

Cotton-based textile products emerge as a clear winner with additional incentives of Rs.750-850 crore in the new rates of rebate under RoDTEP

August 19, 2021 | Ratings

The rates of rebate under the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme are significantly lower compared with the earlier Merchandise Exports from India Scheme (MEIS) for majority of the products/ sectors. Further, many industries, viz., pharmaceutical, chemical, and steel, where India enjoys global competitiveness or there is a short supply in the domestic market have been excluded from the scheme.

Amongst the various sectors, cotton-based textile products have received favourable rates under RoDTEP in the range of 3.8%-4.3% as compared to around 2% rate under MEIS although there is a cap on the maximum benefit available under RoDTEP. As per the data available from Directorate General of Foreign Trade (DGFT), the average export of last 3 years period ending FY21 for cotton staple, cotton thread, cotton fabric and cotton yarn stood around USD 6.5 billion. Considering the average incremental rebate of around 1.5%-1.8% for these products, it translates into additional export incentive of Rs.750-850 crore per annum for the sector.

Another change is the likely impact of exclusion of the Advance Authorization scheme or Duty-Free Import Authorization on products manufactured and exported in discharge of export obligation. With lower rates of rebate, it is to be seen whether certain industry players avail benefits under the RoDTEP scheme or opt for duty-free import. Those industries which are heavily dependent on import and have relatively lower rebate rates are at a disadvantageous position compared to MEIS.

The export promotion coverage has been expanded under RoDTEP to include around 8,500 tariff items as against inclusion of only around 4,900 tariff items under MEIS. Around 68% of the products are entitled to receive less than or equal to 1% rebate and nearly 85% of the products are entitled to receive less than or equal to 2% rebate. However, with the RoDTEP scheme having remained in limbo for long, the present policy action at least gives clarity to the stakeholders to adequately price their products in the export markets.

Background

After the World Trade Organisation's (WTO) ruling that found the MEIS and some other export incentive schemes in violation of WTO's agreement on Subsidies and Countervailing Measures (SCM), the Union Cabinet on March 13, 2020, approved the RoDTEP scheme to replace MEIS with effect from January 01, 2021. RoDTEP aims to reimburse local taxes, coal cess, mandi tax, electricity duties and tax on fuel used for transportation incurred by exporters, which are not exempted or refunded under any other existing scheme. The primary objective behind the scheme is to improve competitiveness and create a level-playing field for Indian manufacturers in the global market. After a long wait, the Government of India announced the rates of rebate under RoDTEP on August 17, 2021, which would be effective from January 01, 2021.

Budget Allocation

The budget allocation for RoDTEP scheme has been significantly reduced compared with the scrapped MEIS. For FY22, the budgetary allocation for RoDTEP stands at Rs.13,000 crore vis-à-vis that of Rs.39,000 crore and Rs.15,500 crore for MEIS during FY20 and 9MFY21, respectively. Various export-promotion bodies had demanded higher budgetary allocation of close to Rs.50,000 crore. However, the government did not budge, and considering the lower budgetary allocation, the industry was expecting decline in the rebate rates which has remained lower than their expectation.

Announcement

The RoDTEP scheme has declared remission rates on 8,555 tariff lines. The new remission rates range from 0.3% to 4.3% of the Free-on-Board (FOB) value of exports. As per the media release issued by the Ministry of Commerce and Industry, the government has largely tried to cover employment-oriented sectors such as textile, marine, agriculture, leather, gems & jewellery, automobile, plastics, electrical/electronics, machinery, etc, with which the entire value chain of textile sector gets covered through RoDTEP and the previously announced Rebate on State and Central Levies and Taxes (RoSCTL) scheme.



















Major industries which contribute significantly to Indian merchandise exports

Industry (Exports in USD Billion)	FY19	FY20	FY21	Rates under MEIS	Rates under RoDTEP
Food & Agro	28.1	25.9	32.6	2%-5%	0.5%-4.0%
Textile	37.5	34.2	30.9	2%-5%	0.5%-4.3%
Chemical products	31.3	30.9	30.8	2%-5%	0.5%-1.7%
Metal products	26.4	24.9	28.6	2%-3%	0.3%-2.3%
Automobile	26.0	23.0	19.5	2%-3%	0.5%-2.0%
Pharmaceutical	14.8	16.3	19.4	3%	0.0%

Source: Directorate General of Foreign Trade (DGFT), Ministry of Commerce and Industry, Government of India

As depicted in the above table, the focus of the government was to promote employment-generating sectors like textile, food and agro to improve their global competitiveness. Further, for sectors such as pharmaceutical and various chemical products among others where India enjoys global competitiveness, the rates of rebate have been revised downward or have been completely excluded under this incentive scheme.

The following table depicts some of the product categories which have received favourable rates of rebate under RoDTEP, as well as some other product categories which are likely to be adversely impacted as the rates of rebate for them are much lower than the earlier rates of rebate under MEIS. The cotton-based products get one of the most favourable rates of rebate under RoDTEP.

Major Products	% Rebate - MEIS	% Rebate - RoDTEP	Impact
<u>Cotton-based Textile Products</u>			
Cotton Staple	0.0%	3.1% #	
Cotton Thread	0.0%	3.8% @	
Cotton Fabric	2.0%	4.3% ^	
Cotton Yarn	2.0%	3.8% @	
<u>Manmade-based Textile Products</u>			
Viscose Rayon Spun Yarn	2.0%	0.9%	
Synthetic Yarn	2.0%	1.0%	
Polyester Fabrics	2.0%	2.4% \$	
<u>Other Textile Products</u>			
Jute Yarn & Fabric	2.0%-5.0%	1.0%	
Wool Yarn & Fabric	2.0%	1.0%	
Silk Yarn & Fabric	2.0%	0.5%	
<u>Other Products</u>			
Tea	3.0%-5.0%	1.0%	
Coffee	3.0%-5.0%	1.0%	
Edible Fruit/Nut	5.0%	1.0%	
Starch of Wheat, Maize, Potato, Manioc, etc.	5.0%	1.0%	
Ceramic Products	2.0%-3.0%	1.0%	
Potatoes & Tomato Fresh or Chilled	3.0%	4.0%	
Beer made from Malt	2.0%	4.0%	
Seafood	5.0%	0.5%.2.6%	

^ Maximum of Rs.3.4 per square meter; @ Maximum of Rs.11.4 per kg; # Maximum of Rs.1.6 per kg;

\$ Maximum of Rs.2 per square meter

Source: Ministry of Commerce and Industry, Government of India, Compiled by CARE Ratings

Contact:

Padmanabh Bhagavath
Ranjan Sharma
Krunal Modi
Sagar Thakkar
Mradul Mishra

Senior Director
 Director
 Associate Director
 Lead Analyst
 (Media Contact)

ps.bhagavath@careratings.com
 ranjan.sharma@careratings.com
 krunal.modi@careratings.com
 sagar.thakkar@careratings.com
 mradul.mishra@careratings.com

+91- 22-67543407
 +91-79-40265617
 +91-79-40265614
 +91-79-40265613
 +91-22-6754 3573

Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report.

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel.: +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect:

