

# THE BUDGET:

## No road map for 2015 nor To reach out the Vision 2020:



**"A single Budget Speech cannot solve all our problems, nor is the Union Budget the only instrument to do so", is to cry, shout, protest or fight loudly then only he will apply-n- use other instruments to get your demand fulfilled. Else wait for Budget next, next economic survey, next charter-n-suggestions from trade, industry & commerce!!**

**O**n this July 06, Mr FM presented the Interim Budget for 2009-10, Part II. He said, "The new Government would need to anchor its policies for 2009-10, in a medium term perspective." And accordingly Mr FM presented policies of course that looks motivated by politics only & in the favour of ruling parties by keeping forthcoming elections in mind as a medium term perspective. Simply, 'a political attitude' says editor ET.

Simply Pranab Mukherjee kept a side all views of economic review, issues & suggestions of trade, commerce & Industry for the Budget of FY 2010-11 by considering that a long term perspective & handled medium term is the image that created!

What I understood from the expressions of the FM, "A single Budget Speech cannot solve all our problems, nor is the Union Budget the only instrument to do so", is to cry, shout, protest or fight loudly then only he will apply-n- use other instruments to get your demand fulfilled. Else wait for Budget next, next economic survey, next charter-n-suggestions from trade, industry & commerce!! Yet this is not the only side of the budget. Let us view another side too.

Under the title: 'Restoring Export Growth' the FM has announced his efforts are:

31. Our exporters by virtue of their close links to the external sector have borne the brunt of the global economic crisis. It is, therefore, appropriate that we continue to provide all possible assistance to our exporters to help them overcome the short term disadvantages.

### More specifically:

- (a) An adjustment assistance scheme to provide enhanced Export Credit and Guarantee Corporation (ECGC) cover at 95 per cent to badly hit sectors had been initiated in December 2008 to mitigate the difficulties faced by the exporters. In view of the continuing contraction in exports, I propose to extend the benefits of this scheme up to March 2010.
- (b) The Market Development Assistance Scheme provides support to exporters in developing new markets. With many traditional markets still under financial stress, greater effort is required to identify and develop new markets. I propose to enhance the allocation for this scheme by 148% over BE 2008-09 to Rs.124 crore.
- © With a view to insulating the employment - oriented export sectors from the global meltdown, Government had provided an interest subvention of 2 per cent on pre-shipment credit for

**Nayan Jani**

seven such sectors. These sectors are textiles including handlooms, handicrafts, carpets, leather, gems and jewellery, marine products and small and medium exporters. I propose to extend the interest subvention beyond the current deadline of September 30, 2009 to March 31, 2010.

- (d) Micro, Small and Medium Enterprises (MSMEs) have been affected by the slowdown in exports and the indirect effect of the global crisis on domestic demand. To support this sector, I propose to facilitate the flow of credit at reasonable rates, by providing a special fund out of Rural Infrastructure Development Fund (RIDF) to Small Industries Development Bank (SIDBI). This fund of Rs.4,000 crore will incentives Banks and State Finance Corporations (SFCs) to lend to Micro and Small Enterprises (MSEs) by refinancing 50 per cent of incremental lending to MSEs during the current financial year.
- (e) In February, 2009 the Print Media was given a stimulus package comprising waiver of 15% agency commission on DAVP advertisements and a 10% increase in the DAVP rates to be paid as a 'special relief' subject to documentary proof of loss of revenue in non-governmental advertisements. Since Print Media is still passing through difficult times, I have decided to extend the stimulus package for another six months from 30th June, 2009 to 31st December, 2009.

By considering these export oriented efforts the FIEO welcomes the Budget. FIEO President

Mr A Sakthivel said: 'abolition of Fringe Benefit Tax, extension of tax holiday for one more year for EOUs, STP, EHTP units, extension of interest subvention scheme till March 2010 are welcome move by the government to enhance competitiveness of export sector.'

President, FIEO also thanked the government for providing exemption to the exporters in respect of goods transport services and commission to foreign agents as well as for simplification of procedures for refund of service tax.

Shri Sakthivel, however, was optimistic that the exemption from service tax in respect of these two services will pave the way for complete exemption on output services for the export sector in months to come. The increase in Market Development Assistance funds from Rs.50 crore to Rs. 124 crore is a welcome step said, FIEO Chief. However it fell short of our expectations as we were anticipating a quantum jump in the marketing support in view of dire necessity, for diversifying the market base. The continuation of ECGC coverage up to 95% to badly hit export sector will provide necessary relief to labour intensive sectors.

FIEO Chief also appreciated the government move to bring more items in the list of duty free import of trimmings and embellishment.

Mr Sakthivel also thanked the Finance Minister and Commerce and Industry Minister for providing exemption to FIEO and other export related organizations from the service tax which will help these organizations to focus on providing necessary support to small and medium entrepreneurs.

President, FIEO however, requested the government to consider income tax exemption for the exporting units and look at the option to offset the derivative losses to SMEs exporters with a view to provide them some relief.

### Following sections that pulled more attention of GJ Players along with the entire budget:

**114.** Gold bars currently attract customs duty at the specific rate of Rs.100 per ten grams while other forms of gold (excluding jewellery) are chargeable to a duty of Rs.250 per ten grams. These rates were fixed in 2004 and have not been reviewed even as the price of gold has increased manifold. I propose to partially restore the incidence by increasing these rates to Rs.200 per ten grams and Rs.500 per ten grams respectively. Along the same lines, the customs duty on silver (excluding jewellery) will be increased from Rs.500 per kg to Rs.1,000 per kg. These revised rates would also apply to gold and silver,

including ornaments that are not studded, when imported by a bona fide passenger as baggage.

**128.** Madam Speaker, I fear that my proposals relating to gold and silver on the customs side would somewhat dent my popularity with women. I propose to salvage this by fully exempting branded jewellery from excise duty.

**131.** The Export Promotion Councils and the Federation of Indian Export Organizations (FIEO) provide a valuable service in

augmenting our export effort. I propose to exempt them from the levy of service tax on the membership and other fees collected by them till 31st March, 2010.

In the context of GJ industry India, what we consider is 1: overseas players & 2: domestic retail. A representatives of both expressed sentiments of the GJ Industry, related issues, priorities & also the best possible road map suitable for medium perspective & also worthy enough in the long run. Perhaps Mr FM failed to motivate the GJ industry.

**Our export fraternities found the budget not so buoyant.**

**Let us refer the reactions of the GJEPC & the Chairman, Shri Vasant Mehta:**

## Not very encouraging

**"The Union Budget may slow down the revival of this sector And will lead to a setback in the export market" Vasant Mehta**

The Union Budget announced by the Honorable Finance Minister, Shri Pranab Mukherjee, has not been very encouraging for the Gems and Jewellery export sector, with few incentives and aid being offered to strengthen India's leadership position in the international market. Keeping in mind the challenges faced by the industry, including threat from the growing influence of a highly competitive China; worldwide fall in demand; the increasing unemployment of its highly skilled and world-class workforce; and the volatility of gold prices, the Union Budget has not considered implementation of some of the corrective measures recommended by the Gems and Jewellery Export Promotion Council (GJEPC) to give a fresh thrust and boost to the gems and jewellery export sector.

Reacting to the budget, Mr. Vasant Mehta, Chairman, GJEPC, says, "The recession has not only debilitated the industry from inside, but has also led it to the precipice of non-competitiveness and loss of market share. Exclusion of certain significant, corrective measures sought by the G&J industry from the Union Budget may slow down the revival of this sector and will lead to a setback in the export market".

The gems and jewellery sector welcomes the following measures announced by the Finance Minister which include extension of existing 2% subvention on pre-shipment credit till March 2010, the exemption on payment of service tax by the exporters on certain services, withdrawal of import duty on rough coral, extension of one year to the Sunset Clause to SEZs and EOUs, abolition of excise duty on branded jewellery, abolition of FBT and exemption of Service Tax on the activities of the Council.

However, the sector is concerned over the negative

impact of some of the announcements such as extension of 2% subvention on pre-shipment credit till March 2010; which is a very short period of extension and the ideal period should have been 2 years. Domestic funding should have been facilitated at internationally competitive rates (LIBOR based) as opposed to the high interest rates being charged by the Banks at present. Increase of duty on gold and silver will hurt the domestic gems & jewellery market. This will also have a negative impact on the smaller exporters who procure gold from the market, resulting in additional cost to them, in form of duties.

The charter of recommendations

made by the gems & jewellery sector which were not considered by the Finance Minister that include increasing the flow of dollar liquidity to the industry which has a projected need of at least \$3-4b in the coming year. Such additional dollar finance was to be made available from the foreign exchange reserves of the country.

Citing the peculiar nature of the industry, characterized by daily price fluctuations, as a major cause for taxation dispute, the GJEPC had proposed the levy of a flat 1% Turnover Tax in place of all forms of current direct taxes, thereby doing away with arbitrariness, confusion and delays in finalization of tax returns. Owing to recessionary

pressures, income on export earnings should have been made tax-free for the next two years.

Export credit limits sanctioned by the banks as on 01 April 2008 to exporters of the gem & jewellery industry should have been continued till 31 March 2011. Introduction of a duty draw back scheme for gold jewellery exports has been proposed by the GJEPC. The Council had also proposed the setting up of a long-term welfare fund jointly with the Government, with the aim of providing these workers with employment guarantees, training and other benefits; which has not even been considered in the welfare schemes.



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## Sentiments:



"There is some good news as the 2 percent excise duty on branded jewellery is gone but the gold price hike and no further lowering of interest rates is likely to hurt,"

Mehul Choksi,  
chairman, Gitanjali  
Gems Ltd.



"...granting interest break on educational loans taken for vocational purposes could mean that now it is easier to take educational loans for taking courses on gemology, grading sorting jewelry designing"

Tehmasp Printer,  
MD, IGI



"In the on going scenario at least 3-4 bn Dollar liquidity is necessary in the forthcoming years and LIBOR based domestic funding was also expected with an interest financial support of 2% is not announced."

Sanjay Shah, MD-  
Capital India

"The duty on gold will affect the industry as a whole as gold prices in India will go up... the industry was looking for abolishing of the duty,"

Rajesh Mehta,  
CMD, Rajesh  
Exports.

