

Frequent Changes in Govt. Policies Hit Non-ferrous Metals

- Metalworld Research Team

Secondary non-ferrous metals producers in India have been facing severe threat of survival due to frequent changes in the government policies. Rapid change in policies creates uncertainty which not only dries up fresh investment in base metals sector but also fears of returns on existing investment. In the past, the government took many more short and long term measures to protect the interest of business class in the secondary metals production. Apart from signing the free trade agreements (FTAs) with a host of countries, the government made mandatory scanning of all cargoes of imported scrap. Along with that, the government also pushed through strict inspection of consignments in the origin to enable thorough inspection of cargoes.

Trade Agreements

To strengthen bilateral trade, the government enhanced focus on signing bipartite and tripartite agreements of course with a rider in terms of value addition. Also, the government signed FTA with ASEAN countries to boost trade relations in the region. A couple of years ago, the government of India had allowed import of finished products from Sri Lanka duty free. As a consequence, a number of metals processors shifted their bases to Sri Lanka to avail the benefit of duty exemption. Since the decision of the Indian government was in the interest of Sri Lankan people with increased job opportunity and enhancement in its economy, the neighbouring country's government welcomed.

Soon, the Indian government realized that the step was not in right direction. The Indian governments' move was aimed to increase job opportunities in the countries like Sri Lanka at the cost of India, the government of India immediately shifted its stand and levied high import duty. As a consequence, all plants that had shifted to Sri Lanka to avail duty benefit came back to India again.

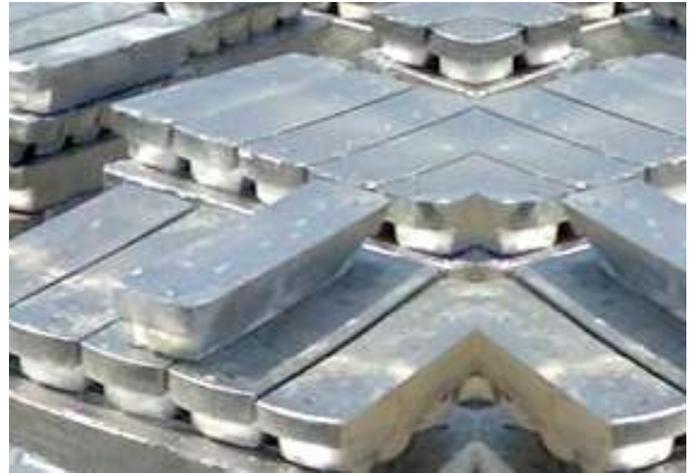
Unfortunately, these plants failed to adhere to 35 per cent of value addition norm as metals,

be it primary or secondary, do not possess enough room to have so much of value addition. Even imported scrap contains more than 80 - 90 percent of metals leaving thereby hardly any room for 35 per cent of value addition. So, business units shifted to Sri Lanka had flouted value addition norms. Apart from Sri Lanka, the government of India had signed similar agreements with a number of other countries. In lieu of the Indo - ASEAN FTA which came into effect from 1st January, 2010, the duty on finished products viz. Copper Tubes, Sheets and Brass Rods was slashed from 7.5% to 2.5% which gradually became Nil on April 1, 2014. This has resulted in inverted duty problem wherein import of raw material viz. Copper Scrap, Brass Scrap and Copper Cathodes are still dutiable and finished products such as Sheets and Tubes are imported duty free from ASEAN countries.

Inverse Duty Structure

Faced with survival issues due to 'doing-business getting harder' with unfavourable policies, secondary metal processors have urged the government to abolish inverse duty

structure with higher import levy on raw material and lower on finished products. Raw materials like scrap of copper, aluminium, zinc and nickel are attracting import duty between 2.5 per cent and five per cent. Against that, finished products of these metals are imported between zero and one per cent of duty from countries through which India has signed free trade agreements (FTA) and Association of Southeast Asian Nations (Asean). So, importing raw materials like scrap of various metals are costlier than finished producers. Over and above, cost incurred on processing of scrap, excise duty, demurrage and waste management accumulatively provide negative



returns on secondary metal production. Thus, this inverse duty structure, i.e. high on scrap and low pure metal discourages processing of scrap in India. "Therefore, we have urged the government to abolish inverse duty structure and encourage processing of scrap to generate more employment through value," said Rohit Shah, Managing Director, Perfect Valves, a city-based metal processor. The demand assumes significance as the secondary metals produced through scrap contributes nearly half of India's base metals' consumption especially copper.

In a pre-Budget submission to the Finance Minister Arun Jaitley, secondary metal processors' body the Bombay Metal Exchange (BME) said, "We have urged the government to abolish import duty on raw materials i.e. all types of scrap immediately in order to make Indian processors competitive in the world market. With the ongoing 0 per cent duty imports of finished goods coming under FTA, raw material import at 5 per cent duty make metals sector as inverse structure," Hemant K. Parekh, President, BME. Also, BME has recommended to impose 7.5 per cent anti-dumping duty on all finished products coming under FTA, as this is the fundamental right of the Indian trade and industry for their existence.

The non-ferrous metals' items being of high value is a constraint, as whilst filing the advance tax, the amount of refund of tax collection at source (TCS) seems unusually large, which results in an unwarranted scrutiny of the file creating needless inconveniences. "Hence in the best interest of the non-ferrous metals trade and industry, waiving off the 1 per cent TCS from non-ferrous metals scrap is urgently warranted," said Shah. Metal processors, however, have supported the government's move to levy Good and Services

Tax (GST) in place of all taxes. But, by the time political consensus is arrived at for implementation of GST, the government should abolish central sales tax (CST) and special additional duty (SAD) in addition to reduce excise duty from the existing 12 per cent to 8 per cent.

Workers' Livelihood at Stake

Secondary non-ferrous metals strongly opposed the government's move to sign FTA. Processors through its apex body the Bombay Metal Exchange (BME) took up this issue very seriously and represented the Inverted. After lot of efforts, in the Union Budget 2016-17 the Basic Customs Duty on Brass Scrap has been reduced from 5% to 2.5%. BME is still following up for reduction of Duty on Copper Scrap and Cathode. It is also trying to club the industries and big corporate houses to initiate and represent the case combinedly and strongly to the relevant authorities. It is exploring other legal possibilities and in view of the Inverted duty problem and to achieve level playing field against the duty free imports from ASEAN countries. BME has filed a Safeguard Petition with the Director General of Safeguard Duty and are expecting positive results by next month. The rules have been notified under Safeguard Duty by Director General of Safeguard Duty only after receiving official application from BME.

The BME has been representing since last 3 years in regard to the problem of inverted duty structure and the adverse impact FTA is having on the domestic industries. As per free trade agreement with Asian countries, Finished and Semi-finished products of non-ferrous metals can be imported into India at Nil rate of custom duty whereas the Raw Material is chargeable to custom duty @ 5%. Our request was that the Import Duty on Raw Material should be reduced to 0% allowing a level

playing field or 5% anti-dumping duty should be levied on finished and semi-finished products imported from ASEAN Countries under FTA to save the sinking metal industries and unemployment of around 5 to 6 lakh workers. Our request has been completely overlooked which has disappointed the non-ferrous metals trade and industry.

Implementation of Goods and Services Tax (GST)

The non-ferrous metals have strongly supported the introduction of GST and believe that this will go a long way in streamlining the economy, but there has been no comment on GST. The industry had requested to abolish the CST or make it 1% till GST is introduced to improve the interstate business, but unfortunately this request has also been ignored. The government did not waive off TCS from non-ferrous metals scrap has also been not taken into consideration. It did not completely abolish the special additional duty (SAD) on metals scrap has also been totally ignored. There has also been no positive change in the income tax structure. There has been a small relief as the customs duty on brass scrap has been reduced from 5% to 2.5% in the Budget.

Recycling Policy to Boost Industry

Accepting the long pending demand of ferrous and non-ferrous metal recyclers in India, the Union government has agreed to frame a national policy on metal recycling. Aruna Sundararajan, secretary, steel announced the Government's resolve to frame a policy on metal recycling during the Third International Conference on Metal Recycling in India (MRAI).

Sundararajan recently further announced that there would be a set of policies on end-of-life-cycle commodities and a new institutional



mechanism framed as per the industry's requirements, which will best suit the country's requirements too. She further stressed that the recommendations of a Joint Planned Committee (JPC), which was set up to study the scrap processing sector of India, will be considered and the government will commence work on key recommendations for the metal recycling industry. Also acknowledging the need to look into import duty structure on imports of all types of metal scraps that attract about 5 per cent customs duty, which is making imports unviable for scrap importers, she said the first set of policy measures on this issue would be taken up shortly, duly supported by budgetary pronouncements. Citing that the metal recycling industry in India is set to the heart of new growth paradigms, Sundararajan emphasised that the definition of development and growth has changed in the recent era, which is measured in terms of how efficiently the resources are used and where recycling plays an important role.

She said, "While recycling industry in countries like US or China is much ahead of us, India has a long way to go when comes to efficiency of recycling."

Balvinder Kumar, secretary, mines, who also offered his keynote address during the Conference, highlighted the importance of the Recycling Industry for the Indian economy. He maintained that when the global economy is undergoing through a phase of recession and

when the resources worldwide are depleting, the country needs to focus on recycling to reasonably use the available resources. Kumar agreed with MRAI's demand of abolishing import duty on metal scrap saying that it made a strong case to seek duty abolishment. Referring to MRAI's demand that the FTA agreements with ASEAN countries be reviewed, Kumar stated a formal communication has been made to the Commerce Ministry to review the FTA agreements and the issue will be reviewed with the Finance and Revenue Ministries, too. He promised that the Government is serious on ensuring the 'ease-of-doing' business and the Prime Minister has asked the Group of Secretaries to freeze Action Plans to address concerns in each area. For the metal recycling sector also, the requisite attention will be paid, he added.

Talking about initiatives in the mines sector, he said that with respect to the Mines & Minerals Development Regulation Act, the Core Committee has identified mineral blocks. "About eight states have issued tenders for 43 mineral blocks iron ore, gold, etc. and soon, more States will float tenders. By the end of this year, about 70 blocks will be put on auction and exploration of about 100 blocks will be carried out in the next two years," said Balvinder Kumar. He further said that the Government is coming out with a new Policy for Exploration, the draft of which will come out in 45 days. He also stated that the

Government has also taken steps to carry out geo-physical surveys.

Sanjay Mehta, president, MRAI, said, "India has a duty on export scrap, as it is a vital raw material. This becomes a case of inversion. In all the developed countries like USA, Europe, UK, China, there is no such duty applicable. We also demand to abolish SAD on all type of non-ferrous metals scrap. It is impending to the growth of the sector; hence we urged to remove the same. This will give a huge thrust to MSME industries and employment opportunities in India as all scraps are being used for manufacturing only."

MRAI has also urged the Government to set up a pre-shipment inspection infrastructure, mainly scanners, etc. at key ports in India. The need it felt immensely owing to the fact that with the existing standard operating practice worldwide, scrap imports are compulsorily scanned at the port of destination for radio activity and identification of material. In India, the Government has installed scanners at a few ports in India, but many of such scanners are not in working conditions, hence forcing importers to pay inspection charges from their pockets, which are to the tune of Rs 1,100 crore. MRAI believes that instead of bearing such a huge loss of Rs 1,100 crore of pay-out (forex) towards pre-shipment inspection fees, which would entail into FOREX savings. MRAI has also proposed to bring in funds setting up of mechanism at ports.