

are you not extending a scheme of one State to every other State?' Each State has got different schemes, based on the felt needs of that State. Are our priorities wrong? I believe, our priorities are right, and the Parliament has approved our priorities, the Parliament has approved our Expenditure Budget.

**SHRIMATI BRINDA KARAT:** Sir, rice at two rupees a kilo is everyone's priority.

**MR. CHAIRMAN:** Next question 442.

**SHRI YASHWANT SINHA:** Sir, we are asking a simple question, and we want a simple answer....(*Interruptions*)... You are giving too simple an answer!

### **Rationalisation of Tariff regime**

442. **SHRI HARISH RAWAT:**  
**SHRI SANTOSH BAGRODIA:†**

Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that for several product lines, the existing tariff regime results in higher import duty rate on raw materials/intermediates than on finished products, thereby discouraging value addition by domestic manufacturers;

(b) whether the Ministry have a list of all product lines, which face inverted duty structure;

(c) what action is proposed to rationalize the tariff regime to address this anomaly; and

(d) whether Government propose to do away with Early Harvest List in Regional Trading Agreements (RTAs) as the Early Harvest List of goods in RTAs create inverted duty structure?

**THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM):** (a) to (d) A statement is placed on the Table of the House.

### **Statement**

(a) Under the existing customs duty structure, there are instances when customs duty on the finished product is lower than the duty on its

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† The question was actually asked on the floor of the House by Shri Santosh Bagrodia.

raw materials/intermediates. Whether such a duty structure will necessarily result in negative effective rate of protection and thereby discourage value addition by domestic manufacturers, will depend, *inter alia*, on the duty rates, extent of value addition, and the efficiency of the domestic industry. Inversions in duty structure could be either with reference to Most Favoured Nation (MFN) rates of duty or preferential rate of customs duty under some Free Trade Agreement/Regional Trade Agreement (FTA/RTAs).

(b) Ministry does not have a list of all cases of inverted duty structure.

(c) Cases of inversion in the duty structure will come down as the import duty rates in general are reduced. It is the Government's policy to bring down the import duty rates in a phased manner so that they correspond, more or less, to rates prevailing in some East Asian countries. While bringing down the duty rates in general, Government has also been reducing the customs duty on basic raw materials. In this year's budget, Government has further reduced customs duty on major raw materials and intermediates such as alloy steel, ferro alloys, non-ferrous metals, bulk plastics, ores and concentrates, to rates below the peak rate of 12.5%. In addition, to compensate for State level taxes/local taxes, an additional duty of customs of 4% has been extended to all imports (with a few exceptions) to provide a level playing field to the domestic industry. This should generally reduce inverted duty structure. Further, to the extent possible, cases of inversion in the case of MFN rates brought to notice by trade and industry have been addressed. It is, however, difficult to address inversions arising from FTAs, as in many cases, reduction in duty on corresponding raw materials and intermediates may adversely affect domestic industry and also may involve substantial revenue loss.

(d) Early Harvest Lists, to the extent the import duties are brought down to zero would generally involve an inversion in the duty structure. Early Harvest Lists under Indo-Thailand Framework Agreement and Indo-Singapore Comprehensive Economic Cooperation Agreement have already been agreed to, as part of respective agreements, and it would not be possible to do away with these lists.

**SHRI SANTOSH BAGRODIA:** Sir, I would like to know whether the Government has constituted a Committee under the chairmanship of a member of the Planning Commission to look into this matter. If yes, what

is the mandate of that Committee? Has the report of the Committee been submitted? If yes, have the recommendations of the Committee been accepted? Give the details. If the Committee has not submitted a report, when is it likely to submit the same? Has the Committee interacted with the representatives of such sectors who are facing the inverted duty regime?

**SHRI P. CHIDAMBARAM:** Sir, subject to correction, I cannot recall any Committee being appointed under the chairmanship of a member of the Planning Commission. Inverted duty structures are examined by the Department of Revenue, in consultation with the administrative Ministry concerned. But, I will correct my answer if a Committee had been appointed by the Planning Commission or someone else. I cannot recall a Committee having been appointed. But, I would like to set my answer right.

**SHRI SANTOSH BAGRODIA:** Sir, my second supplementary is this. The hon. Minister has mentioned that the Ministry does not have a list of all cases of inverted duty structure. Would the Minister ask his Ministry to make this list because by this list, we will be able to understand the magnitude of this problem? Has the Government taken cognizance of the impact of the inverted duty structure due to their FTA with Thailand and other Asian countries on the auto component manufacturers specifically? Has the Government appreciated their apprehensions that such duty regime under FTA may result in dumping through FTA partner countries like Thailand? If yes, what steps are taken to dispel the apprehensions of the auto sector, which has become the most important sector for development in the country today?

**SHRI P. CHIDAMBARAM:** Sir, I do not have to go into what is an inverted duty structure. An inverted duty structure rises if the finished product attracts a lower duty compared to that of the raw material inputs. However, that statement must be qualified by another statement, but the actual inversion will occur only if the value addition is low. There are, really, two factors here. One is the rate of duty, and the other is the value addition. It is not possible to comply an exhaustive list of all cases of inverted duty structure. In major cases, yes, of course it is possible to identify. But in a finished product, there are hundreds of inputs, raw materials and components, and these keep changing all the time. And innovative and new manufacturing practices will find substitute input and

substitute component, instead of the existing input of the existing component, if the price of that input or that component is low. So, it is not possible for the Government, at any point of time, to make an exhaustive list of all cases of alleged inverted duty structure.

Now, as far as the automobile industry is concerned, yes, we are aware of the FTA with Thailand. We are interacting with the Department of Industry and the automobile industry. Glaring cases of inverted duty structure are being corrected. But in recent months or, at least, in the last six months, I have not had any major complaint in the automobile industry about an inverted duty structure. If there is a case of an inverted duty structure, you are welcome or the industry is welcome to bring it to my notice, and we will certainly look into that.

SHRI TAPAN KUMAR SEN: Sir, we are glad to note his reply. But I draw the hon. Minister's attention, through you, Sir, to the reply given to item No. (C) where the hon. Finance Minister has assured the extension of an additional customs duty of four per cent to all imports for providing a level playing field to the domestic industry. I would like to know from the hon. Finance Minister whether, to match the differences arising out of the duty on inputs and the duty on finished products, providing a level playing field to the domestic industry also requires a serious examination of the excise duty structure of the same domestic product on which the import duty is being reduced. I want to know from the Finance Minister whether he will consider a serious re-examination of the present excise duty structure of the domestically produced products on which the import duty is being gradually slashed down. ... (Interruptions)... If you are just taking care of the inverted duty structure, a level playing field to the domestic industry, I think, cannot be ensured unless the excise duty aspects are also seriously addressed. Thank you, Sir.

SHRI P. CHIDAMBARAM: Sir, I think, there is a misunderstanding. Import duty or customs duty is one kind of duty that applies to imported products. Excise duty is on domestic manufacturing. But if there is a product manufactured domestically, attracting excise duty, an identical duty is levied on the imported product, called CVD. So, the countervailing duty is to compensate and create a level playing field to the domestic manufacturers who suffer an excise duty. So, an imported article will bear not only the customs duty but also a CVD equal to the excise duty. So, that is the answer to his question.