THE COTTON TEXTILES EXPORT PROMOTION COUNCIL
(Sponsored By Government of INDIA)

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Sub: Your suggestions on alternate incentive scheme for export

Dear Member,

As you may be aware, the WTO Agreement on Subsidies and Countervailing Measures (ASCM), comprehensively defines subsidies wherever

- Government Revenue is foregone or financial contribution is made by way of direct transfer of funds or price support.
- A benefit is conferred by the subsidy
- The subsidy is specific to an industry/group of enterprises

2. An “inbuilt clause” within the ASCM, however permits developing countries, especially Least Developed Countries (LDC’s) to grant prohibited subsidies, provided their GNP does not exceed US$1000 per annum.

3. Further, this permission comes with a limitation that the said developing country should not have attained “export competitiveness” in the product which is defined as achieving a market share of 3.25% of world trade in the product for two consecutive years. For this purpose, a Product is defined as a “Section Heading” of the Harmonised system of nomenclature.

4. In case a country attains export competitiveness in a product it has to phase out the in a product, it has to phase out subsidies within a period of 8 years from the year when the threshold has been reached.

5. Given this framework of the WTO ASCM Agreement, India has reached export competitiveness (as per study undertaken by WTO) in the textile and clothing sector covered in Section IX of the Harmonised Nomenclature in 2010. Thus, the period of 8 years will be completed in 2018 and India is under pressure to phase-out the subsidies by the end of that year.

6. Moreover, as per WTO calculations, India is also expected to cross the threshold of US $ 1000 GNP by 2015 for which the Report is expected in October 2017. If this happens, all subsidies will have to be phased out by 2023 i.e. 8 years after 2015.

7. Considering these developments, the Government is keen to receive proposals from the Council for alternative schemes which are WTO compatible.

8. In this connection, following suggestions have been received: --

- **Extend the Refund of State Levies (ROSL) Scheme to the entire textile value chain as the present scheme is restricted only to garments and made-ups. The Scheme is very novel and provides refund of unrebated duties on electricity and sales tax on petroleum products which are not in the GST chain. The present MEI Scheme could be converted into a duty neutralisation scheme to rebate the state levies as also suggested in the note prepared by the Ministry of Commerce.**

- **Rework the existing scheme of duty neutralisation such as the All Industry Duty Drawback (in the post GST era) and rebate the incidence of Central Levies which have not been included in the preview of unrebated central levies which have not been excluded from the purview of GST.**

- **Set up a Public-private venture capital to fund innovation and productivity. As is well known new product development, financing strategic tie-ups with global partners or expansion of product line are all projects that have a certain amount of risk tied to it. Small and medium exporters especially find it difficult to access the right kind of financing for such projects. Private venture capital is not interested in smaller projects. In many cases the risk is seen as too high.**

- **In order to lower the risk and increase the involvement of the private sector, a public private partnership (PPP) venture capital fund should be created with the Government infusing about 25 per cent of the seed capital and private sector players the rest. Private sector would also bring in the professionalism of venture capital managers.**

- **The Irish Government has done this for their technology sector based exports with some success. The Indian Government too can create such venture capital funds for a few critical sectors with potential for future growth and employment generation.**

These could include the next generation of high-end textiles, like technical textiles, work wear/winter wear/home textiles.

- **To make such a scheme even more attractive, it can be supplemented by an 'Angel Law' modelled on an Israeli incentive programme that allows venture capital investors putting money in such higher risk projects to deduct a portion of their investment amount out of their taxable income.**

9. Many other alternatives schemes can be developed for which I seek your views/suggestions/comments

Kindly send your reply to **info@texprocil.org** latest by 15th September 2017.

Regards,

Ujwal Lahoti
Chairman

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