

# **FICCI Survey on Inverted Duty Structure in Indian Manufacturing Sector**

**August 2012**

FICCI has tried to identify areas/products where inverted duty structure exists in manufacturing from custom duties perspective. It has been observed that in some cases the import duty applicable on the finished product is lower than the import duty on the related raw material or intermediate product which discourages domestic value addition. This inversion is not solely because of basic custom duty but in some cases as a result of other additional duties.

It is in this context, FICCI conducted a survey to analyse the products where duty inversion exists. This has become even more important as India is now a part of number of regional/ bilateral Free trade Agreements with Japan, ASEAN and South Korea etc. Even though, FTAs aim to provide equal opportunity to Indian players in terms of exports, higher import duty on raw materials results in an inverted duty structure that makes certain Indian manufactured goods (those dependent on imported raw materials) uncompetitive in both domestic and export markets.

Many a time importers derive the benefit of lower duty or zero duty, due to some special exemptions such as nil duty on project imports and certain defence purchases. However, domestic manufacturers are not eligible for any matching concessions to nullify the impact of such duty anomaly. The survey, therefore, recommends that domestic manufacturers be provided a level playing field vis-à-vis imports under FTAs and various duty concession schemes.

In response to our survey, the following sectors have reported inverted duty structure in their sector:

- Pumps for liquids under Machinery & Mechanical Appliances
- Tyres
- Electronic Hardware
- Electrical Equipments
- Medical instruments
- Aluminum and articles
- Technical Textiles

**Pumps for liquids:** In this sector, though the basic custom duty is 7.5% for both raw material and final product but duty inversion exists due to countervailing duty. Countervailing Duty (CVD) of 6% has been reported on the final product - Centrifugal pump (HS Code – 84137010), whereas CVD on raw materials like impeller, motor, shaft, sleeve, chamber and other parts of pump is 12%. This leads to inverted duty structure in this sector. The industry understands that there is not much scope of increasing the duty on final product as it is a good of public utility but corrective measures can be taken to match duties on raw materials with final product.

**Table: Details of Duty Inversion on Centrifugal Pump**

Final Product	HS Code	Product Description (Final Product)	Current Basic Custom Duty	Current SAD (Special Additional Duty)	Current CVD (Countervailing Duty)	Raw Material for Final Product	HS Code	Product Description	Current Basic Custom Duty %	Current SAD (Special Additional Duty) %	Current CVD (Countervailing Duty) %
Centrifugal Pump	84137010	Centrifugal Water Handling Pump	7.50%	4%	6%	1	84139190	Impeller	7.50	4.00	12.00
						2	85013119	Motor	7.50	4.00	12.00
						3	84139190	Shaft	7.50	4.00	12.00
						4	84139190	Sleeve	7.50	4.00	12.00
						5	84139190	Chamber	7.50	4.00	12.00
						6	84139190	Other parts of Pump	7.50	4.00	12.00

**Source: FICCI Survey**

*(Note: During April-December 2011-12, Centrifugal pump (HS Code – 84137010) worth US \$ 35 mn have been imported. Import during 2010-11 was US \$ 38 mn)*

**Technical Textiles:** Duty inversion has been reported for two product segments; baby diapers and adult diapers. Most of the raw materials required for these final products are common such as polyfilm, lycra thread, frontal tape, P P side, waist elastic, hot melt glue, acquisition layer and non-woven. Inverted duty structure in most of the raw materials is due to higher countervailing duty of 12% on raw material as compared to 6% for Adult and baby diapers.

The industry in this segment expressed their serious concerns over concessions available to imported final product due to recently concluded ASEAN FTA. This is putting the domestic industry at a serious disadvantage.

A detailed table of duty inversion under this segment is given below:

**Table: Details of Duty Inversion on Diapers**

Final Product	HS Code	Product Description (Final Product)	Current Basic Custom Duty	Current SAD (Special Additional Duty)	Current CVD (Counter Veiling Duty)	Raw Material for Final Product	HS Code	Product Description	Current Basic Custom Duty	Current SAD (Special Additional Duty)	Current CVD (Counter Veiling Duty)
ADULT DIAPER & BABY DIAPER	96190040 & 96190040	ADULT DIAPER & BABY DIAPER	10%	4%	6%	1	39202090	POLY FILM	10%	4%	12.00%
						2	54024400	LYCRA THREAD	10%	4%	12.00%
						3	39203911	FRONTAL TAP	10%	4%	12.00%
						4	39199090	P P SIDE TAP	10%	4%	12.00%
						5	58062000	WAIST ELASTIC	10%	4%	12.00%
						6	35069999	HOT MELT GLUE	10%	4%	12.00%
						7	56031300	ACQUISITION LAYER	10%	4%	12.00%
9	56031300	NON-WOVEN	10%	4%	12.00%						

**Source: FICCI Survey**

The fact that there is duty inversion due to CVD which is a replica of excise duty, it is understood that duty inversion is there in excise duty structure also.

*(Note: Total imports for baby and clinical diapers for April- December 2012 were US \$ 61 million. During 2010-11 diapers worth US \$ 73 million have been imported)*

**Electronic Hardware:** Indian Electronic hardware sector is a net importer. Electronic industry is worth \$ 1.75 Trillion and is the largest & fastest growing manufacturing industry in the world. Infact, India is one of the fastest growing Electronic Hardware markets. With the domestic demand estimated to reach \$400 Billion by 2020 and at the current rate of imports, the import bill will be bigger than oil by 2020. It therefore becomes important to develop capabilities of domestic manufacturers and provide them a level playing field vis-à-vis imported goods. The industry has reported that in products like desktops and notebooks total duty on final product is 4 percentage points less than the key components for the product. This is mainly due to the special additional duty of 4 % on components like memory, chassis, battery etc (see table below).

**Table: Details of Duty Inversion on Desktop and Notebook**

Final Product	HS Code	Product Description (Final Product)	Current Basic Custom Duty	Current SAD (Special Additional Duty)	Current CVD (Counter Vailing Duty)	Raw Material for Final Product	HS Code	Product Description	Current Basic Custom Duty	Current SAD (Special Additional Duty)	Current CVD (Counter Vailing Duty)	
A	84715000	Desktop	0	0	12		1	84733020	Planar	0	4	12
							2	84733030	Memory	0	4	12
							3	84733099	Chasis	0	4	12
B	84713010	Notebook	0	0	12		1	84733030	Memory	0	4	12
							2	85068090	Battery	10	4	12.36

**Source: FICCI Survey**

(Note: US \$ 505 million worth of desktops and US \$ 1003 million worth of personal computers were imported during April-December 2011-12. During 2010-11, desktops and personal computers worth US \$ 461 mn and US \$ 934 mn respectively were imported).

### **Aluminium & Articles**

In this sector, while the additional custom duties are equal on raw material and final product but inversion exists because of basic custom duty. Whereas, aluminium ingots (HS Code- 7601) are imported at 5% basic custom duty, duty on its raw materials like aluminium fluoride and coal tar pitch is higher. Aluminium Fluoride (HS Code- 28261200) attracts a basic custom duty of 7.5% and coal tar pitch (HS Code- 27081010) attracts a duty of 10% which leads to inverted duty structure in the sector.

**Table: Details of Duty Inversion on Aluminium & Articles**

Final Product	HS Code	Product Description (Final Product)	Current Basic Custom Duty	Current SAD (Special Additional Duty)	Current CVD (Counter Vailing Duty)	Raw Material for Final Product	HS Code	Product Description	Current Basic Custom Duty	Current SAD (Special Additional Duty)	Current CVD (Counter Vailing Duty)
A	7601	Aluminium Ingots	5%	4%	12%	1	28261200	Aluminium Fluoride	7.5%	4%	12%

						2	270 8 10 10	Coal Tar Pitch	10%	4%	12%
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**Source: FICCI Survey**

*(Note: Unwrought aluminium worth US \$ 467 million was imported during the period April –December 2011-12. During 2010-11 imports in this category were US \$ 557 mn)*

### **Medical Instrument**

In this sector, inversion in duty structure has been reported under various segments like:

- a) **Orthopaedic or fracture appliances (HS Code- 90211000) & Instrument and appliances used in medical, surgical, dental or veterinary others (HS Code- 90189019):** In this case inversion in duty is mainly because of absence of CVD on final product whereas 12% CVD is being charged on raw material like special grade of Stainless Steel (SS) Round Bar, SS Round Wire, SS Sheet, SS Profile, SS Pipe, titanium alloy round bar, titanium alloy sheets, Co-Cr alloy bar/sheet, high density polyethylene. Both final product and raw material are available at zero basic custom and additional duty but for raw materials an additional duty of 12% has to be paid.
  
- b) **Structures cardiovascular suture, ophthalmic suture, sterile surgical suture (HS Code- 90189099):** In this case, final product attracts a basic custom duty of 5%, SAD of 0% and CVD of 6% whereas raw materials like, suture – prolene, vicryl, mersilene (HS Code – 54049010) and Suture: Nylon blue thread (HS Code 54049010) attract higher rates. For suture – prolene, vicryl, mersilene SAD is 4% and CVD is 12% which is very high when compared to 6% CVD on final product. Similarly for Suture: Nylon blue thread, 7.5% basic custom duty 4% SAD and 12% CVD is charged which puts the domestic manufacturer at a severe cost disadvantage vis-a-vis imported final product.

*(Note: Imports under this category during April – December 2011-12 were amounting to US \$ 222 million compared to US \$ 267 mn during 2010-11).*

- c) **Mesh-Prolene Blue, Vicryl Vio (HS Code- 90219090):** In this segment, whereas final product attracts only 5% basic custom duty (both SAD and CVD are 0), raw material Pmesh (HS Code – 54049090) attracts 10% basic custom duty, 4% SAD and 12% CVD which increases the cost of domestic manufacturers.

- d) **Automatic biochemistry analyzer, Elisa plate analyzer, Elisa strip analyzer, Elisa washer (HS Code- 90275090):** Under this segment, raw materials like, flow cell (HS Code – 90279090) and others under the heading static converter (HS Code – 85044090) attract basic custom duty of 7.5%, SAD of 4% and CVD of 12% as compared to basic custom duty of 0%, SAD of 4% and CVD of 12% on final product.

### **Tyre Sector**

Tyre sector is reeling under pressure as anomaly in duty structures in this sector has caused huge cost disadvantages to domestic tyre manufacturers for the last many years. Inverted duty structure in this sector exists with respect to Natural rubber which is the principal raw material for tyre manufacturing. Basic custom duty on tyres (HS Code-4011) is 10% as compared to 20% or Rs. 20 /Kg (which ever is lower) on natural rubber. The inversion in duty has been explained in the table below:-

**Table: Inverted Duty on Account of Existing Structure of Customs Duty on Tyres vis-a-vis Natural Rubber**

Description	Customs Duty details
Finished Product (Tyre)	10%
Principal Raw Material (Natural Rubber)	20% or Rs.20/kg whichever is lower
Natural Rubber price (as on 13.6.2012)	Rs.185/kg
Customs Duty @20% on current price	Rs.37 <b>OR</b>
Customs @ Rs.20/kg on current price	Rs.20/kg
Rs.20/kg worksout to:	10.81% Customs Duty
<b>Inverted Duty</b> (Tyre vs. Natural Rubber)      10% vs. 10.81%	<b>10% vs. 10.81%</b>

**Source: FICCI Survey**

As per the industry, tyre imports enjoy preferential duty under India-ASEAN FTA which leads to imports at concessional rates from Malaysia, Thailand Vietnam, Indonesia, Brunei Darussalam, Lao, Singapore, Myanmar, Philippines, Cambodia etc.

*(Note: India imported Pneumatic rubber tyres worth US \$ 463 mn in 2010-11 and US \$ 237 million during April – December 2011-12).*

## **Electrical Equipments**

- Insulators: All 'insulators', under heading 8546 and 8547, attract 7.5% basic customs duty, 12% CVD and 4% SAD. Whereas, the major imported components like metal parts, hardwares etc. used for manufacturing of insulators under HS Code 7325, attract 10% basic customs duty, 12% CVD and 4% SAD.
- Aluminium Conductors: Aluminium conductors under HS Code 76042910 with its description as "Hard drawn bare aluminium conductors steel re-inforced (ACSR)" attract basic custom duty of 5%. On the other hand, the raw materials used for manufacture of these conductors, under HS Code heading 76011010 and 76011040 ("Aluminium not alloyed ingots and wire rods") also attract a basic customs duty of 5%. This is an anomaly since the raw materials required for manufacture of aluminium conductors attract same level of basic custom duty.