production and export chain, it is a concept of Total Quality Management(TQM) throughout the chain of manufacturing products.

To place our manufactured/processed goods at par with the manufactured/processed goods of advance countries like U.S.A., Japan, E.U. the following action plan has been suggested.

(i) HARMONISATION OF STANDARDS FOR DOMESTIC AND INTERNATIONAL TRADE

- The Indian national standards should be harmonised with Codex Alimentarius Commission standards especially with regard to Good Manufacturing Practices, Sanitary and Phyto-Sanitary Regulations (SPS) & no exporter's should be allowed to export a commodity which does not meet National Standards.

- To start export of commodities like fresh horticulture produce, protocol or equivalency agreement may be signed with importing countries.

ii) CREATION/UPGRADATION OF TESTING FACILITIES AND ACCREDITATION OF THE SAME WITH IMPORTING COUNTRIES

- Immediate steps should be taken to create/update testing facility/laboratory commodity wise at least at the points where there is concentration of the unit growing/processing of a particular commodity.

- These facilities should be accredited by National and International agencies like E.U., U.S.F.D.A.so that their certificate is recognised.

- If the fee levied is very high in some cases, the units which are availing the facility for testing and paying the fees may get financial assistance from the Government through commodity board or export promotion countries.

- Some of these laboratories/testing facilities may be designated as certifying agencies under Import and Export policy.

iii) PROMOTION OF ORGANIC FARMING & PROCESSING

- Matching subsidy should be given to the farmers to neutralise the production loss during 'Conversion Period' of farm from conventional farming to organic farming for maximum period of three years only.
- Consultant should be arranged for converting conventional farm into organic farms by farmers and their organisation of identified potential products only.
- Reimbursement of inspection and certification fees of the farmers upto 50% till Indian certification agency do not start functioning and therefore for inspection of the farm, the farmer has to pay very high inspection fees and air tickets for return journey to foreign consultancy agency.
- Subsidise specialised tools to be imported for use at organic farms.

iv) EVOLUTION OF A NATIONAL QUALITY COUNCIL AS AN APEX ORGANISATION FOR QUALITY CONTROL MEASURES.

- National Council for Quality may be made operational to oversee operation of bodies involved in Certification of products, Quality System Lab and Quality Management Personnel .

v) INSTALLATION OF TOTAL QUALITY MANAGEMENT SYSTEM

- 50% of the expenses for installing internationally recognised Quality Assurance System such as ISO-9000 or HACCP maybe reimbursed to the processing unit with suitable limit.

vi) FACILITATE INDUSTRY TO ADOPT INTERNATIONALLY RECOGNISED PRODUCT SAFETY AND COMPLIANCE MARKS

The following pattern of assistance is recommended for installing International product safety and compliance marks like :

- i) UL LISTING
- ii) CE MARK

iii) "S"MARK

iv) IECQ

v) IECEE .

Activity Components for product

Pattern of assistance certification schemes

a) Assistance to exporters/ producers in obtaining certification for their products against international standards to meet the following costs:

a) 50% of the total charges for testing, evaluation and certification subject to a suitable ceiling.

* Application and factory inspection fees

* Product testing/evaluation fees

* Certification fees

b) Assistance to exporters and producers for training, consultancy, reference testing and failure analysis etc to achieve product certification.

b) 50% of the cost subject to some suitable ceiling

vii) DEVELOPMENT OF PACKAGING TO PROMOTE EXPORT OF MANUFACTURED/PROCESSED GOOD

The following recommendations are made :

- Promote pilot-contract packaging facilities from intermediate technologies to high level technologies, at important commercial centres on commercial lines to enable the exporter/manufacturer/their organisations to develop packaging and packaging system.

- Product packaging studies should be made and export package specifications should be drawn-up in detail along with the code of practice (where necessary).

- Development of packaging designs and standards to meet the Codex, USFDA, E.U. and other developed countries regulations in respect of environment and solid waste disposal and other parameters.

- Efforts should be made to develop unit value added packs, export of the thrust products (to start with) and subsequently of other products.
- Manpower development should be taken up on a massive scale by expanding training facilities of Indian Institute of Packaging and encouraging packaging as a full subject in various IITs and Universities.
- Programmes need to be developed for "training the trainers".
- As packaging having assumed its significance both for domestic and export trade, in the engineering colleges and agricultural universities, packaging should find as a subject for teaching. While for the engineering colleges, detailed syllabus can be followed covering the whole gamut of packaging industry in agriculture.
- Data Bank/information centre may be created to disseminate information about the new packaging concepts.
- The testing facilities at Indian Institute of Packaging, Central Food Research Institute and Defence Food Laboratory both at Mysore should be enhanced to meet the international packaging testing requirements.

viii) QUALITY RATING SYSTEM

- To evolve a quality rating system of a company which takes into account not only documented quality system but all other elements which have a bearing on the quality of product and services such as :

1. Quality Policy and Strategy
2. Quality Management System
3. Quality of Process
4. Product Quality
5. Customer Perceptions
6. Quality Improvement
7. Training and Motivation
8. Quality of Vendor Inputs

9. Maintenance of Plant equipment

10 Social Responsibility

- System evolved after research study would need to be discussed with various segments of industry to achieve broad consensus.
- The quality rating system may be launched as a pilot scheme which can then be refined on the actual experience of the industry.

ix) DEVISE MECHANISM FOR RESTRICTING EXPORT OF SUB STANDARD GOODS

a) PLANT APPROVAL OF SENSITIVE PRODUCTS

- An enterprise growing/manufacturing/processing/packaging/storing such sensitive commodities should have basic minimum infra structure/quality assurance system to meet the requirements of the finished products in the importing country.
- The Commodity Board or any other Government or Non Government agencies/Export Promotion Councils, involved in developing exports or inspection, should lay down minimum standard for approval of such units and the units qualifying in respect of these standards should be recognised as Premium Manufacturing/Packaging units._
- Registered units should be awarded logo.
- All Govt and non Govt agencies should promote the export from only these units.
- Importers should be advised not to source the supply from the units which are not awarded logo.
- Only in extreme cases where the commodity is extremely sensitive, the unit which is not approved/registered should not be allowed to export.

b) DATA COLLECTION AT PORT/AIRPORT OF CRITICAL FACTORS

- Consignments of sensitive commodities should be tested before shipment, for the critical aspects like chemical residues and the data should be generated for record purposes to know the status of that particular commodity exported in respect of critical aspects.
- If the data reveals that some consignments sourced from a particular area/exporter does not meet the required specification, suitable preventive measures may be taken to rectify defects at the source.

c) HUMAN RESOURCE DEVELOPMENT FOR QUALITY ASSURANCE/QUALITY AUDIT

- A programme for Human Resource Development may be undertaken with the foreign Agencies (if national experts are not available) for training the trainers.
- Efforts should be made to invite recognised agencies from India and abroad for conducting suitable training programmes in India, in groups.
- Assistance of international agencies in India and abroad like FAO, UNDP may be sought for training officers involved in Quality Assurance in the manufacturing units /Commodity Board and Export Promotion Councils so they can obtain requisite qualifications for conducting quality audit.
- Commodity Board and Export Promotion Councils may be provided funds to run such programmes for industry.

DESIGNATE OFFICERS FOR ISSUING PHYTOSANITARY CERTIFICATE

- Suitable systems be worked out for identifying products which have export potential.
- State Government Departments/Central Government Departments should be designated to carry out the required survey and collection of data required for issuing phyto-sanitary certificate in consultation with Export Promotion Council/Commodity Boards monitoring exports.
- In every region Agencies and Officers may be designated to issue Phyto-Sanitary Certificate for identified Commodities.

x) TO PROTECT INDIAN TRADE INTEREST THROUGH CLOSE CO-ORDINATION WITH INTERNATIONAL INSTITUTION FORMULATING INTERNATIONAL STANDARDS/SYSTEMS

Ministry of Commerce through Commodity Boards and Export Inspection Agencies should closely co-ordinate with such Agencies like Codex Alimentarius Commission , Office of the International Des Epizooties and Indian Standard Organisation (ISO). Specific recommendations for these institutions are as under:

a) CODEX ALIMENTARIUS COMMISSION

- Ministry of Commerce which is responsible for promoting exports should liaise closely with the Codex Alimentarius Commission to ensure that world-wide/regional standards framed by the Codex Alimentarius Commission, adopted by WTO under GATT Agreement, may not become Technical Trade Barrier (TBT). Suitable understanding may be reached with the Ministry of Health who presently co-ordinate work of Codex.
- The permanent representatives from the concerned institutions as well as trade should be nominated on Commodity Committees and they should regularly attend the meeting as representatives from India.
- These representatives should be assigned the responsibility of taking follow-up action, keeping in view the interest of the Indian Trade.
- National Shadow Committee comprising of experts and exporters should be formed for each Committee to scrutinize the Agenda and circulars received from time to time for sending country comments.

b) OFFICE OF THE INTERNATIONAL DES EPIZOOTIES (OIE)

- Adequate quarantine measures should be taken to an extent that disease do not spread to other parts of the country which are free from diseases so that reporting of isolated cases of Rinderpest and or foot and mouth diseases do not adversely effect the exports of Indian animal products
- Ministry of Commerce actively participate in deliberations of OIE and closely work with Department of Animal Husbandry to achieve the above said goal .
- Adequate funds should be allotted to all concerned Ministries Department to undertake quarantine measures which meet the International requirement .

c) INTERNATIONAL STANDARD ORGANISATION (ISO)

- Concerned officers of Commodity Boards and Export Promotion Councils should participate in meetings where standard of the products monitored by them are framed.

xi) CREATING AWARENESS AMONG THE PROCESSORS ABOUT THE ENVIRONMENTAL ISSUES IN PROCESSING AND PACKAGING

- Awareness programme for ISO-14000 may be organised to make the industry familiar with need for growing requirement of ISO-14000. Suitable financial assistance may be provided to the industry.

xii) ADDRESSING SANITARY AND PHYTO SANITARY ISSUES FOR DEVELOPING EXPORT OF AGRO BASED PRODUCTS

a) FOLLOW INTEGRATED PEST MANAGEMENT SYSTEM (IPM)

- Integrated Pest Management System should be developed and put into practice in respect of potential agricultural Commodities to control the use of insecticides and pesticides so as to meet the requirements of European Union and other importing countries.
- Adequate funds should be allocated for the same and integrated action plan should be worked out in consultation with the Ministry of Commerce.

b) ADOPT NON TRADITIONAL PHYSIOTHERAPY METHOD FOR DISINFESTATION AND DISINFECTION (LIKE V.H.T.)

- Funds may be allocated for transfer of technology of internationally recognised physiotherapy methods for disinfestation and disinfection of agro products and setting up pilot plant for optimising the process for subsequent commercialisation.

c) SETTING STANDARDS FOR MEETING THE GRADES PRESCRIBED BY IMPORTING COUNTRIES AND NOMINATING AUTHORITY COMPETENT TO CERTIFY

- The Authorities should be designated to issue Sanitary and Phyto-Sanitary services for the export of fresh horticultural produce as far as natural products like honey to meet the specific requirements of the buying countries.

d) PEST RISK ANALYSIS THROUGH COLLECTION OF DATA

- Pest Risk Analysis should be done of the potential products to meet the specific requirements of the importing countries and funds should be allocated for this purpose to a Department which is willing to undertake such studies in consultation with Ministry of Commerce.
- The Ministry of Agriculture should lay down a system of quarantine management to ensure that the disease, pest and insect free zones are not infected.
- Documentary proof for a zone free from insect pest or disease should be available to satisfy the importing country.
- Ministry of Agriculture/Agricultural Universities/ICAR institutions should make periodic surveys to check the prevalence of diseases, and evolve methods of hermetically sealing off .

xiii) IMPROVING IMAGE OF INDIAN PRODUCTS IN INTERNATIONAL MARKET

a) DEVELOP LOGO (QUALITY MARK) FOR MANUFACTURED GOODS

- The quality mark (Logo) be developed by the Ministry of Commerce . The mark be awarded by a designated agency, only after a stringent test has been passed by an exporter/produce.

b) REGISTER PREMIUM MANUFACTURING INDUSTRIES (PMI)

- The goods manufacturing Companies which undertake the action plan recommended by the Government and install internationally recognised quality recognised assurance system to meet the minimum standards should be registered as Premium Manufacturing Industries.

c) AWARD LOGO(QUALITY MARK) TO PREMIUM MANUFACTURING INDUSTRIES (PMI)

- The Quality Mark (Logo) developed by Ministry of Commerce should be awarded to those manufacturing units which are registered with the Commodity Boards or similar agencies as Premium Manufacturing Industry .

d) PROMOTION OF LOGO THROUGH CAMPAIGN IN THE INTERNATIONAL MARKET

- The logo should be promoted in potential markets to improve the image of Indian produce among the consumers and importers.

e) FINANCIAL ASSISTANCE TO PREMIUM MANUFACTURING INDUSTRIES FOR BRAND PROMOTION

- Only those units which are registered as Premium Manufacturing Industries and awarded the Quality Mark (logo) should be given priority for all services and financial assistance from the Commodity Board and both State and Central Governments.
- Assistance available under the Brand Promotion Scheme of Market Development Assistance (MDA) should only be given to those units which have been given the status of Premium Manufacturing Industries .
- Effective Environment Management System.

RESEARCH STUDY

Some of the organisation

PART III

DETAILED REPORT ON QUALITY ISSUES

Under the working group of exports a sub-committee on quality issues has been constituted to evolve a strategy for qualitative improvement in the export of manufactured/processed goods and introduce "**Total Quality Management**" (TQM) system in the Indian Industry. It has been further suggested that strategy should include means to achieve technology and quality upgradation of products.

The sub committee deliberated **Quality Issues** in detail and it was the opinion of the Committee members that Indian manufactured/processed goods have often been found to be of poor/inferior quality as they sometimes do not meet the consumers safety/hygiene requirements such as presence of pesticide residues in levels higher than those permitted, microbical contamination, high levels of metallic impurities, pest and insects infection etc. The packaging of processed goods is also comparatively poor. Moreover the quality supplied by the exporters is inconsistent and it varies from consignment to consignment. The major reasons identified for inferior quality products are as under:

- i) Unawareness of producers/exporters of "quality parameters" of importing countries.
- ii) Non-availability of adequate quality of basic raw material and components and packaging material at competitive rates.
- iii) Most of the manufactured/processed good industry have not installed Quality Assurance System to ensure that the finished product produced is of "assured quality" required by the buyer.
- iv) In some cases non-availability of adequate testing facilities as well as internationally recognised certifying agencies deprives the manufacturers/ exporters of getting its produce tested before being shipped.
- v) No mechanism of quality rating exist by which an entrepreneur can know in clear terms the extent of quality gap between his product and that of his competitors.

It was considered opinion of the Committee that quality cannot be mandated nor it can be enforced by regulations. Lasting quality

improvement can take place only if entrepreneurs are convinced that quality upgradation will bring financial returns the same way they expect from investment in plant and equipment.

The Committee was of the view that immediate steps should be taken for :

- i) Upgradation of quality of Indian manufactured/processed goods.
- ii) Upgradation of Quality of Packaging material / & systems.
- iii) Creation of awareness of the environmental issues among the entrepreneurs.
- iv) Promotion of quality image of Indian goods

A) UPGRADATION OF QUALITY OF MANUFACTURED/PROCESSED GOODS

The quality of given commodity may be a combination of attributes that contribute to acceptability. Acceptability in turn largely depend on expectations that serve as the consumer's basis for selecting product.

In modern terms quality may be defined as a Degree of Excellence of a product &/or system. Nowadays, however being of suitable quality to meet entry requirements is no longer sufficient. The exporter must show that the manufactured/processed good has not only been correctly handled throughout its manufacturing process but also meets the safety and hygiene requirements of the consumers. Therefore Quality is no longer simply the responsibility of a quality control unit monitoring produce quality at a particular stage in production and export chain, it is a concept of Total Quality Management (TQM) throughout the chain of manufacturing products. To place our manufactured/processed goods at par with the manufactured/processed goods of advance countries like U.S.A., Japan, E.U, the following action plan has been suggested:

B) HARMONISATION OF STANDARDS FOR DOMESTIC AND INTERNATIONAL TRADE

Under the GATT Agreement, WTO has been formed and it has recognised standards framed by the Codex Alimentarius Commission as the minimum standards which the countries should apply for international trade. Any country which frames more stringent standards will have to scientifically justify the reason for framing such standards. As India

is one of the members out of 144 members of Codex Alimentarius Commission it is obligatory to comply to Codex standards.

Therefore it is recommended that -

- The Indian national standards should be harmonised with Codex Alimentarius Commission standards especially with regard to Good Manufacturing Practices, Sanitary and Phyto-Sanitary Regulations (SPS) & no exporter's should be allowed to export a commodity which does not meet National Standards.

To start export of commodities like fresh horticulture produce, protocol or equivalency agreement may be signed with importing countries.

C) CREATION/UPGRADATION OF TESTING FACILITIES AND ACCREDITATION OF THE SAME WITH IMPORTING COUNTRIES:

It has been observed that India do not have enough accredited laboratories for testing the critical component of the fresh product to meet sanitary, phyto-sanitary (SPS) requirements such as minimum residual contents of chemicals in manufactured Goods. It is therefore recommended that

- Immediate steps should be taken to create/update testing facility/laboratory commodity wise at least at the points where there is concentration of the unit growing/processing of a particular commodity.
- These facilities should be accredited by National and International agencies like E.U., U.S.F.D.A. so that their certificate is recognised.
- If the fee levied is very high in some cases, the units which are availing the facility for testing and paying the fees may get financial assistance from the Government through commodity board or export promotion countries.
- Some of these laboratories/testing facilities may be designated as certifying agencies under Import and Export policy.

D) PROMOTION OF ORGANIC FARMING & PROCESSING

Organic farming is a system of farming :

to produce food of high nutritional quality.

- to encourage, enhance biological cycle within farming system.
- to maintain and increase long term fertility of soil.
- to use possible local renewable resources.
- to minimise all forms of pollution.

This system prohibits use of chemicals.

Certified organically grown and processed products occupy a niche in the quality goods segment in developed countries. The niche is growing with a faster pace. The value addition for organically produced products takes place at the point of produce and can be between 25% to 50% at the 1st point of sale. However, for bio-dynamically produced goods the premium can be as high as 100%.

The International organic goods sector is feasible in various fields such as cotton, silk, fruits, vegetables and their products, spices, honey, tea, coffee etc. However in the organic tea category India is near monopoly in international market with 90% market share.

Indian presence in the international organic market can be selected and included if the organic movement is given boost in the production, processing as well as export marketing.

Action taken:

The Government has identified organic food/health fruits as a thrust item and therefore the following actions have been taken:-

- i) An inter ministerial Standing- Cum- Accreditation Committee to evolve policies and procedures for accreditation, inspection and certification agencies has been formed.
- ii) On the recommendation of this committee an international consultant has been appointed for Assignment for Development of an Indian National Organic Certification Scheme (NOC) and its Accreditation with EEC and IFOAM). It is hoped that by the end of 1996, India will be registered with E.U and IFOAM.
- iii) Registration of organic farmers have started and around 300 farmers have already registered.
- iv) A delegation of organic farmers / exporters have participated in specialised organic fair BIOFACH-95 in Germany.

CONVERSION OF CONVENTIONAL FARMS TO ORGANIC FARMS

It takes minimum 3 years to convert a conventional farm into a certified organic farm. During this period of conversion the yield of the farm goes down from 20 to 40% but the farmers do not get any premium on the produce as the farm is under conversion and therefore produce cannot be turned as organically grown product. It is therefore recommended by the committee that for promoting organic farm movement, the following financial support should be given:

- Matching subsidy to the farmers to neutralise the production loss during conversion period of farm from conventional to organic for maximum period of three years only.
- Arrange consultant for converting farm into organic for farmers and their organisation.
- Reimbursement of inspection and certification fees of the farmers upto 50% till Indian certification agency do not start functioning and therefore for inspection of the farm, the farmer has to pay the inspection fees to foreign consultancy agency.
- Subsidise specialised tools to be imported for use at organic farm.

E) EVOLUTION OF A NATIONAL QUALITY COUNCIL AS AN APEX ORGANISATION FOR QUALITY CONTROL MEASURES.

Background note:

The Government of India invited the European Expert Group to study the existing system for standardisation, certification (products and quality system) and certification of personnel and suggest measures to establish/strengthen such systems which could be internationally recognised. The EEG has recommended establishment of three boards namely; Boards for certification of products and quality system, labs and quality management personnel. The National Council for quality to oversee operation of these boards besides evolving guidelines for quality excellence in the country. The structure suggested by EEG to the Inter-Ministerial Task Force (IMTF) in the beginning of 1993 is as shown in the Annexure.

It is understood that based on the recommendations of IMTF, cabinet secretariat examined and approved the formulation of National Council for Quality.

It is therefore recommended that

- National Council for Quality may be made operational and it should function as apex organisation for Quality Assurance Measures.

F) INSTALLATION OF TOTAL QUALITY MANAGEMENT SYSTEM

The two most internationally recognised system of quality managements are ISO 9000 and Hazard Analysis Critical Control Point (HACCP). While most of the countries prefer sourcing their products from the units which have installed ISO 9000 series of standards USA regulations insist on installation of HACCP.

It is therefore recommended that :

- 50% of the expenses for installing internationally recognised Quality Assurance System such as ISO-9000 or HACCP maybe given .

Details of the same are as under:

i) ISO 9000

The sequence of activites to be undertaken for installation of ISO 9000 in brief, are as under, and it is suggested that the financial assistance scheme may be framed to bear 50% of expenses of the activities given below :

- i) To conduct awareness programme of Quality Management in industries willing to install ISO 9000.
- ii) To conduct training of employees of manufacturing unit.
- iii) To document the procedure involved at various levels.
- iv) To obtain certification by certifying agencies
- v) To train selected Executives for internal auditing of the unit.

ii) HAZARD ANALYSIS CRITICAL CONTROL POINT (HACCP)

The sequence of activites to be undertaken for installation of HACCP in brief, are as under, and it is suggested that the financial assistance

scheme may be framed to bear 50% of expenses of the activities given below :

i) **Retort Validation** - collection and analysis of data for temperature distribution, etc and filing the appropriate reports .

ii) **Process Establishment:** establishing a commercially sterile thermal process (heat penetration) and filing the appropriate reports . A commercially sterile process means the destruction of bacteria of public health significance and inhibit the development of such bacteria after the process is over.

iii) **Factory Registration** - perform services to register the factory with importing country (like FDA of USA).

iv) **Initial Factory Audit** - collect information on procedures and equipment used in all aspects of the factory. This will aid in the development of the HAZARD ANALYSIS AND CRITICAL CONTROL POINTS (HACCP) program.

v) **Follow up inspections** - will be conducted every 3/4 months after the HACCP program has been implemented. This will ensure that all the processes and procedures are being followed and to identify any areas of change.

vi) **Required Record Keeping** - initial supply of various necessary standardised forms to record limits for standard required control points.

vii) **Training of Factory Workers** - will include record keeping, can seam evaluation, sanitation, retort operation etc.

viii) **HACCP Program Development** - will include a customised HACCP "Quality Assurance Manual" for the complete factory.

G) FACILITATE INDUSTRY TO ADOPT INTERNATIONALLY RECOGNISED PRODUCT SAFETY AND COMPLIANCE MARKS

The product certification schemes for compliance with International Standards, including those for safety of products and EMC compliance, are helpful to build up confidence in the quality of Indian products in overseas market.

This is important especially for a country like India whose product does not enjoy very high goodwill for their quality. It is therefore suggested that

- promotional schemes under financial assistance should be framed for the manufacturers of electronic equipments/components, who propose to obtain for adoption, internationally recognised product safety and compliance marks, including the following marks:

i) **UL LISTING** - UL (Underwriters Laboratory) is a US Organisation involved in Safety Testing and Certification. UL listed products are a must for acceptability in US and other North American market.

ii) **CE MARK** - This is a European mark and can be obtained based on tests for Safety and Electro-magnetic compliance.

iii) **"S" MARK** - "S" Mark Scheme of STQC Directorate. This is a product Safety Certification Scheme against International Standards run by STQC Directorate, Department of Electronics.

iv) **IECQ** (International Electro-technical Commission Scheme for conformity assessment of Electronic Components)

v) **IECEE** (CB Scheme - IEC Scheme for conformity testing to standards for Safety of Electrical Equipments.).

The recommended activity and the pattern of assistance is given below:

Activity Components for product certification schemes	Pattern of assistance

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a) Assistance to exporters/producers in obtaining certification for their products against international standards to meet the following costs:	a) 50% of the total charges for testing, evaluation and certification subject to a suitable ceiling.

- * Application and factory inspection fees
- * Product testing/evaluation fees
- * Certification fees

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b) Assistance to exporters and producers for training, consultancy, reference testing and failure analysis etc to achieve product certification.

b) 50% of the cost subject to some suitable ceiling

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H) DEVELOPMENT OF PACKAGING TO SUPPORT EXPORT OF MANUFACTURED/PROCESSED GOOD

Though lot of improvement has taken place in the packaging of manufactured/processed food products but still it is far from satisfactory. One of the reasons may be that the development of packaging material and system is very fast and new concepts are emerging every now and then. Some of the emerging concepts of packaging are :

- Eco-friendly packs
- Conventional to newer systems
- Bulk to retail consumer packs
- Easy in handling and convenience
- Ease in production and distribution systems
- Long life to optimum life and overall economy.

(i) PROMOTE PILOT-CONTRACT PACKAGING FACILITIES

The exporters more often would find it difficult to establish infrastructural facilities to produce package systems as are required by the export markets. In order to bridge the gap and meet the commercial needs, contract packaging facilities ranging from Intermediate technologies to high level technologies should be encouraged. Such contract packaging facilities should be set up at important commercial centres should operate on commercial lines enabling small users to run pilot trials. Introduction of full VAT system for such facilities will ensure to reduce the compounded levy structure. Further since these contract packers will provide important support to exporters and pilot plant studies, they should be exempted from payment of income tax. If this is not feasible, other fiscal incentives should be provided.

(ii) PRODUCT PACKAGING STUDIES

The packaging media used and systems adopted considerably vary from product to product, exporter to exporter and may be market to market. Export market needs are stringent and highly discriminative. Therefore product-package-wise studies should be made and export package specifications should be drawn-up in detail and where necessary as code of practice. The documents should be widely published and exporters advised to adopt them.

(iii) DEVELOPMENT OF PACKAGING STANDARDS

Development of international standard of export packaging on line with Codex, USFDA, EU Standards.

As environmental protection has become a major international issue and all developed countries and National Government of these countries are in process of promoting/adopting packaging standards with an objective for providing a high level environmental protection without affecting the normal functioning of internal market and putting minimum opsticals to trade.

It is therefore recommended that in India also the packaging standards should be framed in line with the Codex standards as well as other important internaitonal standards i.e. EU and USDFA so that our trade to the countries/blocks may not be affected as and when these countries imposed packaging standards on third countries.

(iv) DEVELOPMENT OF UNIT VALUE ADDED PACK

Exports from India over many years have been in bulk quantities. Since in the recent past efforts are pursued to encourage more and more of valued added consumer pack exports with brand identity, the establishment of source and country identity also assume equal significance. Therefore, more efforts are to be guided towards developments of unit value added packs, to start with export thrust products and subsequently to all products.

(v) HUMAN RESOURCE DEVELOPMENT

- Manpower development should be taken up on a massive scale via expanding training facilities of Indian Institute of Packaging and encouraging packaging as a full subject in various IITs and Universities . Programmes need to be developed for "training and trainers".

- Packaging having assumed its significance both for domestic and export trade, the subject should be introduced at the academic level in general and as a specialisation at university curricula.

- In the engineering colleges and agricultural universities, packaging should find as a subject for teaching. While for the engineering colleges, detailed syllabus can be followed covering the whole gamut of packaging industry in agriculture.

(vi) DATA BANK FOR COLLECTION AND DISSEMINATION OF DATA

Updated information on various aspects of packaging should be readily available to the industry and exporters. These would relate to materials and machinery and their sources, processes, techniques and systems. Data bank information center(s) are the need of the day. Such data centers should also have international linkages. The IIP has made a beginning through setting up of a Data Bank Center. This should be strengthened and expanded.

(vii) ENHANCEMENT OF TESTING FACILITY

Current testing quality control laboratory facilities are available at the INDIAN INSTITUTE OF PACKAGING Central Food Research Institute and Defence Food Laboratory both at Mysore and at National Research Institute of Specific commodities. These facilities need to be enhanced. Some of the equipments are obsolete and hence need to be replaced, updated and modernised. Further, the facilities need to be made more exhaustive to cover all packaging media and products packaging. Considering the overall industrialisation and exports being effected from different centers in the country these facilities should be established at State levels in various existing Institution like IIT's and National Research Institutions of various food commodities. Where such Institution are not existing Indian Institute of Packaging may be asked to set up such facilities.

I) QUALITY RATING SYSTEM

Quality rating is not with respect to any particular product but the quality performance of a company as a whole as compared to the quality performance of other companies in the same class. In this respect, it is somewhat like credit rating of companies which have now become well established.

ISO 9000 Standards for Quality Management Systems was one such attempt for laying down minimum standard of quality related functions in a company irrespective of its size or nature of business. However, this is only the minimum standard and can be a motivating factor only till the number of certified companies is rather small. Once large

number of companies get certified, it would lose marketing edge among potential customers. Therefore it is recommended that :

- to evolve a quality rating system of a company which takes into account not only documented quality system but all other elements which have a bearing on the quality of product and services such as :

1. Quality Policy and Strategy

- Long term quality planning
- Quality leadership by top management.

2. Quality Management System

- Organisational structure for quality management with well defined responsibility and authority.
- Documented standard procedures for all functions affecting quality.

3. Quality of Process

- Determination of process capability of important processes and their control.
- Percentage of rejection and rework during proces..
- Yield of various grades of material from the processes.

4. Product Quality

- Bench marking of a product among its class.
- Determination of quality difference as compared to best in class.
- National/International product certification.

5. Customer Perceptions

- System for obtaining feed back from customers.
- Processing of customer complaints.
- Determination of customer satisfaction ideas.

6. Quality Improvement

- System of organised quality improvement effort.
- Quality improvement projects undertaken during last one year and results obtained.
- Plans for further quality improvement.

7. Training and Motivation

- System/training and skill development of employees.
- Number of hours of training per employees per year.

- Motivation of employees.
- Involvement and empowerment of employees in quality improvement effort.

8. Quality of Vendor Inputs

- Selection and rating of vendors
- Assistance to vendors for quality improvement
- Verification of purchased products

9. Maintenance of Plant equipment

- Preventive Maintenance System
- Number of break downs
- Plant utilisation factor
- General House-keeping

10. Social Responsibility

- Safe working conditions for employees
- Environmental risk assessment
- Effective Environment Management System.

RESEARCH STUDY

Some of the organisations such as DNV, Norway has already developed quality rating system based on European business environments.

It is therefore recommended that :

- To undertake a research study to be undertaken to evolve a quality rating system suitable for Indian industries. Based on comparative importance of various elements discussed above numerical weightage would have to be given to different factors. At the same time comprehensive check lists would need to be developed to have an objective basis for awarding marks for various activities. Transparency of evaluation criteria would be critical importance for success of quality rating system. Therefore system evolved after research study would need to be discussed with various segments of industry to achieve broad consensus. The quality rating system may be launched as a pilot scheme which can then be refined on the actual experience of the industry.

Detailed concept paper is annexed.

J) DEVISE MECHANISM FOR RESTRICTING EXPORT OF SUB STANDARD GOODS

The liberalisation in export import policy is definitely helping in boosting exports and therefore it was conscious decision of the Committee not to reverse the process by going back to compulsory inspection. Even during the compulsory inspection there were a lot of quality complaints.

The Committee also observed that quality cannot be maintained nor it can be forced by regulations. Lasting Quality improvement can take place only if the entrepreneurs are convinced that the quality upgradation will bring financial returns the same way they expect from the investment in plant and equipment.

Therefore the Committee recommends that:

- The following measures to be taken for restricting the export of sub-standard goods where the system has been suggested which if followed by an entrepreneur in spirit will bring higher return to the Company and name to the country.

(i) PLANT APPROVAL OF SENSITIVE PRODUCTS

After liberalisation of the Trade Policy, a number of products are under OGL. Anyone can source these goods from anywhere and export to any country without being inspected by any Indian Government Agency, if the unit meets certain conditions laid down in the policy. However, isolated cases of export of sub-standard products which is largely due to ignorance of the supplier, exporter and importer are also reported. If the item is sensitive like fresh horticultural produce, this may result in ban on export of that particular commodity, like grapes and the consignment sent from India may be perceived to pose a threat to the health of the consumer especially European Union, Japan and USA.

Therefore for exporting sensitive commodities, it is recommended that :

- Growing/manufacturing/processing/packaging/storing such sensitive commodities should have basic minimum infrastructure/quality assurance system to meet the requirements of the finished products in the importing country.
- The Commodity Board or any other Government or Non Government agencies/Export Promotion Councils, involved in developing exports or inspection, should lay down minimum standard for approval of such units and the units qualifying in respect of these standards should get financial assistance and other facilities of the Government. Such unit may also be registered by a competent Agency as "Premium Manufacturing Industries".

- They should be given a logo and all Govt and non Govt agencies should give priority in promoting the export of products manufactured by such units. Importers should be advised not to source the supply from other exporters. Only in extreme cases where the commodity is extremely sensitive, the unit which is not approved, should not be allowed to export.

ii) DATA COLLECTION AT PORT/AIRPORT OF CRITICAL FACTORS

In case of sensitive items like grapes, where importing countries have very rigid specifications like pesticide, insecticide and other chemical residues limits, it is not possible to inspect the produce of each field of all the growers of grapes. Therefore it is recommended that :

- Consignments of sensitive commodities should be tested before shipment, for the critical aspects like chemical residues and the data should be generated for record purposes to know the status of that particular commodity exported in respect of critical aspects.
- If the data reveals that some consignments sourced from a particular area/exporter does not meet the required specification, suitable preventive measures may be taken to rectify defects at the source.

iii) HUMAN RESOURCE DEVELOPMENT FOR QUALITY ASSURANCE/QUALITY AUDIT:

There is a great shortage of trained manpower and experts who can install Quality Management System like ISO 9000 and HACCP which is a pre-requisite for registration of unit in certain importing countries like USA. It is recommended that

- a programme for Human Resource Development may be undertaken with the foreign Agencies if national experts are not available. Efforts should be made to invite recognised agencies from abroad for conducting suitable training programmes in India, in groups.
- Assistance of international agencies in India and abroad like FAO, UNDP may be sought for training officers involved in Quality Assurance in the manufacturing units so they can obtain requisite qualifications for quality audit.
- Commodity Board and Export Promotion Councils may be provided funds to run such programmes for industry.

iv) DESIGNATE OFFICERS FOR ISSUING PHYTOSANITARY CERTIFICATE

It has been observed that due to non-existence of suitable systems, of compilation of data on pest, insect etc area wise, exporters are not getting phyto-sanitary certificate required for export of natural products like honey. Even though there is a great potential for export of this product to Germany and other countries, the importing countries are not accepting honey for want of specific phyto-sanitary certificate. There may be many more products which can be exported if we lay down a system of Certification where the officers of the designated agencies may inspect the area, collect data required and may issue phyto-sanitary certificate. It is recommended that

- suitable systems be worked out for identifying products which have export potential. State Government Departments/Central Government Departments should be designated to carry out the required inspection and collection of data required for issuing phyto-sanitary certificate in consultation with Export Promotion Council/Commodity Boards monitoring exports.

- Ministry of Commerce to allocate funds for providing the designated Departments where the systems are to be set up for phyto-sanitary certificates to obtain the requisite equipment.

K) TO PROTECT INDIAN TRADE INTEREST THROUGH CLOSE CO-ORDINATION WITH INTERNATIONAL INSTITUTION FORMULATING INTERNATIONAL STANDARDS/SYSTEMS

The International standards framed for Quality Issues discussed and published make great impact on International trade of manufactured and processed goods. It is therefore recommended that Ministry of Commerce should closely co-ordinate with such Agencies to protect Indian interest. Some of such agencies are Codex, OIE and ISO 9000.

I) CODEX ALIMENTARIOUS COMMISSION

FAO and WHO together in 1962 have set up Codex Alimentarius Commission consisting of nations belonging to FAO and WHO for implementing Joint Food Standard Programme. The Commission meet every other year, alternating between Rome in Italy and Geneva in Switzerland and it is supported by the staff of FAO and WHO. The Secretariat is located in Rome.

The Executive Committee of the Commission is responsible for recommendations about the general direction of the Commission's work. The Executive committee, which meets between Commission sessions, acts as the executive organ of the Commission and may make decisions for the Commission subject to approval at the next Commission session.

The Executive Committee is geographically balanced, with no two members elected from the same country. Terms and re-election are limited so that the Chairman and three Vice Chairman may hold their offices for no more than four years.

144 countries are Members of this Committee. India is also a member of this Committee. The Codex has established 219 standards which included the following categories:

1. Processed fruits and vegetables
2. Processed meats, poultry products , bouillons and consommés
3. Cocoa products and chocolate
4. Quick frozen fruits and vegetables
5. Fruit juices, concentrated fruit juices and fruit nectars
6. Milk products
7. Cereals, pulses, legumes and derived products
8. Edible ices and ice mixes
9. Vegetable proteins

The 7 important General Subject Committee are as under:

1. Food Labelling (Canada)
2. Food Additives and Contaminants (The Netherlands)
3. Food Hygiene (United States)
4. Pesticide Residues (The Netherlands)
5. Residues of Veterinary Drugs in Foods (United States)

6. Methods of Analysis and Sampling (Hungary)

7. Food Import Analysis and Sampling (Hungary)

CODEX STANDARDS

The Codex Alimentarius Commission and the standards adopted have a very special significance in International trade in light of General Agreement on Trade and Tariff (GATT) where WTO has recognised Codex standards for resolving any dispute on Sanitary and Phyto-sanitary measures (SPS) and Technical Trade Barrier (TBT).

India's contribution in formulation of Codex standards is almost insignificant, as Ministry of Health, which is now co-ordinating Codex, has neither the funds nor the manpower to cope up with the work. Even the agenda items of various committees are not received and circulated. In most of the cases, Indian delegations are not sent to represent on Commodity Committees.

Therefore it is recommended that :

- Ministry of Commerce which is responsible for promoting exports should liaise closely with the Codex Alimentarius Commission to ensure that world-wide/regional standards framed by the Codex Alimentarius Commission, adopted by WTO under GATT Agreement, may not become Technical Trade Barrier (TBT). Suitable understanding may be reached with the Ministry of Health who presently co-ordinate work of Codex.

The following activities may be taken immediately by Ministry of Commerce or Commodity Board and Export Promotion Councils under Ministry of Commerce to ensure that the standards framed by this Commission do not become a technical barrier to Indian exports.

i) NOMINATION OF REPRESENTATIVE OF VARIOUS INSTITUTIONS AND TRADE ON THE IMPORTANT COMMITTEE

By virtue of Article 7 of the Statutes of the Codex Alimentarius Commission and Rule IX. 1 (b) (i) of its Rule of Procedure, the Commission has established a number of Codex Committees to prepare standards in accordance with the Procedure for the elaboration of Codex Standards. The Commission has specified for each Codex Committee whether the standards are to be world-wide or for only a given region.

This Committee meet once a year in the host country and the Chairman of the Committee is from the country which is ready to meet all

the secretarial and other expenses for discharging the duty to the Committees.

As these Committees are involved in making world wide standards for Codex Alimentarius Commission which will be recognised by WTO, it is recommended that :

- the permanent representatives from the concerned institutions as well as trade should be nominated on these Committees and they should regularly attend the meeting as representatives from India.
- These representatives should be assigned the responsibility of taking follow-up action, keeping in view the interest of the Indian exporters.

The Planning Commission may be requested to allot necessary funds for meeting the expenses of the officials attending these meetings. Ministry of Commerce may also reimburse a part of travelling expenses of the traders under Marketing Development or any other Scheme.

ii) FORMATION OF NATIONAL SHADOW COMMITTEE FOR EACH CODEX COMMITTEE FOR SCRUTINIZING THE PROPOSED STANDARDS AND MAKING RECOMMENDATIONS

National Shadow Committee which may be a larger committee having experts drawn from various trade may monitor the overall interest of the country vis-a-vis standards framed by the Codex Committee and where they find that the proposed standards may affect the Indian trade because of special situation, habit of Indians, a suitable required data, facts and elucidating the problem, which may be collected through survey etc.

This is important because if the product in question is not a threat to customer health, the specification of the product may be relaxed keeping in view the traditional habit of the country. The Codex Committee takes sufficient care to ensure that the standards framed by them do not harm the trade of any particular country, provided the product is safe and process is transparent.

iii) FOR CREATING AWARENESS OF CODEX STANDARDS AMONG THE INDUSTRY AND TRADE FOLLOWING ACTIVITIES ARE SUGGESTED

- Arrange seminars of various aspects of import/export standards framed by the Codex, ISO 9000.
- Publication of periodicals, news letters about proposed Codex Standard Committees and ISO 9000.

ii) OFFICE OF INTERNATIONAL DES EPIZOOTIES (OIE)

This organisation collects the information on prevalence of livestock diseases in the member countries and published Annual Health Year Book on annual basis and other bulletins on livestock. Importing countries go by the information published in the OIE Animal Health Year Book and bulletins.

The Animal Husbandry Commissioner to the Govt of India is a permanent member of the OIE. Reporting of isolated cases of animal diseases in isolated areas deprives India of the export of animal products to many potential countries. It has also been observed that the Department of Animal Husbandry is obtaining grant from the E.U. countries for the eradication of diseases and running some RINDERPEST programme and therefore European Union treat India as prone to this disease and hence they do not import meat and meat products from India.

Whereas the fact is that India is a sub-continent and its geographical area and population is also equal to entire E.U. or many small-sized countries put together. Therefore the report of diseases in isolated or remote areas does not mean that the entire country is prone to these diseases. Hence it is recommended that :

i) a mechanism should be adopted where reporting of isolated cases of Rinderpest and or foot and mouth diseases do not adversely effect the exports of Indian animal products .

ii) Ministry of Commerce actively participate in deliberations of OIE and closely work with Department of Animal Husbandry to promote exports of animal products.

iii) Adequate funds should be allotted to all concerned Ministries Department to put into place quarantine measures which meet the International requirement .

(iii) INTERNATIONAL STANDARD ORGANISATION (ISO)

This organisation is involved in framing ISO series of general as well as product standards which are internationally recognised by the industry. Therefore frequent/close interaction with this organisation is very important.

L) CREATE AWARENESS AMONG THE PROCESSORS ABOUT THE ENVIRONMENTAL ISSUES IN PROCESSING AND PACKAGING

Environmental issues are assuming a great importance in the growing, processing and marketing. In time to come developed countries are likely to accept only environmentally-friendly products. Recently ISO has set up a new series of standards known as ISO 14000 standards dealing with environmental issues.

It is therefore recommended that:

- awareness programme for ISO-14000 may be organised to make the industry familiar with need for growing requirement of ISO-14000. Suitable financial assistance may be provided to the industry.

M) ADDRESSING SANITARY AND PHYTO SANITARY ISSUES FOR DEVELOPING EXPORT OF AGRO BASED PRODUCTS

Following actions are recommended for addressing sanitary and phyto-sanitary issues:

(i) FOLLOW INTEGRATED PEST MANAGEMENT SYSTEM

The concept of integrated pest control was originally initiated to bring about a compromise between chemical control and biological control. The purpose of the Pest Management System is to optimise the controls for controlling pest and insect. This is gaining momentum as the consumers are becoming environmentally conscious and European Union as well as other advanced importing countries are in the process of reducing the Minimum Residual Limit (MRL) of pesticides and insecticides in the fresh produce. This may be a major technical barrier for export agro products of fresh produce. It is recommended that :

- Integrated Pest Management System should be developed and put into practice in respect of potential agricultural Commodities to control the use of insecticides and pesticides so as to meet the requirements of European Union and other importing countries.
- Special funds should be allocated for the same and integrated action plan should be worked out in consultation with the Ministry of Commerce.

(ii) ADOPT NON TRADITIONAL "PHYSIOTHERAPY" METHOD FOR DISINFESTATION AND DISINFECTION (LIKE V.H.T.)

The exports of fresh horticultural produce and many other agricultural products are not permitted in USA, Japan and other potential countries. The scientific literature and paper published by the various Indian Research Institutions overseas indicate the presence of a number of insects and pests in our country, which the importing countries are not having and therefore they are not inclined to permit the import of fresh produce.

Therefore the only remedy left to us is to adopt non-traditional "physiotherapy method" for disinfestation and disinfection to eliminate particular insects and pests in particular potential products like fruit fly in mango.

APEDA has taken a lead in setting up Pilot Plant for Vapour Heat Treatment for eliminating of "Oriental Fruit Fly" so that Indian mangoes and other fruits may be exported to Japan, USA and many other countries who will be inclined to take them if no fruitfly and its eggs are eliminated from consignment. This facility is set up with the assistance of Japan. It is therefore recommended that :

- Funds allocated for transfer of technology of internationally recognised physiotherapy methods for disinfestation and disinfection of agro products, setting up pilot plant for optimising the process for subsequent commercialisation.

(iii) SETTING STANDARDS FOR MEETING THE GRADES PRESCRIBED BY IMPORTING COUNTRIES AND NOMINATING AUTHORITY COMPETENT TO CERTIFY

The Authorities should be identified who will render the required services for the export of fresh horticultural produce as far as natural products like honey to meet the specific requirements of the buying countries.

iv) PEST RISK ANALYSIS THROUGH COLLECTION OF DATA

Most of the countries are having Plant Health Regulations for importing fresh produce to any country and if they want to export a particular commodity, they have to submit PEST RISK ANALYSIS REPORT to meet the requirements of importing countries. However it is observed whenever a request is made for such a report it is not available as probably no such system is followed.

It is recommended that :

- Pest Risk Analysis should be done on the potential products to meet the specific requirements of the importing countries and funds should be allocated for this purpose to a Department which is willing to undertake such studies in consultation with Ministry of Commerce.

v) INSTALLATION OF QUARANTINE SYSTEM TO PROTECT ZONES FROM INFILTRATION OF PEST AND DISEASE

Certain areas in India are free from certain pests and diseases like fruit fly in mangoes etc. However the importers want to know what quarantine measures has been taken up to keep this area free from insects, pests and diseases. They also require certificate of that area to know that the area is free from particular insects, pests or diseases.

It is recommended that :

- the Ministry of Agriculture should lay down a system of quarantine management to ensure that the free zones are kept insulated from pests, insects or diseases.
- Ministry of Agriculture/Agricultural Universities/ICAR institutions to make periodic surveys to check the prevalence of diseases , to evolve methods of hermetically sealing off affected zones , periodic comprehensive reports on existing conditions and help the affected and the unaffected zones to take such measures to contain and prevent respectively the spread of the disease.

N) IMPROVING IMAGE OF INDIAN PRODUCTS IN INTERNATIONAL MARKET

The efforts for installation of Quality Management System in manufacturing units as well as action suggested under Quality Issues will not bring desirable results until and unless the importers and consumers in importing countries get the message that the Indian produce manufactured by the units who have made use of Quality upgradation programme is of higher quality and it is as good as the produce available from other advanced countries.

Therefore to improve the image of Indian produce in general and the produce of the units who have undertaken the quality upgradation programmes as suggested in this report in particular, following action programme is recommended:

i) DEVELOP LOGO (QUALITY MARK) FOR MANUFACTURED GOODS

It is recommended that:

The quality mark (Logo) be developed by the Ministry of Commerce. The mark be awarded by a designated agency, only after a stringent test has been passed by an exporter/produce.

ii) REGISTER PREMIUM MANUFACTURING - INDUSTRIES(PMI)

The goods manufacturing Companies which undertake the action plan recommended by the Government and install internationally recognised quality recognised assurance system to meet the minimum standards should be registered as Premium Manufacturing Industries.

iii) AWARD LOGO (QUALITY MARK) TO PREMIUM MANUFACTURING INDUSTRIES(PMI)

The Quality Mark (Logo) developed by Ministry of Commerce should be awarded to those manufacturing units which are registered with the Commodity Boards or similar agencies as Premium Manufacturing Industry .

iv) PROMOTION OF LOGO THROUGH CAMPAIGN IN THE INTERNATIONAL MARKET

- The activities like Buyer-Seller meet and "Made in India Show" should be organised to promote this Quality Mark (logo).

v) FINANCIAL ASSISTANCE TO PREMIUM MANUFACTURING INDUSTRIES FOR BRAND PROMOTION

It is recommended that :

- Units which are registered as Premium Manufacturing Industries and awarded the Quality Mark (logo) should be given priority for all services and financial assistance from the Commodity Board and both State and Central Governments.

- Assistance available under the Brand Promotion Scheme of Market Development Assistance (MDA) should only be given to those units which have been given the status of Premium Manufacturing Industries .

Concept Paper on Quality Rating System for Indian Industries

by

Li Gen H. Lal
Director General
FICCI Quality Forum

India has made tremendous industrial progress in the last few decades in wide ranging fields including hi-tech areas. In quantitative terms, we are now classed amongst top few industrialized countries in the world. However, on the quality front, we have not been able to keep pace with the advanced countries of the world mainly on account of sheltered market and controlled economy. Since product quality is a pre-requisite in the global markets, our export performance is far below even tiny countries like Taiwan, Singapore, Hongkong.

With the liberalised policy of the trade industry, conditions have been created where enterprises can use their initiative for setting up new industries and expand their production capacity for rapid economic growth of the country. At the same time there is need to take a major initiative for improving the quality of Indian products. It has been seen that quality cannot be mandated nor it can be enforced by regulations. Lasting quality improvement can take place only if entrepreneurs are convinced that quality upgradation will bring financial returns the same way they expect from investment in plant and equipment.

While formulating the national strategy for quality upgradation, we can use a strong trait in Indian psyche to be one up as compared to one's peers and competitors. This essentially means having a mechanism by which an entrepreneur can know in clear terms the extent of quality gap between his product and that of his competitors. Once an entrepreneur is made aware of this fact, he will go to any length to bridge the gap and even try to have an edge over his competitors. Establishment of a system for Quality Rating of the company could be one such mechanism, the salient features of which are explained below:

Quality rating is not with respect to any particular product but the quality performance of a company as a whole as compared to the quality performance of other companies in the same class. In this respect, it is somewhat like credit rating of companies which have now become well established.

ISO 9000 Standards for Quality Management Systems was one such attempt for laying down minimum standard of quality related functions in a company irrespective of its size or nature of business. However, this is only the minimum standard and can be a motivating factor only till the number of certified companies is rather small. Once large number of companies get certified, it would lose marketing edge among potential customers. Therefore, there is need to evolve a quality rating system of a company which takes into account not only documented quality system but all other elements which have a bearing on the quality of product and services. The main elements which can into determining upon the quality rating of the company are listed below:

1. *Quality Policy and Strategy*

- Long term quality planning.
- Quality leadership by top management.

2. *Quality Management System*

- Organisational structure for quality management with well defined responsibility and authority.
- Documented standard procedures for all functions affecting quality.

3. *Quality of Process*

- Determination of process capability of important processes and their control.
- Percentage of rejection and rework during process.
- Yield of various grades of material from the processes

4. *Product Quality*

- Bench marking of a product among its class.
- Determination of quality difference as compared to best in class.
- National/International product certification.

5. *Customer Perceptions*

- System for obtaining feed back from customers.
- Processing of customer complaints.
- Determination of customer satisfaction index.

6. *Quality Improvement*

- System of organised quality improvement effort.
- Quality improvement projects undertaken during last one year and results obtained.
- Plans for further quality improvement.

7. *Training and Motivation*

- System/Training and skill development of employees.
- Number of hours of training per employee per year.
- Motivation of employees.
- Involvement and empowerment of employees in quality improvement effort.

8. *Quality of Vendor Inputs*

- Selection and rating of vendors.
- Assistance to vendors for quality improvement.
- Verification of purchased products.

9. Maintenance of Plant Equipment

Preventive maintenance system.

Number of break downs.

Plant utilisation factor.

General House-Keeping.

10. Social Responsibility

- Safe working conditions for employees.
- Environmental risk assessment.
- Effective Environment Management System.

Research Study

Some of the organisations such as DNV, Norway has already developed quality rating system based on European business environments. We would have to undertake a research study to evolve a quality rating system suitable for Indian industries. Based on comparative importance of various elements discussed above numerical weightage would have to be given to different factors. At the same time comprehensive check lists would need to be developed to have an objective basis for awarding marks for various activities. Transparency of evaluation criteria would be critical importance for success of quality rating system. Therefore system evolved after research study would need to be discussed with various segments of industry to achieve broad consensus. The quality rating system would have to be initially launched as a pilot scheme which can then be refined based on the actual experience in industry.

APME-SUMMARY OF PACKAGING WASTE MANAGEMENT SYSTEM

APME-Association of Plastics Manufacturers in Europe	Austria	Belgium	Denmark
Legislation	Packaging Ordinance in force October 1993	Eco tax comes into force January 1994	Several legislative regulations targeting the banning, restriction, labelling, deposits and taxation of certain packaging.
Applicable Packaging	Transport sales and secondary packaging	Eco-tax applicable to a variety of packaging. Voluntary agreements cover all packaging in domestic waste. Voluntary agreement and future packaging ordinance will cover all packaging.	Transport sales and secondary packaging
Collection and Recovery	Take back obligation on industry Exemption by establishing collection and recovery systems can subcontract to local authorities.	Industry must be members of a recycling organisation recognised by the regional governments. Belgium industry and retailers have created Fost. Plus on 25th March 1994. This will be the agreed organisation for packaging in domestic waste.	Take back obligation has not been introduced, but an agreement on the recycling of transport packaging was adopted on the 16th of August 1994
Funding Mechanism	ARA system for collection and recovery. Financed by fee/kg/ pkge material e.f. OS 1 for containers >1L and 0.3 <1L	Tax at 15 BF/L on drinks containers but suspended if 70% recycling reached for the Eco- taxe. Funding for Fost-Plus will be via a green point system	Various taxation of selected packages determined by the material and size of contents
Recovery targets	Collection quotas: 40% by 1995, 60% by 1998 and 80% by 2000. Recovery quota: 80% of the collected quantity	for beverage containers 80% non-refillable glass and metal and 70% non-refillable plastics containers to be attained gradually over increasing proportion of population - 100% of population by 1998	By 2000: 15% reduction in packaging waste, 80% recycling of transport packaging and a target of 85% reduction of PVC in packaging
Energy Recovery	For sales packaging only	Energy recovery targets will be set in the Packaging Ordinance	62% of waste in Denmark is enderated with energy recovery.
Deposits on Articles	Mandatory deposits (OS 4) on refillable plastic beverage containers. All non-refillable beverage containers (not milk and wine) bear a "waste management contribution" of OS 1 for packs larger than 1L and OS 0.3 for smaller packs.	From January 1995 possible tax on drinks containers BF 15/L Exemption for refillables if re-use targets (44% in 1994) and for non-refillables if recycling targets (70%) are met. PVC status to be decided by January 1995.	Mandatory refillable bottles for domestic production. Mandatory deposit and return and recycling systems for imports.

APME-SUMMARY OF PACKAGING WASTE MANAGEMENT SYSTEM

Finland	France	Germany	Greece
Law on waste 1994. Framework legislation without any specific (numerical) targets. Eco-tax for one way beverage bottles and an (2 FML), to be doubled in the future. Government proposal to double current refill/recycling levels	Packaging waste decree in force January 1993	Topfer ordinance; targets into force January 1994 and July 1995. Now being reviewed.	No legislation in place. The Government is considering a recycle decree.
All packaging waste	Sales and secondary packaging Household and industry packaging	Transport sales and secondary packaging	To be determined by new Decree.
Local authority (glass), industry (bottles and board).	Conducted by local authorities Industry recovers packaging waste through the Eco-emballage organisation.	Take back obligation on producers Exemption by establishing systems outside of local authority network (i.e. DSD).	To be determined by new decree
Eco-tax fiscal and not used for packaging recovery. Industry is paying for bottle and paper board collection glass is practically subsidised by communities. Plastic packaging has no funding system or positive raw material value as waste	Eco-Emballage is financed by fee per package.	DSD is financed by fee per packaged unit (weight and volume dependent) - the Green dot	To be determined by new Decree.
70% of all packaging waste by 2000. Government proposal to double current plastic packaging refill/recycle level. The low population density will cause practical difficulties in reaching targets.	Recovery targets: 75% of household packaging by 2000, no material at less than 60%.	Recycling target for plastics packaging (including feedstock recycling) of 64% by 1995 now subject to review.	To be determined by new Decree.
Government support if recycling refill targets are met Trials in the use of Packaging Derived Fuel (PDF) in hand to supplement coal/peat.	All recovery techniques are considered equal.	Not included as a recovery option; under review by the German Government	To be determined by new Decree.
Deposit system exists for glass and refillable bottles. Ministry wants to raise it up to 4 FML. This kind of policy in Finland is considered an enormous trade barrier for soft and alcoholic drinks	None-covered by fee per package unit.	Mandatory deposit if recycling targets are not achieved and market share of refillable containers below 72% Take back obligation at the sales outlet on containers.	To be determined by new Decree.

APME-SUMMARY OF PACKAGING WASTE MANAGEMENT SYSTEM

Holland	Ireland	Italy	Norway
Voluntary agreement, The Packaging Covenant, into force 1991. Volume reduction by 2000.	Waste bill in preparation.	Law on liquid contents and plastic shopping bags into force 1990, October 1993 law passed leading to 10% tax on all PE polymer for film. This superadds the carrier bag law, 10% tax on all polymers for containers.	Draft law on waste reduction and minimisation, existing tax on certain non-returnable beverage containers.
All packaging placed on the market.	Used products of their packaging.	10% tax on virgin polymer used to make PE film. Exemption for films produced on-site for packaging in producing good and products. For bottles see funding mechanism.	Non-refillable beer, carbonated soft drinks, wines and spirit containers.
Take back obligation on industry. Collection and sorting conducted via local authorities.	Proposal that producers and distributors take back products or their packaging or arrange for their collection and recovery.	Local authorities responsible for collection. Consortium for recovery.	Deposit and refund systems for refillable glass and PET.
Operating costs to be divided between participants - industry and local authorities.	Proposal that producers, retailers and distributors operate deposit and refund schemes.	10% levy on manufacturers of PE polymers for film and 10% contribution on all polymers for bottles for liquids to pay for recycling.	Tax on non-refillable drinks containers (milk exempt)
40% of all packaging by 1995 - 50% plastic bottles and 50% clean office/shop film.	As yet unspecified targets to be met within a five year period to 1999.	40% of all plastic containers by 1995 dependent on local authorities ability to collect and recover.	A proposed tax reduction for reverse vending system to meet yet to be defined return rate. Industry to be involved in target setting.
Maximum 40% energy recovery of all packaging waste by 2000.	Permitted by Government but the facilities still need to be developed.	Up to 50% of this target (20%) could be met by energy recovery.	Energy recovery not excluded as a recovery option - currently at 8% of municipal waste.
Deposit on all soft drinks imported in glass and plastic bottles.	To be determined	None. 10% levy on PE for film is not used as a deposit for bottles.	Packaging taxes 3.5 NOK on non-refillable beer and CSD, 2.5 NOKs on non-refillable containers for wines and spirits.

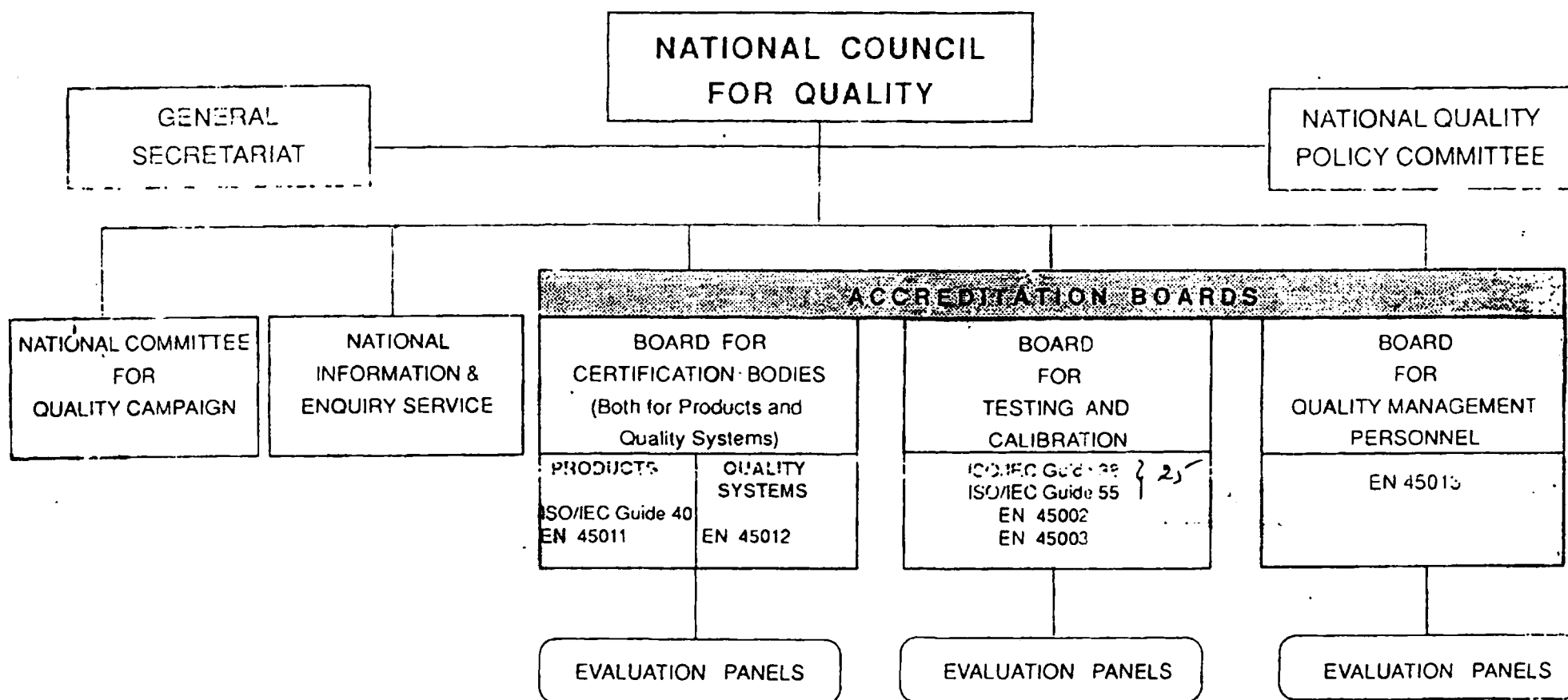
APME-SUMMARY OF PACKAGING WASTE MANAGEMENT SYSTEM

Portugal	Spain	Sweden	Switzerland
No legislation in place. Discussions between packaging chain and government	Government preparing solid waste law and series of decree on waste streams including packaging. Voluntary agreement between government and industry on packaging currently exists - pilot scheme to be set up 3 cities.	New Government Manufacturer Responsibility Statute September 1994. In force 1st October 1994.	Law on refillable/recyclable beverage container. PVC banned since November 1991.
To be determined by discussions	all packaging waste	All packaging waste	Soft drinks, water and beer.
To be determined by discussions	Conducted by local authorities - industry recovers packaging waste through Eco-embellages type grouping	The form collection will take is not yet clear.	Separate schemes for HDPE and PET in place based on bring back systems
To be determined by discussions	Levy per unit of packaging	Firms to pay for collection and recycling through the imposition of a duty on packaging.	Deposit and return system for refillable containers, voluntary levy on plastic beverage containers to fund infrastructure.
To be determined by discussions	Not yet set - Interim targets to be set for 2 years after the system is set up. Final targets will be those in the EU Packaging Directive.	30% of all plastics packaging should be either re-used or recycled by January 1st 1997 (Exclusive of PET bottles).	Maximum limits on one way glass PET aluminium and ferrous beverage containers in waste.
To be determined by discussions	Each industry sector will be able to determine which recovery technique to use. However, material recycling to be given priority. Energy recovery supported by government.	56% achieved in 1993. Since manufacturers are to be responsible for dealing with sorted waste in an "environmentally acceptable way". Incentivation for energy recovery could be one such way.	72% achieved in 1993.
To be determined by discussions	none	Deposit of SKr. 0.5 on cans. Non-refillable PET bottles allowed, providing industry puts in place a recycling system. - 4 SKr. deposit in place for refillable PET.	Refillable containers carry on 0.2 SF. deposit. 60d and 0.5sf if more, mandatory deposits on one way beverages containers if reduction targets not met.

APME-SUMMARY OF PACKAGING WASTE MANAGEMENT SYSTEM

UK	EU proposed Directive		
No legislation in place. Plan presented to government by packaging chain in February 1994.	Common position adopted by the Member States December 1994		
All packaging waste	All packaging waste		
Local authorities responsible for collection. Industry schemes include sponsorship of bottle and recycling cup recovery through RECOUR and Save-A-Cup.	Principle of shared responsibility no specific requirement.		
Recommendations made for industry levy primarily at the stage of sales by converters. Currently voluntary support for schemes such as RECOUR and Save-A-Cup.	No specific requirements - economic instrument allowed.		
National targets to recover 50 - 70% of the used packaging by 2000. Packaging Industry Assessment 58% Plastic Industry recovery target 77% Current levels of plastics packaging recycling c.a 80 Kts p.a.	Recycling targets: 25% minimum, 45% maximum, 15% minimum for each material in 5 years.		
1 Energy recovery supported by government	Implicit energy recovery band of 15 to 40% after 5 years.		
None	Re-use systems permitted providing they present no barriers to trade.		

ORGANISATIONAL STRUCTURE OF NATIONAL COUNCIL FOR QUALITY



Working Group on Exports for the Ninth Five Year Plan

Section II . 8

**Sub-Group Report on
Role of States in
Export Promotion**

450-468

Convenor : S K Tuteja
Secretary
(Industries and Commerce)
Government of Punjab

INTRODUCTION

A "**Working Group on Exports**" was constituted by the Planning Commission to suggest measures to increase the contribution of exports to Gross Domestic Product in the Ninth Five Year Plan of the Country. The composition of the Working Group is enclosed as Annexure 'I'. To facilitate its task, the Working Group constituted a number of Sub-Groups, for detailed examination of its different terms of reference, and recommendations relating thereto. A sub group on "**Role of States in Export Promotion**" was also constituted, with membership as given in Annexure-II. The succeeding paragraphs contain a report on the deliberations of this group.

II. The role of the States in the development of exports has assumed crucial importance in the context of the redefined role of State Government in the new economic policy. The Union Government, is primarily responsible for the changes to be made in the export import policy, in the tariff mechanism as well as introduction of measures relating to Exchange Rates and Banking Credit to the exporters. The States Governments are involved in the subjects covered in the State list, which impinge upon exports and would cover areas like Infrastructure, Labour, Welfare, Industrial disputes, Factory safety, Pollution control etc. So far, the State Governments have been involved in provision of infrastructure (Power, Water Land etc.), financing the small scale enterprises and also in rendering equity support to medium scale projects. The State Governments have also been extending support to export oriented industrial units by way of concessions in Sales Tax, capital subsidy, allotment of industrial plots etc.

III. The present status of new initiatives taken by States:

The various noteworthy initiatives taken recently by the State Government, keeping in view the new economic policy, are briefly indicated below :

Goa :

A Hardware Technology Park is being set up at Verna (Goa).

Gujarat :

Private participation in development of ports, Power Stations and ensalination of water supplies etc.

EPIP being established at Savli, Baroda.

An Export Award Scheme initiated.

Haryana :

High Powered Committee set up to take spot decisions on foreign investments, NRI projects and 100% export oriented projects.

Special incentives for 100% EOUs.

EPIP being established at Kundli, Sonapat.

Karnataka :

An Information Technology with the association of Singaporean Investors and Tatas set up.

An Air Port of International standards coming up in Bangalore.

EPIP being established at Hoodi, Bangalore.

Kerala:

An authority for infrastructure development with statutory powers established.

Technology Bank established under the State Industrial Development Corporation.

EPIP being established at Kakkanadi, Ernakulam.

Madhya Pradesh :

EPIP being set up at Devas.

EOUs given 'Essential Service Status'.

50% expenses reimbursed for ISO 9000 applications.

Coming up with an Exporters Directory.

Maharashtra :

Private participation encouraged in power projects and establishment of industrial estates.

EPIP being established at Ambernath, Thane,

Orissa:

The Foreign Investment Division in the Industrial Promotion and Investment Corporation of Orissa will act as a single window for investment by Non-resident Indians and foreign investors.

EPIP being set up at Bhubaneshwar.

Punjab:

Public Utility Status for 100% EOUs.

EPIP being established at Ludhiana.

Reservation of 5% of industrial plots for 100% EOUs.

Uttar Pradesh:

Software Technology Park has come up at Kanpur.

An Electronics City is being developed at Noida.

UP Trade Promotion Authority is effectively in action for organising and participating in Domestic and International Trade Fairs.

EPIP being established at Surapur.

IV. New Initiatives of Government of India :

The Government of India have in the recent past taken certain special initiatives to promote exports by States. These include :-

Setting up of Export Promotion Industrial Parks.

A decision has been taken to consider private or joint venture sector EPZs with provision for active participation of the State Governments, and it is even possible to dovetail EPIP scheme also to joint venture EPZs or a Free Port.

Requesting the State Governments to have nodal agencies to consider appropriate export promotion policies.

According the status of export houses for State Export Corporation.

Requesting for special dispensation in matters relating to assured power and water supply etc.

The Central Government has recently indentified 23 Export Intensive Areas all over the country, which would be a focus of a major thrust to remove infrastructural constraints in these areas in collaboration with State Governments.

The Centre has taken initiative to set up Container Freight Stations and Inland Container Depots in the hinterland to provide cargo handling and customs facilities to the importers and exporters throughout the country.

V. Common Issues of concern raised by State Governments :

The State Governments, have in the recent past mainly highlighted the following common areas of concern for a more active role in Export Promotion:

The State Governments do not have any direct benefit emanating out of export effort. It is generally felt that there is a direct financial loss on account of forgone revenues and also on account of additional expenditure on export related activities, without and direct financial benefit to the States concerned.

It is felt that incentives should be provided to the States on the basis of their export performance while it is recognised that an extensive data base is a prerequisite for any effective scheme for granting incentives, it is necessary to evolve a working mechanism for the scheme.

VI. Areas identified for scrutiny and recommendations:

The Group identified the following areas in the jurisdiction of the State Governments, which directly affect the growth of exports :-

- a) Infrastructure,
- b) Industrial Policy,
- c) Regulatory mechanism like Factories Act,
- d) Financial support through State Agencies,
- e) Marketing Support,
- f) Human Resources Support,
- g) Information Dissemination.

VII. Recommendations:

The recommendations of the group in respect of each of the above mentioned areas as given below :-

a) Infrastructure :

i) All states must reserve 10% of its industrial plots for allotment to export oriented units and declare that acquisition of industrial areas for Export Oriented Units, wherever needed, would be taken up on priority.

ii) The Government of India should continue the existing policy of setting up EIPs in each State as per current guidelines, allowing for expansion/ additional EIPs where ever already established. The scheme should be enlarged to setting up of EIPs by private sector also.

iii) The Government of India should bear 50% cost of setting up Export Intensive Areas in different States upto a maximum limit of Rs.20 crores for each such area. The Government of India should adopt a 'Cluster' approach in setting up such areas in the country.

iv) The Government of India should also provide financial support for carrying out feasibility studies for setting up of International Air Port, EIPs, Export Intensive Centres, CFS. This would spur the State Government to show more involvement in exports.

v) There should be ear-marking of rakes from the States depending upon their requirements. A special scheme needs to be devised for priority allotment of rakes to States exporting bulk commodities like agriculture products.

vi) Depending on the volume of trade, each of the States should have an ear-marked berth in a Port town exclusively to facilitate the import and export of the cargo of the respective States. The smaller states could have a common berth.

vii) The Government of India should consider permitting the State Governments to set up International Air Ports and Air Cargo complexes in collaboration with the Private Sector in areas which are far away from the existing International Air ports to help in larger exports. The States Government should be requested to provide land and Govt. of India be requested to share 25% of the total cost, subject to maximum of Rs.50 crores.

viii) For promotion of trade with neighbouring countries from border States like Punjab, Himchal Pradesh, Assam, West Bengal, Gujarat, Rajasthan, U.P., State cargo complexes need to be established for which the

Central Government should reimburse 20% of the total expenditure incurred by the States Government with the ceiling of Rs.1 crore respectively.

b) Industrial Policy :

i) The State Government should formulate and integrate export policy as part of its Industrial Policy. A specific scheme should be drawn out to give special incentives to units which are export oriented in nature. All units, which are exporting more than 25% of their production, should be considered as Export oriented units.

ii) Purchase Tax and similar levies on inputs used for the purpose of export goods should be abolished. However where this levy forms a significant part of the State revenue, mechanism could be devised to compensate the State government for the loss of revenue.

iii) To facilitate free and unhindered movement of goods, all municipal taxes like octroi etc. on exports should be abolished.

iv) 100 % export oriented units in the EPIP, as well as other export oriented units should be assured uninterrupted power supply.

v) For quality upgradation, the Government of India should consider reimbursement to the State of the full amount of the assistance rendered by it to the exporting unit of getting accreditation with ISO-9000. Where full reimbursement is not forthcoming from Government of India, the State Government can consider part reimbursement of the expenses incurred by the Industrial units for getting ISO-9000 certification.

vi) All transfer of licences be exempt from Sales-Tax.

vii) The State Government should introduce the concept of Green-cards for exporters to accord top priority to exporters in dealing with different Departments. This should be analogous to the scheme of the central government for 100% EOUs.

c) Regulatory mechanism under labour laws and other acts:

i) The States should announce that all export oriented units would have self regulation and that these units would be free from Inspector Raj.

ii) In many States 100% EOUs have been accorded a Public Utility Status. It is recommended that the respective states should accord the same treatment to the export units as defined by them, which will be a long way in ameliorating the problems of such export units which are not 100% EOUs.

d) **Financial Support through State Agencies:**

i) The State Level Financial Institutions - IDCs and SFCs - be encouraged to lend to Export oriented units and an annual credit plan for exporters in the States be finalised in consultations with the State Level Bankers meet. These be monitored at the state head quarters periodically.

ii) One Export Corporation from each state should be declared as Export House irrespective of its turnover as State Corporation mainly act as facilitators for promotion of exports. This has already been recognised by the Government of India and notification was also issued by the Ministry of Commerce which entitles one State Corporation for the State to get the facility of Export House. It is recommended that the dispensation be done for a period of five years in onego.

e) **Marketing Support :**

i) The State Government should consider setting up of exhibition complex in each State which will be on the same lines as the exhibition centre at Pragati Maidan, New Delhi, so that each State could display its products and specialised exhibitions could be held around the year.

ii) The Government of India should consider organising specialised exhibition in different countries so that the State Government could display the full potential of its exporters internationally.

iii) For the State participation in ITPO organised exhibitions in the world, the Government should reimburse 50% of the total expenditure incurred by the State Government/its nodal agency on space rent.

iv) A memorandum of understanding should be signed with the nodal agency for export of each State alongwith STC/MMTC which would not only lead to information sharing but also in strengthening linkages for increase in exports from the respective States.

f) **Human Resources Support:**

i) It is felt that there is a huge shortfall of trained manpower in so far as the handling of various export matters is concerned. The State Government may introduce suitable courses in Universities/Polytechnics/Industrial Training Institutes etc. so as to develop manpower suited to the needs of the Export Houses.

ii) The arrangements may be worked out with the Indian Institute of Foreign Trade (IIFT) for setting up their branches in different States so as to develop manpower suitable for handling exports, which should include training, refresher courses, field visits, interaction of various levels etc.

iii) The grant of suitable awards to leading exporters by State Government is recommended. This would help in a great way in developing manpower for promoting exports from the State.

g) **Informationing Dissemination :**

i) For speedy and qualitative access to the latest business information, Information Highways to be set up by NICNET should be introduced in all the States covering all major centres for exports.

ii) There should be regular Seminars on Export Awareness to inculcate export culture & orientation in the State to be conducted by IIFT/ITPO in collaboration with State Governments. A schedule should be drawn well in advance on a time bound basis.

VIII. Priority Recommendations:

After detailed deliberations, the Sub-group felt that the following recommendations, be treated on priority for implementation by the States and Govt. of India.

i) The State Governments should formulate specific export policy, as an integral part of their Industrial Policy, with special incentives for export oriented units.

ii) There should be regional cooperation among the neighbouring States in the matter of sharing common infrastructure and for evolving export friendly policies.

iii) It has also been seen that in many States turnover for indirect exports does not get reflected in their direct export performance. It will be necessary to have Director General, Commercial Intelligence and

Statistics to set up/mechanism to take into account the State's contribution for direct as well as indirect exports. The relative contribution by a State in the total export be considered by the Central Government while determining the share of a State in the funds being allocated by the Ministry of Commerce in developing critical infrastructure on model lines for the benefit of exporters.

Annexure - I

**No. I&M-3(1)/1/95-Exports
Government of India
Planning Commission
(Industry and Minerals Division)**

Yojana Bhavan, Sandad Marg,
New Delhi, the 1st November, 1995

· O R D E R ·

Subject : - Constitution of the Working Group on Exports.

In the context of the formulation of the Ninth Five Year Plan (1997-2002), the Planning Commission has decided to set up a Working Group on Exports. The composition of the Working Group will be as follows :-

Shri Tejendra Khanna
Secretary,
Ministry of Commerce
Udyog Bhawan,
New Delhi - 110 001. - Chairman

Ms. Tarjani Vakil
Chairperson & Managing Director,
Export - Import Bank of India,
Centre One, Floor 21,
World Trade Centre,
Cuffee Parade,
Bombay - 400 005. - Member

Dr. Rakesh Mohan,
Economic Adviser,
Ministry of Industry
Udyog Bhavan,
New Delhi - 110 011. - Member

- Secretary (Industry), Govt. of Punjab
Chandigarh. - Member
- Secretary (Industry), Govt. of Kerala
Thiruvananthapuram. - Member
- Shri G. Patnaik,
Chairman, Agricultural and
Processed Food
Product Export Development
Authority (APEDA)
3rd Floor, Ansal Chambers No.11
New Delhi - 110 066. - Member
- President, Federation of Indian Export
Organisations (FIEO), PHD, House, 3rd Floor
Opp. Asiad Games Village,
New Delhi - 110 016. - Member
- Chairman, Tata Exports Pvt. Ltd.
Block A, Shiv Sagar Estate
Dr. Annie Besant Road, Worli,
Bombay. - Member
- Dr. Amit Mitra, Secretary General
Federation of Indian Chamber of
Commerce and Industry (FICCI)
Federation House, Tarsen Marg,
New Delhi - 110 001. - Member
- Shri Taruna Das, Director General
Confederation of Indian Industries (CII)
Industrial Area, Lodhi Road,
New Delhi - 110 003. - Member
- President,
Engineering Export Promotion Council,
World Trade Centre,
17/iB, Ezra Street,
Calcutta - 700 001. - Member

President,
Apparel Export Promotion Council,
Ground Floor, Sheetla House,
73, Nehru Place,
New Delhi - 110 019.

- Member

Dr. R. Mandal,
Joint Adviser (MIE), Planning Commission
Yojna Bhavan, New Delhi - 110 001.

- Member

Shri Shyamal Ghosh,
Director General of Foreign Trade,
Udyog Bhavan, New Delhi - 110 001.

- Member

Terms of Reference

1. To analyse the impact of export growth on G.D.P. during the 8th Plan and explore possibilities of improvement in export to sustain its increasing contribution to G.D.P. during the 9th Plan.
2. To assess the importance of export of manufactured/processed goods in the industrial growth of the economy;
3. To suggest measures to make export planning an integral part of industrial planning in the country;
4. To identify the constraints inhibiting higher growth of existing exported items and to suggest measures to overcome them. These suggestions may include consideration of improvement in procedures as well as priorities;
5. To evolve a strategy for qualitative improvement in the export of manufactured/processed goods and introduce 'TQM' system in the Indian Industry. The strategy may include consideration of different measures like ;
 - change in the prevailing fiscal and tariff policy framework;
 - means to achieve technology and quality upgradation of products;
 - means to improve the infrastructure for marketing of Indian products
 - identification of products and markets with high potential and relative advantage for export growth;
 - changes in the administrative structure (if needed) governing exports;
 - industrial location policy (if any) to supplement exports.
6. To make an assessment of necessary infrastructure and investment requirement for promotion of exports;
7. To consider the complementary role the State Governments may play for export promotion as an integral part of their industrial planning.

The Working Group may co-opt such official(s) or non-official(s) as member(s) of the Group as considered necessary.

The expenditure on TA/DA will be borne by the parent Department/Ministry/State/Organisation to which the official belongs. The non-official members of the Working Group will be entitled to TA/DA as permissible to Grade I Officers of the Govt. of India and this expenditure will be borne by the Planning Commission.

The working Group will submit the Report by 30th April, 1996

Sd/-
(Ms GURJOT KAUR)
DIRECTOR (ADMN.)

Copy forwarded to :

A. Chairman and all the members of the Working Group.
B. (Adviser (I&M), Planning Commission will be a Special Invitee to all the meetings of the Working Group).

1. OSD to Deputy Chairman, Planning Commission.
2. PS to Minister of State for Planning & Programme Implementation.
3. PS to Members.
4. PS to Member Secretary, Planning Commission.
5. PS to Special Secretary, Planning Commission.
6. Ministry of Finance (Plan Finance)
7. Ministry of Home Affairs
8. All Advisers/Heads of Divisions.
9. All Deputy Advisers/Joint Advisers, I&M Division.
10. Administrative/General Branches, Planning Commission.
11. Accounts-I Branch, Planning Commission.
12. Information Officer, Planning Commission.
13. Library, Planning Commission.
14. PS to Director (Admn.), Planning Commission.

Sd/-
(Ms GURJOT KAUR)
DIRECTOR (ADMN.)

Annexure - II

**Government of India
Ministry of Commerce
New Delhi - 110 011.**

No. 11(9)/95-EPL
1996

11th April,

Dear Member,

Sub : Constitution of Sub-Groups as decided in the meeting of the Working Group of Exports held on 01.02.1996.

This is in continuation of my letter of even number dated 27.02.1996 giving details of the Sub-Groups formed under the purview of the Working Group on Exports.

The following Sub-Groups have now been constituted :-

i).	Sub-Group on Export Marketing - issues including information & networking.	Sh. K.K. Mathur CMD, ITPO.
ii)	Sub-Group on Industrial Policy Linkages & Export Promotion	Shri P.G. Mankad DG., NPC.
iii)	Sub-Group on Infrastructure requirement for Exports.	Sh.T.S.Vijayaraghavan Addl. Secy., MOC.
iv)	Sub-Group on quality issues	Sh. Gokul Patnaik Chairman, APEDA.
v)	Sub-Group on State support for Export Promotion	Sh. S.K. Tuteja, Secy., Industries & Commerce, Govt. of Punjab.

The composition of each of these sub-groups is given in the list enclosed herewith (sub-group wise) for your information and reference.

As regards the sub-group on Trade Finance and Fiscal matters already constituted with the undersigned as the convener, it is now conveyed that Shri Sharad Bhansali, Director, MOC, Dr. Indra Rajaraman of National Institute for Public Finance & Policy have also been added as members. These additions may kindly be noted.

You may send your views on any specific issues that you would like these sub-groups to address directly to the convener of the sub-group with a copy to the undersigned.

With regards,

Yours sincerely,

Sd/-

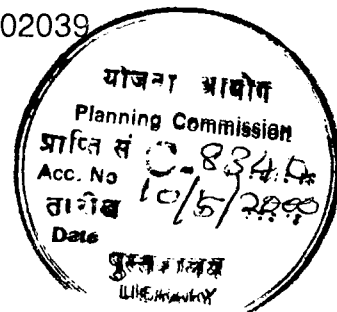
(Dr. Mrs. V.S. Bharucha)

1. All members of the Working Group on Exports.
2. Shri Sharad Bhansali , Director, MOC.
3. Dr. Indra Rajaraman of National Institute for Public Finance & Policy.
4. Chariman of the Working Group (copy for information).

Sub-Group on "Role of States in Export Promotion"

1. Shri S.K. Tuteja,
Principal Secretary
to the Govt. of Punjab
Deptt. of Industries & Commerce
Chandigarh.
Tel. 0172-704472
Fax. 0172-702836
2. Shri R.V. Choudhary,
Secretary Industries
Govt. of Kerala
Thiruvananthapuram.
Tel. 0471-67994
Fax.0471-67115
3. Shri Pradip Kumar,
Joint Secretary
State Plans
Planning Commission
New Delhi.
4. Shri Sharad Bhansali,
Director (State Cell)
Ministry of Commerce
Udyog Bhawan
New Delhi.
5. Shri Gokul Patnaik
Chairman, APEDA
3rd Floor, 11 Ansal Chambers
6, Bhikaji Cama Place,
New Delhi - 110 066.
Tel.011-687214/6872159
Fax.011-6875016
6. Shri P.K. Shah
President, FIEO
3rd Floor, Opp. Asian Games Village
New Delhi - 110 016.
Tel. 011-6851310/6864576
Fax. 011-6863082

7. Dr. Shyamal Gupta,
Vice Chairman & MD
Tata Exports (India) Ltd,
Jeevan Bharti Bldg.
New Delhi.
Tel. 011-3312389
Fax. 011-3320024
8. Dr. Amit Mitra,
Secretary General,
FiCCI,
Federation House,
Tanseh Marg,
New Delhi - 1
Tel. 011-3319251-61
Fax. 011-3320714
9. Shri Tarun Das,
Director General,
CII, Institutional Area,
Lodhi Road,
New Delhi.
Tel. 011-492999
Fax. 011-4633168/4626149
10. Mr. L.M. Goyal,
Financial Commissioner
to Govt. of Haryana,
Department of Industries
Chandigarh.
Tel. 0172-54035/540006
11. Dr. (Mrs) Kiran Chadha,
Director,
Ministry of Commerce,
Room No.216-B,
Udyog Bhavan,
New Delhi
Tel. 011-3011075
Fax. 011-3014418/3016400
12. Dr. B.C. Gupta,
Member Secretary
Managing Director,
Punjab Small Industries &
Export Corporation Limited,
Udyog Bhavan,
Sector 17,
Chandigarh.
Tel. 0172-704865/702301-03
Fax. 0172-702039



- iii) "S"MARK
- iv) IECQ
- v) IECEE .

<u>Activity Components for product</u>	<u>Pattern of assistance certification schemes</u>
a) Assistance to exporters/ producers in obtaining certification for their products against international standards to meet the following costs:	a) 50% of the total charges for testing, evaluation and certification subject to a suitable ceiling.
* Application and factory inspection fees * Product testing/evaluation fees * Certification fees	
b) Assistance to exporters and producers for training, consultancy, reference testing and failure analysis etc to achieve product certification.	b) 50% of the cost subject to some suitable ceiling

vii) DEVELOPMENT OF PACKAGING TO PROMOTE EXPORT OF MANUFACTURED/PROCESSED GOOD

The following recommendations are made :

- Promote pilot-contract packaging facilities from intermediate technologies to high level technologies, at important commercial centres on commercial lines to enable the exporter/manufacturer/their organisations to develop packaging and packaging system.
- Product packaging studies should be made and export package specifications should be drawn-up in detail along with the code of practice (where necessary).
- Development of packaging designs and standards to meet the Codex, USFDA, E.U. and other developed countries regulations in respect of environment and solid waste disposal and other parameters.

- Efforts should be made to develop unit value added packs, export of the thrust products (to start with) and subsequently of other products.
- Manpower development should be taken up on a massive scale by expanding training facilities of Indian Institute of Packaging and encouraging packaging as a full subject in various IITs and Universities.
- Programmes need to be developed for "training the trainers".
- As packaging having assumed its significance both for domestic and export trade, in the engineering colleges and agricultural universities, packaging should find as a subject for teaching. While for the engineering colleges, detailed syllabus can be followed covering the whole gamut of packaging industry in agriculture.
- Data Bank/information centre may be created to disseminate information about the new packaging concepts.
- The testing facilities at Indian Institute of Packaging, Central Food Research Institute and Defence Food Laboratory both at Mysore should be enhanced to meet the international packaging testing requirements.

viii) QUALITY RATING SYSTEM

- To evolve a quality rating system of a company which takes into account not only documented quality system but all other elements which have a bearing on the quality of product and services such as :

1. Quality Policy and Strategy
2. Quality Management System
3. Quality of Process
4. Product Quality
5. Customer Perceptions
6. Quality Improvement
7. Training and Motivation
8. Quality of Vendor Inputs