Export Concerns Affecting the Indian Rubber Industry

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Abstract

Despite improving global financial conditions and reduced short-term risks, the world economy continues to expand at a subdued pace. After a marked downturn over the past two years, global economic activity was expected to slowly gain momentum in the first half of 2015. Most world regions saw a moderate strengthening, but growth remains below potential. As per a baseline outlook, global growth has moved slightly downward from the forecasts presented in the World Economic Situation and Prospects 2015. The global slowdown have impacted the Indian economy by way of deceleration in exports, widening of trade and current account deficit (CAD), decline in capital flows, fall in value of Indian Rupee and lower economic growth. The Indian rubber industry also followed the overall market conditions and slack demand. All these factors adversely affected domestic manufacturing and thereby affected miscellaneous manufactured Rubber Products exports.

Keywords: Economy, Global economic activity, Rupee, Rubber products exports

Introduction

India's merchandise exports aggregated to US$ 300.40 billion during 2013-2014, registering a decline of 1.8% in growth, compared to the 21.8% in the previous year. The Indian Rupee depreciated by over 20% in 2014 to touch 68 per US dollar, before staging a recovery in recent times.

Rubber Products and Automobile tyre products are two important export products having a total export of US$ 2.70 Billion. With an extensive plantation sector, indigenous availability of raw materials and a growing small car automobile hub, India is a major player in the global rubber industry. Rubber Product industry in India has evolved over the last 4 decades to manufacture technologically advanced rubber products. The industry comprises small and large rubber growers, synthetic and reclaimed rubber producers, tyre and non-tyre product manufacturers / exporters. The non-tyre sector comprises over 6700 large, medium scale, small scale and tiny units. It produces high technology and sophisticated industrial products. The SME accounts for over 42% in 2007-08 of production of rubber goods in the non-tyre sector. This was fallen to around 36% in 2013-14 as the investment limits in the SME Sector is detrimental to the growth.

Indian Rubber Products have grown over 20% CAGR for the past decade. Exports of Automobile Tyres & Tubes from India have grown over 21 per cent CAGR for the last 10 Years. The Indian rubber products have been exported to over 90 countries in the world including advanced countries like Europe, North America, Japan & Australia. The rubber Industry is highly labour and energy intensive. The Indian Rubber Industry comprises about 450/500 large / medium scale units and nearly 6000 Small and Tiny units. These firms / companies even export their products to developed countries against world competition. Indian Products have indeed created a respectable BRAND INDIA image.

Inherent Strengths of the Indian Rubber Industry

1. 1st in Natural Rubber Productivity.
2. 2nd Largest in Natural Rubber Consumption.
3. 5th Largest Producer of Natural Rubber.
4. 4th Largest Global Rubber Consumer.
5. Huge Scope for Rubber Consumption in India. Presently the per Capita Consumption in India is 1.16 Kg; whereas in China 5 Kg. & in Developed Nations about 6 to 12 Kgs.
6. Fast Emerging as Global Automotive Hub especially for small cars

7. India-A certified manufacturer of quality rubber products as our exports have been growing at more than 20% YoY for more than 20 years.
8. Availability of technologists, largest amongst rubber producing and consuming nations

India's exports grew by 4.66 per cent to US$314.41 billion in FY2013-14 while imports fell by 8.26 percent during the period. Imports declined to US$450.20 billion, narrowing the trade deficit to US$135.79 billion in the last fiscal. In FY 2013-14, trade deficit stood at US$190.33 billion.

The narrowing trade deficit gap should come as a relief for the Government to keep the current account deficit in check to avoid a foreign exchange crisis. In the year 2013-14, exports had decreased and imports had increased compared with that in 2012-13. However, in 2014-15 and in the current months of this financial year, exports have displayed an increasing trend. Exports, adversely affected by the global financial crisis and economic slowdown, are showing signs of revival. In order to boost exports and enable this sector to bear the brunt of global economic slowdown, Government has taken a number of measures, which include the following:

1. Two percent Interest Subvention Scheme, which was available for certain export sectors
2. Enhanced the rate of Interest Subvention from 2% to 3% with effect from 01.08.2013
3. As part of product diversification and market diversification strategy, 47 new items were added to Market Linked Focus Product Scheme (MLFPS) and 122 new items were added to the Focus Product Scheme (FPS). Government also notified 153 hi-tech products on 10.07.2013 under Focus Product Scheme, making them eligible for duty script at the rate of 2%.
4. Apart from the above, various other measures were also taken to increase exports, which include thrust to employment generation, promoting technological up gradation of exports, encouraging domestic manufacturing of inputs for export industry and reduce dependence on imports, encourage export from North Eastern Region besides an endeavor to reduce transaction costs through procedural simplification and reduction of human interface.

The new Government has taken initiatives and some reform steps, helping the sector to look up. The recently released data on exports of rubber products indicate that the sector is on the revival path. Indian economy is recovering from a painful period of rising inflation and weakened growth. The problems faced by this product groups are distinctly different from each other. A number of products under the umbrella of rubber industry are dominated by small-scale industry. These segments require special assistance from the Government of India to meet competition from overseas and create jobs for young Indians.

Despite the above measures, following are some of the product-Specific export problems, which need immediate attention, and support of the Government.

Export Concerns

1. Non-availability of Natural Rubber
2. Import Duty & Inverted Duty structure.
3. Imports of Increasing Finished / Rubber Products into India.
4. Rubber CESS to be abolished
5. Carbon Black – An Important Input for Manufacturing Rubber Products Placed on Restricted List, under 8(C) Safeguard Duty and Anti-Dumping Duty.
6. Futures Trading in Rubber may be banned as price realization purpose is not served. CESS may be imposed on future trading.
7. Setting up Manufacturing Clusters or Industrial Parks for Rubber Products & Auto Tyre & Tubes Products
8. Purchase Tax on Natural Rubber by the State Government to be abolished

9. Inclusion of Reclaimed Rubber in Focus Product Scheme in FTP Chapter 3
10. FTA's & PTA's have not served its purpose as all countries have a favorable trade balance against India
11. Definition of SME Unit and Investment Limit must be revised
12. Imports have registered a 100% increase in the last 3 years mainly of Sub-standard goods. Only goods meeting BIS Standards should be permitted
13. Focus Product Scheme (FPS) & Focus Market Scheme (FMS), scrip's should be directly credited to exporters account electronically.
14. Income Tax Deduction under Section 80 HHC
15. 15% of the exporters make up 85% of the total exports from our country. This core group of 15% should be clearly identified to offer special facilitation & fast track clearances in the DGFT, Customs, Excise & other trade facilitators so address their needs on an urgent basis
16. Shipping Companies to Charges Cost based Charges as it adds to Transaction Costs, DG Shipping should be appointed with regulatory powers on the same lines as in Sri Lanka & Bangladesh
17. Drawback Rates should factor in surcharges & duties to offset the high cost of fuel, electricity, octroi, CST & other taxes without value cap.
18. Second Hand Machinery should be allowed to import at 0% custom duty for up gradation of Technology at soft rates of interest.
19. Labor laws to be made exporter friendly to encourage exporters to take commitments without fear of facing labor disputes and costs.
20. Development Commissioner for Rubber Industry
21. Credit facilities at international rate

Cases of W.T.O Related Issues Concerning the Indian Rubber Industry

1. The US has a relatively low level of implementation and use of international standards set by international standardization bodies. Many Indian rubber exporters to the US market face regulatory barriers as products are increasingly being required to conform to multiple technical regulations regarding consumer protection in respect of health and safety and environment. The Introduction of New Limits of lead content of rubber shoes is one of the examples of such cases. The sudden introduction of this Consumer Product Safety Act for immediate enforcement in relation to lead content in any product shipped appears too harsh on a product like footwear. It is the view of the private sectors that people would neither chew nor swallow footwear and thus cannot be subject to the ill-effects of Lead. Further, it is apprehended that there is going to be a greater stringency so to say that the current acceptable level of 600 ppm was reduced to a maximum of 100 ppm of Lead on 14/08/2009. This raising of the bar is so sudden and drastic that it poses a barrier to trade in this segment.

2. Handmade Rubber Industry faces non-trade barriers like.

   a. Finalizing the list of products requiring federal contractor certification on forced or indentured child labor pursuant to the Executive Order 13126
   b. Third party testing requirements pursuant to the notice of the Federal US Government by the Consumer Product Safety Commission

1. In North America, marking like UL is mandatory for the US and the CSA for Canada for items such as Electrical Heating and Tracing Cables for Domestic, Commercial and Industrial Heating Applications. It is mostly observed that the charges of these labs are very high and each product certification takes anywhere between 6 and 12 months at the least which results in a major obstruction to trade. Test results from any of the reputed labs in India are not acceptable and this denial creates unnecessary burden for Indian Exporters.

2. It is reported that extensive product description requirements complicate exports to the US and result in additional costs. Rules for marking and labeling of retail packages are burdensome. They require details regarding the country of origin, ultimate purchaser in the US and the name of the country in which the article was manufactured or produced. Furthermore, there are requirements relating to the typology/physical characteristics of the clothing labels (given size, font used, etc.)

3. According to the Secretariat Report of 2013, specific labeling requirements, outside of section 304, include the American Automobile labeling Act, in addition to product specific marking requirements, different marking requirements exist, outside section 304, for products subject to FTAs such as NAFTA. In India's view, such different rules of origin for different purposes create a complex trading environment. Accordingly India asked the US to inform whether it proposes to simplify and reduce its various labeling provisions. The US responded that it does not have any plans at this time to change the current labeling requirements.

4. Products are increasingly being required to conform to multiple technical regulations regarding consumer protection (including health and safety) and environmental protection. Although in general not de jure discriminatory, the complexity of the US regulatory systems can represent an important structural impediment to market access. Like the obstacles Indian exporters are facing, obstacles for European exporters include the American Automobile Labelling Act and documentary and labeling Act and documentary and labelling requirement for some of the rubber products, among other.

5. There is a third party testing requirement in Russia, which is reported to be highly burdensome. While most of the countries recognize CE conformity under self-declaration, the importers insist on third-party certification or adherence to local or national standards for items such as Electrical heating & tracing cables for domestic, commercial & industrial heating applications. Having a library of standards for specific countries is almost impossible for any Indian manufacturer owing to the high costs involved.

Conclusion

Exporters play a very important role in improving quality, are innovative to meet world standards and develop products that would be required to fuel India's growth. The Rubber Industry can address India's concerns e.g. 1) Water Conservation in making inexpensive Rubber Dams 2) Pillow tanks for storage of water 3) Snake bite Protectors 4) Import Substitution etc. It is critical to retain and escalate our position as a rubber-consuming nation of at least up to 5 kgs per capita in next 10 yrs. To conclude, establish "Brand India" like the IT sector for quality of rubber and rubber products made in India for global consumption. The NATIONAL POLICY ON RUBBER is the urgent need for the all-round growth of all stakeholders in Rubber under a Development Commissioner for Rubber Products. Last, but not the least, the government must trust the industry and the industrialists to facilitate the realization of this vision.

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