Postal Regn.No. DL(C)-01/1251/09-11
Licence to Post without Prepayment U(C)-30/09-11
RNI No. 42906/84

# WORLD TRADE SCANNER

ISSN: 0971-8095

Single copy Rs. 20 $2

Vol. XXVII No 18 28 July-03 August 2010

*Promoted by* Indian Institute of Foreign Trade, World Trade Centre, Academy of Business Studies

Annual subscription Rs 750

## Natural Resources of Fuel, Forestry, Mining and Fish Focus of WTO Report

Trading in natural resources creates a great many challenges both for importing and exporting countries and governments need to cooperate more intensively if these challenges are to be adequately addressed, according to WTO economists.

In the WTO flagship publication World Trade Report 2010 launched on 23 July 2010 in Shanghai and Geneva.

The World Trade Report 2010 focuses on trade in natural resources, such as fuels, forestry, mining and fisheries. The Report examines the characteristics of trade in natural resources, the policy choices available to governments and the role of international cooperation, particularly of the WTO, in the proper management of trade in this sector.

"Well designed trade rules are key to ensuring that trade is advantageous, but they are also necessary for the attainment of objectives such as environmental protection and the proper management of natural resources in a domestic setting," he added.

### A Quarter of World Trade is in Natural Resources

The total value of world trade in natural resources was US$ 3.7 trillion in 2008, or nearly 24 per cent of world merchandise trade. This value has increased more than six fold between 1998 and 2008.

The share of fuels in natural resource trade rose from 57 per cent in 1998 to 77 per cent in 2008. Fish and forestry products each represented 3 per cent of world trade in 2008, while mining products were responsible for 18 per cent.

The top 15 exporters of natural resources were responsible for 52 per cent of world resource shipments in 2008, while the top 15 importers received 71 per cent of traded resources.

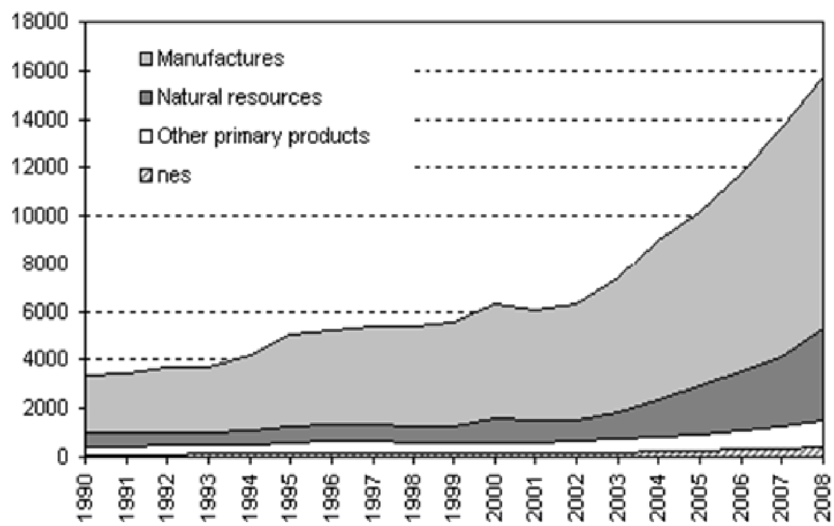
Applied tariffs are (on average) 23 per cent lower in natural resource sectors relative to merchandise trade. Average bound rates in natural resource sectors are 1.7 per cent in developed countries and 30.4 per cent in developing and least-developed countries.

Export taxes cover 11 per cent of natural resources trade compared to 5 per cent of other merchandise trade. Export restrictions on natural resource products represent 35 per cent of notified export restrictions.

Several natural resource sectors appear prominently in the subsidy notifications. Available research suggests that global subsidies to fisheries are in the order of US$ 25 and 29 billion annually.

**Chart: World natural resources exports by product, 1990-2008**

*(Billion dollars)*




*Source: WTO Secretariat estimates.*

### Some Characteristics of Natural Resources

**Natural resources have a number of distinctive features**– the skewed geographical distribution of natural resources, their exhaustibility, the widespread occurrence of economic effects of natural resource exploitation disregarded by the market (externalities), high natural resource dependency in some economies, and tendencies towards high price volatility in natural resource markets. These specificities affect the modes of resource trade as well as the effects that international commerce in natural resources has on welfare.

**Gains from resources trade** – Due to the geographical concentration of natural resources, trade has the potential to improve efficiency and increase welfare by shifting resources from regions of relative abundance to regions of relative scarcity. However, welfare comparisons are complicated by dynamic factors, namely the exhaustibility of natural resources, and pervasive market failures. The latter include imperfectly competitive markets and open access to resources when property rights are poorly defined.

Four other **major issues** are commonly associated with natural resources trade – the presence of environmental externalities, the effect of technology on the sustainability of resources, the so-called "curse" faced by resource-rich economies, and the high volatility that characterizes some resource sectors. International trade interacts with all these factors in complex ways, in some cases exacerbating existing problems and at times providing solutions.

**Trade policy in resource sectors** – Resource-rich countries often restrict exports through a variety of means such as export taxes and quantitative restrictions, whereas tariff s and other import restrictions in resource-scarce countries are low. There are, however, two important qualifications to this general rule. First, domestic policies that are likely to affect trade flows, including subsidies, technical regulations and consumption taxes, are frequently used. Second, the structure of protection that resource exporters face tends to rise with the stage of processing (tariff escalation).

**Policy interventions** in natural resource sectors are justified on welfare grounds by the specific features of natural resources. Governments employ trade policies as instruments to achieve a number of legitimate objectives, such as improving resource conservation or stimulating diversification of exports away from dominant resource sectors. However, three significant caveats need to be kept in mind. First, trade measures are often a second best policy to address problems associated with natural resources. Second, restrictions on trade have beggar-thy neighbour effects, either because they may affect world prices or because they shift profits between exporters and importers. Third, trade and domestic measures in natural resource sectors are close substitutes in some cases.

### WTO Rules Inadequate

**Resources trade regulation**—WTO rules, however, were not drafted to regulate natural resources trade and may not always respond adequately to sectoral specificities. The general principles of the multilateral trading system provide a framework for limiting non-cooperative trade policies, including within resource sectors. Several WTO rules have relevance in relation to the specific features of natural resources.

### Export Taxes and Subsidies

The Report identifies several areas where consideration could be given to **intensified cooperation**. One such area involves trade policies such as export taxes, where bargains might ameliorate uncooperative trade outcomes. A second issue concerns the scope for conservation policies, such as the treatment of subsidies aimed at improving the conservation of natural resources. A third issue relates to the facilitation of trade flows of natural resources, specifically the scope of freedom of transit. A fourth area concerns the clarity of current WTO rules and the coherence between these and rules of international law embedded in different agreements that may be relevant to natural resources.

## Excerpts from FM's Speech

Union Finance Minister, Pranab Mukherjee said that the Government wants to present the stakeholders with a taxation regime which is simple and broad-based leading to lowering of tax rates, better tax compliance and reduced litigation. Mr. Mukherjee further said that the new Direct Tax Code will take into account established and time test practices which have withstood judicial scrutiny. Regarding reforms in indirect taxes, Mr. Mukherjee said that we are able to develop convergence on many contentious issues relating to GST during his meeting with Empowered Committee of State Finance Ministers on 21 July 2010. Mr. Mukherjee was addressing the Special Session on the occasion of the meeting of the National Executive Committee of FICCI on the topic: **Agenda for the Nation: The Tax Reforms- GST and DTC**, on 22 July 2010.

The Finance Minister said that we are looking forward to constructive suggestions from Empowered Committee of State Finance Ministers on the landmark legislation on GST which will change the existing landscape of existing taxation power of Centre and States. Mr. Mukherjee further added that it will also set an innovative precedence for cooperative fiscal federalism. He said that since information technology infrastructure is a pre-requisite to harness the benefits of GST for consumers, industry and governments, a Tax Advisory Group for Unique Projects (TAGUP) headed by Nandan Nilekani, Chairman, Unique Identification Authority of India has proposed a detailed roadmap and strategy for putting in place the requisite IT infrastructure before the actual introduction of GST in April next year. Mr. Mukherjee said that the Government is in process of finalising the legislation for DTC and seriously engaged to develop consensus to bring all the States on board to roll-out GST from 1st April, 2011.

India's growth in 2010 has been projected at 9.4 % by the IMF. The projection for India's economic growth is much higher than our estimated projection of about **8.5 %** in the financial year. The growth over and above 8.5% would depend upon growth rate of our services sector. As per the latest GDP data services sector registered an average growth rate of **7.4%** during 2009-10. This sector contributes about **57%** to our GDP and has to register double digit growth for significantly higher overall growth rate. With prediction of a good monsoon I expect economy in general and services sector in particular to do well. Our Industrial sector and external sector have shown an impressive recovery.

### Direct Tax Code

We have initiated the reforms in the Direct Taxes and as per our commitment; we placed the Draft Direct Tax Code as well as revised discussion paper in the public domain. In the revised discussion paper, we have addressed the areas of concern raised by trade and industry. In the Draft Direct Tax Code, it has been our endeavour to incorporate the best global practices and to use innovative methods for attaining equity—vertical and horizontal, ensure growth with sustainability, create stable fiscal eco-system and have well regulated free markets. The new Direct Tax Code will also take into account established and time tested practices which have withstood judicial scrutiny. We want to present the stakeholders with a taxation regime which is simple and broad based leading to lowering of tax rates, better tax compliance and reduced litigation. The draft DTC after taking into account the suggestion on revised discussion paper is under legislative drafting. I intend to introduce draft DTC in monsoon session of parliament. I would like to thank the trade and industry and their representatives for their active participation in shaping this historic legislation which will make Indian trade and industry globally competitive.

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**Dollar-Rupee rate at NSE Futures**

| Trade Date | Open Price | High Price | Low Price | Close Price | Daily Settlement Price | Open Interest | No. of Contracts | Value (Rs. lakhs) | RBI Reference rate |
|---|---|---|---|---|---|---|---|---|---|
| 26-Jul-10 | 46.9450 | 47.0750 | 46.8175 | 47.0375 | 47.0375 | 433672 | 1718944 | 806987.76 | 46.8600 |
| 23-Jul-10 | 46.9800 | 47.0925 | 46.9200 | 46.9725 | 46.9725 | 469317 | 1877242 | 882394.41 | 47.0000 |
| 22-Jul-10 | 47.3325 | 47.4000 | 47.1200 | 47.1625 | 47.1625 | 494888 | 1789288 | 845595.54 | 47.3300 |
| 21-Jul-10 | 47.2800 | 47.3800 | 47.1700 | 47.2000 | 47.2000 | 577741 | 1848171 | 873788.07 | 47.2500 |
| 20-Jul-10 | 47.2750 | 47.4425 | 47.1400 | 47.4125 | 47.4125 | 632617 | 1684017 | 796320.80 | 47.1000 |
| 19-Jul-10 | 47.1000 | 47.1950 | 47.0525 | 47.1650 | 47.1650 | 633926 | 1533511 | 722621.53 | 47.0800 |

*[Source: NSE and RBI Website]*

## No Cess on Domestic Washed Coal but Imported Washed Coal Must Pay

***[Ref: F.No.354/72/2010-TRU dated 24th June 2010]***

*Subject: Levy of Clean Energy Cess.*

01-CEC 24.06.2010 (DoR) It may kindly be recalled that as part of the proposals contained in the Budget for 2010-11, Finance Minister had announced the imposition of Clean Energy Cess as a duty of excise on coal, lignite and peat. This cess is to come into force on a date to be notified by the Central Government after the enactment of the Finance Bill, 2010. In pursuance of the enactment of the Bill on 08.05.2010, it has been decided to notify 1st July, 2010 as the appointed date for coming into force of the provisions of Chapter VII (Section 83 and 84) of the Finance Act, 2010. Notification No. 1/2010-CEC (Clean Energy Cess) dated 22.06.2010 has been issued for this purpose.

**2.** The Tenth Schedule to the Finance Act, 2010 prescribes a statutory rate of cess of Rs.100 per tonne for all three categories, namely, coal, lignite and peat. An effective rate of Rs.50 per tonne has been prescribed through Notification No. 3/2010-CEC dated 22.06.2010. Notification No. 28/2010-CE and 29/2010-CE, both dated 22.06.2010 have also been issued to exempt such goods (i.e to which the clean energy cess applies) from education cess and higher education cess respectively. As a result the aggregate rate of cess would be Rs.50 per tonne. This amount has to be paid in cash as suitable amendment in the CENVAT credit rules ,2004 is being made to exclude payment of this cess using credit.

**3.** The cess would apply to the gross quantity of raw coal, lignite or peat raised and dispatched from a coal mine. No deduction from this quantity is to be allowed for loss, if any, on account of washing of coal or its conversion into any other product/form prior to its dispatch from the mine. At the same time, cess would not be chargeable on washed coal or any other form *provided the appropriate cess has been paid at the raw stage*. In order to provide for this, all goods covered by the Tenth Schedule other than raw coal, raw lignite and peat are being exempted from the cess (Notification No. 4/2010-CEC dated 22.06.2010) on the condition that appropriate cess has been paid at the raw stage.

**4.** Since Clean Energy Cess is being levied as a duty of excise, it would also apply to imported coal by virtue of Section 3(1) of the Customs Tariff Act in the form of additional duty of customs. As imported coal would not satisfy the condition regarding payment of appropriate cess at the raw stage, *Clean Energy Cess would apply to all forms of imported coal including washed coal*.

**5.** In the State of Meghalaya, coal is mined under traditional and customary rights vested on the local tribes. The mines operated by these tribes are not subjected to the provisions of laws that regulate the operation of coal mines. As such, full exemption from Clean Energy Cess is being provided to coal produced in the State of Meghalaya under such rights (Notification No. 5/ 2010-CEC dated 22.06.2010 refers).

**6.** Section 83 of the Finance Act, 2010 provides that the Central Government may by notification in the official gazette declare that any of the provisions of Central Excise Act, 1944 relating to levy, exemption, refund etc. would be applicable in respect of Clean energy Cess. In pursuance of this power, Notification No. 2/ 2010-Clean Energy Cess dated 22.06.2010 has been issued to borrow the relevant machinery provisions of the Central Excise Act, 1944 for the collection and administration of the cess.

**7.** Section 84 of the Finance Act, 2010 empowers the Central Government to make rules for carrying out the provisions of Chapter VII. Accordingly, Clean Energy Cess Rules, 2010 have been notified under this provision to prescribe a procedure for the levy and collection of the cess (Notification No. 6/2010- Clean Energy Cess dated 22.06.2010). These rules envisage simple compliance regime for coal mines akin to the one already in place in respect of stowing Excise Duty collected by the office of the Coal Controller, Government of India. The salient features of these rules are as under:

(i) Every producer of coal, lignite and peat is required to be registered with the jurisdictional central excise authority. This would imply that every coal mine should obtain registration. In several cases, especially in the case of coal mines operated by public sector undertakings such as Coal India Limited and its subsidiaries, the accounting and billing of coal is done in a centralized manner. In order to ease the compliance burden on such producers, an option has been given to obtain centralised registration for the office from where accounting or billing is done. With the introduction of ACES, the registration of Central Excise assessees is being undertaken exclusively in the electronic mode. Besides, the registration number generated electronically is required for making electronic payments of duty. In order to harmonise the processes in respect of Clean Energy Cess with Central Excise it has been decided that the application form for registration of Central Excise assessees would itself be used for the registration of assessees liable to pay Clean Energy Cess with the modification that the word "factory" would be read as "mine" in this case.

(ii) Cess would be payable on quantity removed during a month on self assessment basis.

(iii) The due date for payment has been fixed as the 6th (for e- payment) / 5th (for payment in any other manner) of the month following the next month to which the removals relate i.e. payment for removals during the month of July,2010 should be paid by the 5th/6th of September,2010. However, on imports the cess would be payable w.e.f. 1st July, 2010.

(iv) Adjustment of excess payment, if any, is permissible by the next payment date.

(v) Monthly return indicating the total quantity removed along with cess payment has been prescribed. Since this return is not compatible with ACES software electronic filing would not be feasible at this stage. Returns may hence be accepted manually by the jurisdictional Range/ Division of Central Excise.

(vi) General penalty of Rs 10,000 has been prescribed for any contravention.

(vii) Specified goods are to be removed under cover of proper documents. However, this need not be an invoice. It has been prescribed in rule that any document specifying the quantity removed and name of the consignee would suffice.

**8.** Although the levy of Clean Energy Cess comes into force on the 1st of July, 2010, the first payment from registered producers would be due only by the 5th of September, 2010. In the meanwhile, the office of Chief Controller of Accounts has already been requested to assign a minor head for the payment of this cess both on domestic and imported coal. Relevant communication conveying this to the field formations would be issued in due course.

**9.** The provisions of the relevant notifications and this letter may be brought to the notice of field formations under your charge and the trade. The notifications may kindly be studied with utmost care and difficulties in their implementation, if any, may be brought to the notice of the undersigned.

## Single Factory Stuffing Permission Valid for All Customs Stations Instead of Station wise Permission

*Subject: Provision of single factory stuffing permission valid for all Customs Houses.*

20-CBEC 22.07.2010 (DoR) I am directed to invite your attention to Board's instructions issued vide telex/letter F.No.434/47/95-Cus.IV, dated 9.10.95, Circular No. 90/98-Cus dated 8/12/98 and Circular No. 60/2001-CUS dated 1st November, 2001 regarding Permission for factory stuffing.

**2.** The Task Force of the Department of Commerce to reduce transaction cost involved in exports has recommended the grant of a single factory stuffing permission valid for all the customs stations instead of customs station wise permission. This recommendation has been accepted by the Government.

**3.** Accordingly, it has been decided by the Board to provide for the grant of a single factory stuffing permission valid for all the customs stations instead of customs station wise permission. The facility will be subject to the following safeguards:

(i) The exporter may be asked to furnish to customs a list of customs stations from where he intends to export his goods.

(ii) The customs house granting the factory stuffing permission should maintain a proper register to keep a track-record of such permissions, and also create a unique serial number for each of such permissions.

(iii) The customs house granting the factory stuffing permission should circulate the permission to all customs houses concerned. The communication should clearly indicate the name and contact details of the Preventive Officer/Inspector and Superintendent concerned of the customs house granting the permission as well as those of the Central Excise Range concerned to facilitate real time verifications, if required.

(iv) In case, something adverse is noticed against the exporter, the customs station concerned shall promptly intimate the customs house which has granted the permission, which will, in turn, withdraw the permission, and inform to all customs houses concerned.

**4.** Board's earlier instructions/circulars stand modified to the extent mentioned above.

**5.** These instructions may be brought to the notice of all concerned by way of issuance of suitable Public Notice / Standing Order.

**6.** Difficulties, if any, in implementation of the Circular may be brought immediately to the notice of the Board.

*F. No.450/ 98 /2010-Cus.IV*

## Dispose Pending Customs Cargo Immediately, Says Customs Chief

***[Ref: F. No.450/97/2010-Cus.IV dated 22nd July 2010]***

*Subject: Measures for expeditious disposal of unclaimed / uncleared goods – instructions.*

Reference is invited to the Board's Circulars No.50/2005-Customs dated 1.12.2005, No.52/2005-Customs dated 9.12.2005, No.11/2006-Customs dated 16.2.2006 and No.12/2006-Customs dated 20.2.2006 on expeditious disposal of the backlog of accumulated unclaimed / uncleared cargo under Section 48 of the Customs Act, 1962 and ensuring that no delays in disposal of such cargo takes place in future. The Board has also laid down the procedure for disposal of goods through e-auction / tender conducted under instruction F.No.442/12/2004-Cus.IV(Pt.II) dated 6.10.2005 and for disposal of hazardous waste in terms of Circular No.31/2004-Customs dated 26.4.2004 pursuant to the instructions given by the Hon'ble Supreme Court.

**2.** In this context, attention is also invited to Regulation 6(1)(m) of the 'Handling of Cargo in Customs Areas Regulations, 2009' which stipulates that the Customs Cargo Service Provider (CCSP) shall "dispose off in the manner specified and within a time limit of ninety days, the imported or export goods lying unclaimed, uncleared or abandoned provided that the period of ninety days are extended by the Commissioner of Customs by such further period as may be allowed, on sufficient cause being shown for delay in the disposal".

**3.** However, it has come to the notice of the Board that its instructions are not being followed strictly by the Customs field formations and large quantities of goods including hazardous goods are still pending disposal at various customs stations. In this regard, whereas primary responsibility of disposal of unclaimed / uncleared goods rests with custodian appointed under the provisions of Section 45 of the Customs Act, 1962 read with Handling of Cargo in Customs Areas Regulations, 2009, substantial revenue gets blocked if disposal does not take place in time. Also, such uncleared / unclaimed goods pose a serious safety and security threat, at times and may lead to untoward incidents such as the recent incident of leakage of Chlorine gas at Mumbai port.

**4.** The Board has taken a serious note of this situation and directs that each Customs formation will constitute a 'Task Force' for a one-time comprehensive review of the list of all consignments indicated as uncleared / unclaimed by the respective custodians and match the same with the Customs records. This should be followed by regular periodic meetings with the custodians to update the status of pending consignments. Further, in cases where consignments are indicated as being 'detained' by Customs, all pending actions such as investigation, adjudication and related court proceedings should be taken up for completion without delay. Needless to state, it will be the responsibility of the Commissioners to ensure the expeditious disposal of unclaimed / uncleared cargo on regular basis. It is expected that with renewed emphasis on this important item of work appreciable progress will be made.

**5.** The progress made in disposal along with age-wise break up of pending unclaimed / uncleared cargo that is ripe for disposal as on 31.12.2010 may be sent to the Board by 10.1.2011.

## No Write Off of Export Proceeds Allowed in Drawback Cases – Drawback Must be Surrendered

*Sub: Export of Goods and Services - Unrealised export bills – Write-off - Surrender of export incentives*

AP(DIR Srs) Cir.03 22.07.2010 (RBI)

Attention of Authorised Dealer Category – I (AD Category –I) banks is invited to A.P. (DIR Series) Circular No. 12 dated September 09, 2000, A.P. (DIR Series) Circular No. 30 dated April 04, 2001, A.P. (DIR Series) Circular No. 61 dated December 14, 2002, A.P. (DIR Series) Circular No. 40 dated December 05, 2003 and A.P. (DIR Series) Circular No. 33 dated February 28, 2007, in terms of which the AD Category –I banks have been permitted to accede to the requests for "write-off" made by the exporters, subject to the conditions, inter alia, that the exporter had to surrender proportionate export incentives, if availed of, in respect of the relative shipments.

**2.** It has since been announced in the Foreign Trade Policy (FTP) 2009-14 and specified in Para. 2.25.4 of Handbook of Procedures – Vol. I (2009-2014) (extracts annexed), issued by the Department of Commerce, Ministry of Commerce and Industry that realisation of export proceeds shall not be insisted upon, under any of the Export Promotion Schemes under the Foreign Trade Policy (FTP), subject to the following conditions:-

i) the write-off on the basis of merits is allowed by the Reserve Bank or by the AD Category – I banks on behalf of the Reserve Bank, as per the extant guidelines;

ii) the exporter produces a certificate from the Foreign Mission of India concerned, about the fact of non-recovery of export proceeds from the buyer; and

iii) this would not be applicable in self-write-off cases.

The above relaxation is applicable for the exports made with effect from August 27, 2009.

**3.** It is clarified that since the Drawback scheme is governed by the provisions of the Customs Act, 1962 and the Rules made there under, the provisions contained in para. 2.25.4 of the Handbook of Procedure – Vol. I. of the Foreign Trade Policy (FTP) (2009-2014) would not be applicable to the Duty Drawback scheme. Therefore, the drawback amount has to be recovered even if the claim is settled by the Export Credit Guarantee Corporation of India Limited (ECGC) or the write –off is allowed by the Reserve Bank.

**4.** Accordingly, the AD Category –I banks are advised not to insist on the surrender of the proportionate export incentives, other than under the Duty Drawback scheme, if availed of, by the exporter under any of the Export Promotion Schemes under the FTP 2009-14, subject to the fulfilment of conditions as stated in Para 2 above.

**5.** AD – Category I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

**6.** The directions contained in this Circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions / approvals, if any, required under any other law.

Annex [Annex to A.P. (DIR Series) Circular No.03 dated July 22, 2010]

**Extract of Para. 2.25.4 of the Handbook of Procedure – Vol. I – 2009 – 2014 of Foreign Trade Policy (FTP)**

''Realization of export proceeds shall not be insisted under any of the Export Promotion Schemes under this Foreign Trade Policy (FTP), if the Reserve Bank of India (RBI) writes off the requirement of realization of export proceeds on merits and the exporter produces a certificate from the concerned Foreign Mission of India about the fact of non-recovery of export proceeds from the buyer. However, this would not be applicable in self-write off cases."

## Take-out Financing through ECB under Approval Route for Infrastructure Project

*Sub: External Commercial Borrowings (ECB) Policy –Take-out Finance*

AP(DIR Srs) Cir.04 22.07.2010 (RBI) Attention of Authorized Dealer Category - I (AD Category - I) banks is invited to the A.P. (DIR Series) Circular No. 5 dated August 1, 2005 and A.P (DIR Series) Circular No. 39 dated March 29, 2010 relating to the External Commercial Borrowings (ECB).

**2.** As per the extant norms, refinancing of domestic Rupee loans with ECB is not permitted. However, keeping in view the special funding needs of the infrastructure sector, it has been decided to review the ECB policy and put in place a scheme of take-out finance. Accordingly, it has been decided to permit take-out financing arrangement through ECB, under the approval route, for refinancing of Rupee loans availed of from the domestic banks by eligible borrowers in the sea port and airport, roads including bridges and power sectors for the development of new projects, subject to the following conditions:

i. The corporate developing the infrastructure project should have a tripartite agreement with domestic banks and overseas recognized lenders for either a conditional or unconditional take-out of the loan within three years of the scheduled Commercial Operation Date (COD). The scheduled date of occurrence of the take-out should be clearly mentioned in the agreement.

ii. The loan should have a minimum average maturity period of seven years.

iii. The domestic bank financing the infrastructure project should comply with the extant prudential norms relating to take-out financing.

iv. The fee payable, if any, to the overseas lender until the take-out shall not exceed 100 bps per annum.

v. On take-out, the residual loan agreed to be taken- out by the overseas lender would be considered as ECB and the loan should be designated in a convertible foreign currency and all extant norms relating to ECB should be complied with.

vi. Domestic banks / Financial Institutions will not be permitted to guarantee the take-out finance.

vii. The domestic bank will not be allowed to carry any obligation on its balance sheet after the occurrence of the take-out event.

viii.Reporting arrangement as prescribed under the ECB policy should be adhered to.

Eligible borrowers may, accordingly, apply to the Reserve Bank for necessary approval before entering into take-out finance arrangement.

**3.** All other aspects of ECB policy, such as, USD 500 million limit per company per financial year under the automatic route, eligible borrower, recognised lender, end-use, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged.

**4.** AD Category-I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

**5.** The directions contained in this circular have been issued under sections 10(4) and 11 (1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions/approvals, if any, required under any other law.

## Rupee Value under Indo-USSR Deferred Payment Protocols Revised to Rs. 62.788607 per Rouble from 7 July 2010

*Sub: Deferred Payment Protocols dated April 30, 1981 and December 23, 1985 between Government of India and erstwhile USSR*

AP(DIR Srs) Cir.02 21.07.2010 (RBI) Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to A.P. (DIR Series) Circular No.01 dated July 13, 2010, wherein the Rupee value of the special currency basket was indicated as Rs.60.8816 effective from June 24, 2010.

2. AD Category-I banks are advised that a further revision has taken place on July 02, 2010 and accordingly, the Rupee value of the special currency basket has been fixed at **Rs.62.788607 with effect from July 07, 2010.**

3. AD Category-I banks may bring the contents of this circular to the notice of their constituents concerned.

4. The Directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

## Rupee Value under Indo-USSR Deferred Payment Protocols Revised to Rs. 60.8816 from 24 June 2010

*Sub: Deferred Payment Protocols dated April 30, 1981 and December 23, 1985 between Government of India and erstwhile USSR*

AP(DIR Srs) Cir.01 13.07.2010 (RBI) Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to A.P. (DIR Series) Circular No.55 dated June 15, 2010, wherein the Rupee value of the special currency basket was indicated as Rs.63.0402 effective from May 31, 2010.

2. AD Category-I banks are advised that a further revision has taken place on June 21, 2010 and accordingly, the Rupee value of the special currency basket has been fixed at **Rs.60.8816 with effect from June 24, 2010**.

3. AD Category-I banks may bring the contents of this circular to the notice of their constituents concerned.

4. The Directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

## All Public Sector Oil Company to Get Excise Benefit on Supplies to Coast Guard

30-CE 22.07.2010 (DoR) In exercise of the powers conferred by sub-section (1) of section 5A of the Central Excise Act, 1944 (1 of 1944) read with sub-section (3) of section 3 of the Additional Duties of Excise (Goods of Special Importance) Act, 1957 (58 of 1957), the Central Government, being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), **No.64/95-Central Excise, dated the 16th March, 1995** , published in the Gazette of India, Extraordinary, Part II, section 3, Sub-section (i), vide number G.S.R.256(E), dated the 16th March, 1995, namely:-

In the said notification, in the TABLE, against S.No.3A, in column (3),-

(i) in paras (a) and (b), for the words " Indian Oil Corporation Limited" wherever they occur , the words "any public sector oil company" shall respectively be substituted;

(ii) in the proviso, for the words " Indian Oil Corporation Limited" at both the places where they occur, the words "such public sector oil company" shall be substituted.

*[F.No.354/87/2007-TRU(Pt.1)]*

### GST

We have also initiated the reforms in Indirect Taxes. We have worked with great perseverance in coordination with Empowered Committee of State Finance Ministers over the last 3-4 years to clear the way for the launch of this reform in the realm of indirect taxes. Given the size and complexity of our economy and our deep commitment to the values of pluralism, federalism and democracy I would say that this dialogue has moved at a satisfactory pace. Yesterday, I met Empowered Committee of State Finance Ministers and we were able to develop convergence on many contentious issues. A Draft Constitutional Amendment has been prepared and shared with the Empowered Committee of State Finance Ministers. We are looking forward to constructive suggestion from Empowered Committee on this landmark legislation, which will change the existing landscape of existing taxation power of Centre and State and will also set an innovative precedence for cooperative fiscal federalism.

I would like to share with you some of the proposals, which we have made to Empowered Committee. On the issue of exemption threshold under GST, we have proposed that the exemption threshold for both goods and services under both components of GST i.e. CGST and SGST should be uniform at **Rs. 10 lakh.** For the same reason, the threshold for compounding for small dealers should also be uniform under CGST and SGST whether it is fixed at **Rs. 50 lakh** of turnover per annum or **Rs. 1 crore** per annum. Of course, we must not lose sight of one of the critical deliverables of GST viz. that it should result in considerable simplification for small dealers so that compliance is easy and assured.

The Information Technology infrastructure is a pre requisite to harness the benefits of GST for consumer, industry and governments. For this, Tax Advisory Group for Unique Projects (TAGUP) headed by Shri Nandan Nilekani, Chairman, Unique Identification Authority of India has proposed a detailed roadmap and strategy for putting in place the requisite IT Infrastructure to handle work related to GST. Since this infrastructure needs to be in place well before the actual introduction of GST in April next year, we have constituted an empowered Group chaired by Dr. Nilekani with joint representation from the Centre and the States which would be authorized to take decisions about necessary IT parameters. This would help us in freezing one of the critical elements for successful role out of GST from 1st April 2011.

On exemptions, we have proposed to review the existing exemptions from Central Excise duty so that the list of goods exempt from CGST is aligned to the SGST list and 99 items currently exempt from VAT are exempt from both components of GST.

As for the rate structure, it has been the Centre's considered view that the full potential of GST could be realized only if we adopt a single rate structure with unification of the rate for goods and services. However, we recognize that this may not be feasible on the date of introduction of GST and requires a phased approach so that the transition is smooth and painless both for the taxpayer and the administration. As such, we are agreeable to the adoption of a dual rate structure for goods at the inception of GST. In the year of introduction i.e. 1st April, 2011, the Central Government has proposed to keep CGST lower rate for goods at 6% and standard rate at 10%. The services will be charged at 8%. Our request to the States will be to consider keeping the same rates i.e. the lower rate for SGST at 6%, standard rate at 10% and services at 8%. This mutually supportive approach will ensure that we have a single rate for CGST and SGST in the range of 12 to 20% in the first year of GST introduction. The peak effective rate will be about 15% which should be quite acceptable to the trade and industry. Eventually, it will settle down to a level of 16 to 18% for both CGST and SGST which will mean an effective rate of 12%.

In the second year the standard rate for SGST and CGST may be reduced to 9% retaining the lower rate at 6%. During the third year the standard rate may be reduced to 8% and lower rate increased to 8% and services retained at 8% both for CGST and SGST. Thus, in a phased manner, we will be able to achieve a single CGST and SGST rate for both goods and services.

GST would provide a level playing field to domestic producers and has a potential of providing inbuilt stimulus to the economy by removing tax distortions and tax competitions. It has been estimated by NCAER that implementation of well designed GST will see an increase of **2 - 2.5%** in India's GDP. Exports could increase by well over 10%. The expected net present value of GST gain exceeds **half a trillion dollars.** The gain from GST will propel India from one trillion dollar economy to two trillion dollar economy in a short span of time. Therefore, the successful implementation of GST would create win-win-win situations for centre-state, Industry and consumers.

Finally let me reiterate that the UPA Government is committed for the inclusive growth and development. I have always viewed inclusive and equitable growth as the vehicle to the long term peace and prosperity of our country. The government would not cut budgetary provisions for key social sectors. Keeping in view the objective of inclusive development, budgetary allocation this year on social sector has been increased to Rs. 1,37,674 crore which is about 37 per cent of the total Plan outlay for the current financial year.

There cannot be more appropriate time than this, when the Government is in process of finalizing the legislation for DTC and also seriously engaged to develop consensus to bring all the States on board to role out GST from 1st April 2011.

## State SEZ Bills Clearance by the Centre

***[Instruction No. 62 – No. C.4/8/2009-SEZ dated 23rd July 2010]***

*Subject: Procedure for clearance of State SEZ Bills*

62-SEZ 23.07.2010 — I am directed to say that Ministry of Home Affairs and Department of Commerce have agreed for a faster procedure for clearance of State SEZ Bills.

As per the procedure agreed, Department of Commerce takes responsibility of having consultation with all concerned Department of the Government of India to create consensus among them and send its recommendation alongwith the no objection of different Departments of the Government of India to MHA for final approval. Ministry of Home Affairs would get the President on the Bill. Development Commissioner of SEZ are advised to send a copy of the communication to the nodal Department of the respective State Government.

## NAMA Inches Forward at WTO

Negotiators working to reduce barriers to trade in manufactured goods as part of the troubled Doha Round talks took some more baby steps last week towards agreeing on how to address non-tariff measures as part of an eventual WTO accord.

While tariffs used to be the principal obstacle to trade in manufactures, they are rapidly being superseded by countries' differing regulations, health and safety standards, labelling requirements, and other rules that products need to meet in order to be sold in their territory. Existing WTO agreements - on sanitary and phytosanitary measures, technical barriers to trade, and import licensing procedures, to name a few - set out some principles governing such regulations, to ensure that they are not more trade-restricting than strictly necessary.

The Doha mandate for the negotiations on non-agricultural market access (NAMA) calls for reducing "non-tariff barriers" (NTBs), particularly on products of export interest to developing countries.

With WTO members deadlocked on what is now the main difference in the NAMA talks - whether large developing markets like China, Brazil, and India will participate in voluntary initiatives to slash tariffs deeply across entire industrial sectors - officials have focused on NTBs for much of the past year.

Although the pace of progress has been glacial, members have been responding to each others' concerns and questions across a range of issues, from a proposed "horizontal mechanism" for quickly mediating trade irritants arising from non-tariff measures, to specific proposals for NTBs confronting trade in auto products, electronics, and chemicals. They also discussed a work programme that some countries are seeking on trade in "remanufactured goods," the definition of which remains contested.

### Horizontal mechanism

With varying degrees of enthusiasm, members welcomed an attempt by Colombia, Hong Kong, Singapore, and Thailand to bridge gaps on the creation of an optional-use horizontal mechanism that would seek to mediate NTB-related trade blockages without going to the WTO's expensive and time-consuming formal dispute settlement procedures. Although it is favoured by a wide range of developed and developing countries, the US has been sceptical of the approach, preferring instead to have the issues taken up in relevant WTO non-negotiating "regular" committees.

The four members, which belong to a group of countries that have dubbed themselves the "middle grounders," suggested a hybrid approach that would see NTB-related disagreements go simultaneously to both a horizontal mechanism and the appropriate committee. (JOB/MA/35)

The US did not provide substantive comments on the paper, trade diplomats reported. Several delegations said that they would forward the proposed compromise on to their capitals.

### Remanufactured goods

Government policies affecting trade in "remanufactured goods" - used products that have been refurbished and provided with a warranty - have been a contentious issue in the talks on NTBs.

Pointing to several obstacles to trade in such products, Japan, the US, and Switzerland have been pushing for a work programme in the Council for Trade in Goods that would involve reviews and seminars on NTBs affecting remanufactured goods.

Several developing countries, including India and Brazil, are wary of relaxing constraints on trade in such goods, fearing that, warranties notwithstanding, they might be less durable than new ones, compromise health and environmental objectives, and undercut domestic producers with second-hand wares soon be destined for the scrap heap.

Wasescha referred to the disagreement about what constituted a remanufactured good, pointing to uncertainty over whether "reused, recycled, refurbished, or reconditioned" ones should qualify.

He reminded members that the objective was not to define the remanufacturing sector, but rather to address non-tariff measures in the sector. "We have to look at the measures preventing the exchange of such products, and identify whether the obstacles can be addressed with existing tools or whether new ones are necessary," he said.

### International standards: how far to go?

WTO members have also been discussing proposals concerning specific industrial sectors, including automotive products, electronics, and chemicals.

One of the big questions has been the role given to international standards. The EU would like WTO members to harmonise their national regulations with international standards. The US has focused more on ensuring transparency about the way regulations are developed and made public - inadequate transparency complicates things for traders.

## Customs Valuation Exchange Rates

| July 2010 | | Imports | Exports | |
|---|---|---|---|---|
| **Schedule I** | | | | |
| 1 | Australian Dollar | 40.70 | 39.60 | Rate of exchange of one unit of foreign currency equipment to Indian Rupees |
| 2 | Canadian Dollar | 45.25 | 43.95 | |
| 3 | Danish Kroner | 7.85 | 7.55 | |
| 4 | EURO | 58.10 | 56.50 | |
| 5 | Hong Kong Dollar | 6.05 | 5.90 | |
| 6 | Norwegian Kroner | 7.25 | 7.05 | |
| 7 | Pound Sterling | 70.40 | 68.55 | |
| 8 | Swedish Kroner | 6.05 | 5.90 | |
| 9 | Swiss Franc | 42.75 | 41.65 | |
| 10 | Singapore Dollar | 33.80 | 32.95 | |
| 11 | U.S. Dollar | 46.95 | 46.00 | |
| **Schedule II** | | | | |
| 1 | Japanese Yen | 52.65 | 51.15 | Rate of exchange of 100 units of foreign currency equivalent to Indian rupees |

*(Source: Customs Notification 50(NT)/28.06.2010)*

## Commodity Spot Prices in India – 23-26 July 2010

*These commodity prices are taken from Multi Commodity Exchange of India (Mumbai) at 6 pm every day. The weekly prices of commodities from different cities of India will be given in the order of Harmonized System classification.*

*Commodity Spot Prices covers price movements of 55 commodities (agricultural products and metals) provided on Multi Commodity Exchange of India on a daily basis. This Commodity Spot Prices Table focuses on price movements from 23-26 July.*

***(Rs.)***

| Commodity | Unit | Market | 23-Jul | 24-Jul | 26-Jul |
|---|---|---|---|---|---|
| CER (Carbon Trading) | 1 MT | Mumbai | 734 | 726.5 | 726.5 |
| Chana | 100 KGS | Delhi | 2293 | 2273 | 2254 |
| Masur | 100 KGS | Indore | 3534 | 3519 | 3511 |
| Potato | 100 KGS | Agra | 402 | 400 | 381.5 |
| Potato TKR | 100 KGS | Tarkeshwar | NA | NA | NA |
| Arecanut | 100 KGS | Mangalore | 7800 | 7810 | 7811 |
| Cashewkern | 1 KGS | Quilon | 318 | 319 | 320 |
| Cardamom | 1 KGS | Vandanmedu | 1770 | 1752 | 1733.5 |
| Coffee ROB | 100 KGS | Kushalnagar | 80 | 80.4 | 80.6 |
| Jeera | 100 KGS | Unjha | 14631 | 14587 | 14549 |
| Pepper | 100 KGS | Kochi | 20570 | 20650 | 20520 |
| Red Chili | 100 KGS | Guntur | 4943 | 4943 | 4946 |
| Turmeric | 100 KGS | Nzmbad | 15459 | 15459 | 15459 |
| Guar Gum | 100 KGS | Jodhpur | 5650 | 5500 | 5400 |
| Maize | 100 KGS | Nzmbad | 1090 | 1090 | 1090 |
| Wheat | 100 KGS | Delhi | 1253.8 | 1255 | 1245 |
| Mentha Oil | 1 KGS | Chandausi | 759.6 | 755.3 | 749.9 |
| Cotton Seed | 100 KGS | Akola | 1391 | 1357 | 1353 |
| Castorsd RJK | 100 KGS | Rajkot | 3684.5 | 3687 | 3680 |
| Guar Seed | 100 KGS | Jodhpur | 2420 | 2399 | 2310 |
| Soya Bean | 100 KGS | Indore | 2050 | 2051 | 2025.5 |
| Mustrdsd JPR | 20 KGS | Jaipur | 545.2 | 542.9 | 537.65 |
| Sesame Seed | 100 KGS | Rajkot | 6275 | 6275 | 6288 |
| Coconut Oil Cake | 100 KGS | Kochi | 1196 | 1196 | 1196 |
| RCBR Oil Cake | 1 MT | Raipur | 6480 | 6500 | 6500 |
| Kapaskhali | 50 KGS | Akola | 1126 | 1125 | 1120 |
| Coconut Oil | 100 KGS | Kochi | 5642 | NA | 5642 |
| Refsoy Oil | 10 KGS | Indore | 479.45 | 479.75 | 474.6 |
| CPO | 10 KGS | Kandla | 392 | 392.8 | 391.3 |
| Mustard Oil | 10 KGS | Jaipur | 538.7 | 532.7 | 535.7 |
| Gnutoilexp | 10 KGS | Rajkot | 833.4 | 836.7 | 862.1 |
| Castor Oil | 10 KGS | Kandla | 772.5 | 775.5 | 770 |
| Crude Oil | 1 BBL | Mumbai | 3753 | 3712 | 3712 |
| Furnace Oil | 1000 KGS | Mumbai | 29738 | 29738 | 29021 |
| Sourcrd Oil | 1 BBL | Mumbai | 3465 | 3465 | 4657.5 |
| Brent Crude | 1 BBL | Mumbai | 3683 | 3640 | 3640 |
| Gur | 40 KGS | Muzngr | 985 | NA | 999.5 |
| Sugars | 100 KGS | Kolhapur | 2827 | 2745 | 2746 |
| Sugarm | 100 KGS | Delhi | 2880 | 2858 | 2866 |
| Natural Gas | 1 mmBtu | Hazirabad | 219.8 | 215.3 | 215.3 |
| Rubber | 100 KGS | Kochi | 18329 | 18353 | 18383 |
| Cotton Long | 1 Candy | Kadi | 29520 | 29610 | 29580 |
| Cotton Med | 1 Maund | Abohar | 2958.5 | 2954.5 | 2945 |
| Jute | 100 KGS | Kolkata | 3120 | 3054 | 2955 |
| Gold | 10 GRMS | Ahmd | 18325 | 18243 | 18214 |
| Gold Guinea | 8 GRMS | Ahmd | 14719 | 14653 | 14630 |
| Silver | 1 KGS | Ahmd | 29064 | 29103 | 29026 |
| Sponge Iron | 1 MT | Raipur | 17095 | 17095 | 17540 |
| Steel Flat | 1000 KGS | Mumbai | 32370 | 32350 | 32310 |
| Steel Long | 1 MT | Bhavnagar | 26320 | 26450 | 26520 |
| Copper | 1 KGS | Mumbai | 330.2 | 330 | 330 |
| Nickel | 1 KGS | Mumbai | 957.7 | 957.7 | 956.5 |
| Aluminium | 1 KGS | Mumbai | 94.4 | 94.4 | 94.7 |
| Lead | 1 KGS | Mumbai | 90.7 | 90.7 | 91.8 |
| Zinc | 1 KGS | Mumbai | 88.85 | 88.85 | 88.25 |
| Tin | 1 KGS | Mumbai | 875.75 | 875.75 | 901.25 |

*(Source: MCX Spot Prices)*

## Gold is Portugal's Best Friend

Portugal owns more of the precious metal relative to the size of its economy than any euro country, accumulated mostly during Salazar's 36 years in power using savings and money from exports including tungsten and canned fish. Gold's 26 percent advance in the past year leaves Portugal holding an increasingly valuable asset, though one the indebted government can't touch because the law prevents proceeds from going to state coffers.

Portugal's budget deficit is three times the limit for euro members and its debt will equal 84 percent of gross domestic product this year. Standard & Poor's gives Portugal the second-lowest credit rating after Greece among the 16 euro countries.

The 382.5 tons of gold that Portugal holds are valued at about $14.7 billion, or 6.8 percent of GDP after converting into euros. Italy's gold equals 4.8 percent of its economy, followed by Germany with 4.2 percent. Greece's gold reserves equal 1.4 percent of GDP.

Portugal's gold is managed by the Bank of Portugal, whose law says proceeds from sales must be placed in a reserve account and can't be transferred to the state treasury. The bank pays a dividend each year to the government from earnings on interest and securities. The dividend paid for 2009 was 203 million euros ($260 million), the central bank said in a July 2 e-mail.

### Wolfram Sales

"In exchange for exports, the Portuguese state sought to obtain scarce goods and services during World War II, and secondly convertible currencies or gold," said Joao Paulo Avelas Nunes, a professor at Universidade de Coimbra in northern Portugal and author of a book on the Estado Novo and its relationship with the wolfram industry.

Wolfram, the mineral from which tungsten is obtained, soared in value when the war started in 1939 as its resistance to heat and impact made it ideal for weapons production. Portugal is Europe's third-largest producer of tungsten after Russia and Austria, according to U.S. Geological Survey data.

Portugal had 866 tons of gold in 1974, when the dictatorship of Salazar and his successor Marcelo Caetano ended, according to the Bank of Portugal. In 1950, Portugal's gold reserves totaled 171 tons, World Gold Council figures show.

When the regime was overthrown, along with the military junta in Greece, Portugal was one of the poorest countries in western Europe and was fighting a war in its African colonies.

## WORLD TRADE SCANNER



## BIG's WEEKLY INDEX OF CHANGES



## India Flexible on NAMA

A top Indian trade official suggested this week that New Delhi might agree to make steep cuts on some industrial sectors - a key demand of Washington as the price for breaking the deadlock in the Doha Round talks. India long pointed to the negotiating mandate's explicit statement that participation in such "sectoral" liberalisation initiatives would be voluntary.

According to a report in the Economic Times newspaper, Khullar noted that there were several products which could be allowed entry to the Indian free of import duties, since there was no significant competing domestic industry.

Even for some sectors where imports would compete with local products, he said, it was far from clear that Indian manufacturers would be unable to compete. "We have proved time and again that we can be competitive. We cannot cower in sheer fear that something bad is going to happen (if India participates in the sectorals)," he said.

He called for input from Indian industry about which products required protection, and which could withstand unfettered competition.

"It is not that all auto components or all chemicals need to be protected. Some do and some don't," he said, referring to two of Washington's priority sectors in the NAMA negotiations. The extent to which developing countries participating in a sectoral initiative would be able to shield some products in that sector from the deep tariff cuts remains to be determined.

Sectorals were not addressed at a recent meeting of the WTO's negotiating group on non-agricultural market access, known as NAMA. The topic has been so divisive that the chair of the group has set it aside for the time being to allow negotiators to devote their efforts to those areas in which movement is more feasible.

## Breaking News

**India Raises Benchmark Rate More Than Forecast in Battle to Rein in Prices**: India's central bank increased a key interest rate more than economists forecast, battling to contain a surge in inflation that's let to strikes and street rallies.

The Reserve Bank of India raised the reverse repurchase rate to 4.5 percent from 4 percent and the repurchase rate to 5.75 percent from 5.5 percent, according to a statement from the central bank in Mumbai.

**Shipping Bottoming as China Steel Price Rebound Lifts Iron Ore**: The smallest profits in the commodity shipping market in 18 months may be ending as a rebound in steel and iron-ore prices signal improving Chinese demand that will ease the transport glut.

Owned, Edited, Published and Printed by Arun Goyal and Printed at Mercury Printers, 602 Choori Walan, Delhi
Published from 24/4866, Sheeltara House, Ansari Road, New Delhi 110002. (INDIA) Phone: 2328 1314, 3018 3435-37; Fax: 3018 3438
Email: academy@vsnl.in, academy.delhi@gmail.com; Website: worldtradescanner.com