

Frame work of studies  
on  
Inverted Duty Structure

By  
Tariff Commission

# Background

- “ Referred by
  - . NMCC
  - . Department of Heavy Industry
- “ Mandate under National Manufacturing Policy(NMP) .  
impact on domestic manufacture
  - . of FTA/RTA Para 1.22
  - . of Duty Structures Para 10
- “ Focus Areas as per para 7.1 of NMP
  - . Solar
  - . IT and electronic hardware
  - . Capital goods
  - . Textiles
  - . Medical instruments

# Objective

- “ Inverted Duty Structure
- “ Impact on Domestic manufacture
  - . of imports/exports
  - . of FTA/RTA
- “ Trade Competitiveness
- “ Customs duty changes required
- “ Revenue impact of changes in custom duty structure

# Methodology

Õ contd.

## ” Interaction

- . Apex Association- FICCI, CII, ASSOCHAM
- . Sector Specific Associations
  - ” Electricals & Electronics- IEEMA, ISA, ELCINA
  - ” Capital Goods . TMMA, IAIMTA, IPPAMMA, PMMA, TMA, SIAM, IECAL
  - ” Information Technology . MAIT
  - ” Energy . SESI, BHEL
  - ” Rubber & Tyre . ATMA, AIRIA
  - ” Chemical . CPMA
  - ” Shipbuilding . SAI
  - ” Association of Indian Medical Device Industry

# Methodology

Õ contd.

## ” Data Collection

- . in the public domain
  - ” Ministry of Commerce
  - ” DGFT(Directorate General of Foreign Trade)
  - ” CBEC (Central Board of Excise and Customs)
  - ” UN Comtrade
  - ” Working Group reports ( of 12<sup>th</sup> five year plan)
  - ” WTO Secretariat
  - ” Web search
- . from the Industry
  - ” Questionnaire . cost, economic, technical
  - ” **Visits** . collecting data/data gaps / reconciliation of HS codes

# Methodology

Õ contd.

## ” Analysis

### . Costing

” Financial analysis

” Production costs & Profit margins

### . Technical

” Industry structure , capacity & capacity utilization

” Manufacturing Technology/Process,

” Criticality of imported raw material

# Methodology

Õ contd.

## ” Analysis

### . Economic

- ” Import and export
- ” Trade with FTA/RTA countries
- ” Import duty structure
- ” Preferential Duty Structure under FTAs
- ” Tools
  - . Effective Rate of Protection
  - . Trade Competitiveness Index
  - . Terms of Trade

# Tools

$$\text{ERP} = (V_{At} - V_{Af}) / V_{Af}$$

where ERP is Effective Rate of Protection

$V_{At}$  is Value added with tariff

$V_{Af}$  is Value added with free trade

Value added = selling price . cost of importable  
raw materials/components

$$\text{TCl} = (E_j - I_j) / (E_j + I_j)$$

where TCl is Trade Competitiveness Index

$E_j$  is exports of the product of a country

and  $I_j$  is the imports of the product of a country

$$\text{TOT} = (X_p / M_p) * 100$$

where TOT is Terms of trade

$X_p$  is the unit value of export (or price of export)

$M_p$  is the unit value of import (or price of import)



# FRAME WORK OF THE REPORT

- Performance of Industry
  - ” Capacity utilization
  - ” Profitability
- Trade analysis
  - ” Overall
  - ” Flow of import and export
  - ” FTA countries(substantial flow of trade)
- Duty Structure
  - ” Products, raw material/components
  - ” General & Preferential duty
- ERP calculation where ever possible
- Trade competitiveness