**NEWS CLIPPINGS –07-12-2017**

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| **Cotton shortage hits ginners in Maharashtra** | **Financial Express**<http://www.financialexpress.com/industry/cotton-shortage-hits-ginners-in-maharashtra/962373/> |
| **Cotton ginners in Maharashtra are finding it difficult to source cotton this season as more than 50% of the crop in the state has been affected by pink bollworm.**Cotton ginners in Maharashtra are finding it difficult to source cotton this season as more than 50% of the crop in the state has been affected by pink bollworm. Out of about 150 ginning units in the state, only 100 are active but even these are working at 50% capacity, top officials of the Khandesh Gin/Press Factory Owners Association indicated. The state is staring at a loss in production of cotton crop this year due to the pink bollworm pest which is reported to have affected more than 50% of the crop. The bleak crop would in turn hit the availability of good quality cotton to the ginners. Pradeep Jain, president of the ginners association said the season could be short this year and good quality cotton may only be available only until December. Thereafter, farmers may be required to uproot their crops and burn it to ensure that the worms do not proliferate, he added. Jain said that it take a couple of years to overcome the issue.A team from the Nashik Agricultural Directorate visited Jalgaon this week to identify the seriousness of the issue. The start was good in June-August when the crop was sown. The first attack in August was not that serious. Thereafter, the pink bollworms matured and affected the crop. The ginners association, which has been attempting to export cotton, found their samples rejected by parties. ” The quality has been badly affected. Reddish and yellow lines in the cotton has affected both productivity and quality,” Jain said. The state agriculture department has already written to the Centre to denotify BG II as it has lost its efficacy to fight the pest. Dr CD Mayee , president of the board of directors of the South Asia Biotechnology Centre (SABC), said that the attack of pink bollworm is in the range of 10% to 40% in some pockets of Maharashtra, Madhya Pradesh, Gujarat and Karnataka. “The crop has already been harvested in the north and therefore this region does not have any problem. It is more prominent in central India, including Vidarbha region of Maharashtra, which is a dry land and where there was a drought in the initial stages of the crop. This was followed by unseasonal rainfall, thus affecting flowering which in turn lead to higher chances of infestation,” Mayee explained.“During the last three-four years, there has been an erosion of resistance to BG II, which is obvious because the same product cannot have resistance for 16 years to the pink bollworm,” Mayee had said earlier. Pink bollworm is a small, thin, gray moth with fringed wings — the most damaging of all pests that attack cotton crop in the country. The female moth lays eggs on cotton balls and larvae emerge only to destroy entire fields by chewing through the cotton lint to feed on seeds. A research report by Dr K R Kranthi, former director of Central Institute of Cotton Research (CICR), shows that pink bollworm has developed resistance to Bollgard-II Bt cotton not only in Maharashtra but other cotton-growing states as well. Bollgard-II is the Bt hybrid variety that was introduced in 2010. “There are only two benefits of Bt cotton. One, it controls bollworm, due to which the yield is protected. Two, it reduces use of insecticides meant for bollworm control. Currently, cotton growers do not get either benefit,” Kranthi had said earlier. |

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| **Rs 5,000 cr disbursed as part of farm loan waiver: Maha govt** | **Times of India**<https://timesofindia.indiatimes.com/business/india-business/rs-5000-cr-disbursed-as-part-of-farm-loan-waiver-maha-govt/articleshow/61936171.cms> |
| Banks have so far deposited Rs 5,141 crore in accounts of 9.43 lakh farmers under the loan waiver scheme of the [Maharashtra](https://timesofindia.indiatimes.com/india/maharashtra) government, Revenue Minister [Chandrakant Patil](https://timesofindia.indiatimes.com/topic/Chandrakant-Patil) said today. The government has handed over a list of 17.68 lakh farmers and transferred Rs 10,332 crore to banks and the disbursal of this loan amount will pick up speed in coming days, he said. After due verification, banks have transferred Rs 5,141 crore in accounts of 9.43 lakh farmers eligible for loan write-off under the the Chhatrapati [Shivaji Maharaj Shetkari Sanman Yojana](https://timesofindia.indiatimes.com/topic/Shivaji-Maharaj-Shetkari-Sanman-Yojana) (CSMSSY), the minister said.Patil, commenting on a farmer agitation led by senior BJP leader [Yashwant Sinha](https://timesofindia.indiatimes.com/topic/Yashwant-Sinha) in Akola, said the latter should realise the government has already started implementation of the loan waiver scheme."He ([Sinha](https://timesofindia.indiatimes.com/topic/Sinha)) would realise there was no need for him to continue with his agitation," he said. Patil said in the next 10 days, the government expects to clear another list of 40 lakh to 48 lakh eligible farmers. Disbursal of the loan waiver amounts will pick up speed after due verification is done, the minister said. Patil said overall 80 lakh to 82 lakh farmers are expected to benefit from the Rs 34,000-crore loan waiver scheme announced in June this year.Replying to queries over the delay in depositing loan waiver amounts in farmer bank accounts, Patil said this was due to "faulty" data collection (on eligible beneficiaries) by the nationalised banks. In respect of Sinha's agitation over bollworm damaging cotton crop in Vidarbha, he said the government has already issued orders to assess the extent of damage. He said the government will compensate farmers who have availed crop insurance and also consider bailing out those who have not opted for insurance. |

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| **Telangana to curb sale and supply of herbicide-tolerant BG-III cotton** | **Times of India**<https://timesofindia.indiatimes.com/city/hyderabad/telangana-to-curb-sale-and-supply-of-herbicide-tolerant-bg-iii-cotton/articleshow/61926699.cms> |
| Expressing concern over widespread cultivation of unapproved genetically engineered cotton seed developed by Monsanto company by farmers in the state, the Telangana government on Monday directed all district collectors to take stringent action on sale and supply of the herbicide tolerant (HT) cotton and directed them to destroy the produce immediately.In a letter addressed to district collectors principal secretary C Parthasarathi mentioned that unapproved herbicide tolerant trait (BG-III) developed under the commercial name of Round-up Ready Flex (RRF) has got released into the field, and is being used in the cotton crop raised by the farmers covering considerable area. "It is spreading rapidly and contaminating other cotton hybrids and causing threat to the biological resources due to usage of Glyphosate. The Glyphosate (Glycel) herbicide is reported as carcinogenic and it affects human and animal health besides influencing soil health, biodiversity and ecology," Parthasarathi said."Monsanto applied for permission through its business partner Mahyco to Genetic Engineering Appraisal Committee (GEAC) for commercial release of Round-up Ready Flex (BG-III) in India. The Indian Mahyco seed company conducted field trials of several BT cotton hybrids containing RRF/HT trait for its commercialization through appropriate procedures. However, its application was withdrawn in the year 2015 to commercialize it in the country. But cultivation of Bt cotton crops with herbicide tolerance (HT) trait is spreading fast in cotton growing states including Telangana without any licence or approval being granted by authorities such as GEAC or ICAR." said the principal secretary.Telangana reported cotton cultivation in 19 lakh hectares in 2017-18 and the extension staff of the agriculture department, in their field visits, have found that several farmers are growing BT cotton crop containing unapproved "herbicide tolerance trait". Alarmed over the finding, the Telangana government has constituted a committee to examine the issue related to selling of unapproved transgenic seeds of cotton carrying new GM traits with Herbicide Tolerance (HT), Insect Tolerance (IT) and also to curb the spread of Bt cotton with unapproved genetic trait (BG-III) menace in the farmers' field. And also decided to take legal opinion from the additional advocate general to take action on the issue. "The dealers who are behind the spread of these unapproved seeds will be punished under the act. Our vigilance teams will also trace out companies that distributed and produced the seeds. Action will be taken on them," Parthasarathi told TOI.The principal secretary also reported the issue to chairperson of National Biodiversity Authority and joint secretary (Seeds) to take action on the matter stating that the deliberate or unintentional release of genetically engineered organisms, hazardous micro-organisms is an offence under Rule 9 of the EPA, 1989. In response to the complaint, Centre has constituted a committee to inspect the spread of herbicide tolerant cotton in the country. |

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| **Textile imports increase as duty cut bites after GST** | **Economic Times**<https://economictimes.indiatimes.com/news/economy/foreign-trade/textile-imports-increase-as-duty-cut-bites-after-gst/articleshow/61926385.cms> |
| With textile imports seeing a sharp increase in the past few months, the industry is blaming GST for the rise stating that lower import duties are leading to overseas fabric and garments flooding the Indian market. Cotton fabric imports surged 45% in July, was up 29% and 12% for August and September respectively. Import of textile yarn, fabric and made-ups increased 12% year-on-year in October to $153.9 million, according to estimates. Pre-GST, import of textile products attracted basic customs duty (BCD) plus countervailing duty (CVD) and special additional duty (SAD). Post-GST, CVD and SAD have been withdrawn and IGST (Integrated GST) was introduced. “Unlike CVD and SAD, IGST is fully adjustable against GST liability on sale of the imported product. Recognising the problem and threat of imports flooding the market, the government recently increased import duty on MMF(man-made fibre) fabric from 10% to 20%. However, the import duty on MMF yarn and cotton fabric have been kept at old rates," said Sanjay Kumar Jain, chairman, Confederation of Indian Textile Industry (CITI). “In the pre-GST scenario, import of garments from Bangladesh was attracting Rs 77 a piece (where MRP is Rs 999 a piece) and Rs 116 a piece (where MRP is Rs 1,500 a piece in the shape of CVD plus education cess and thereon," CITI said. “However, in the post-GST scenario, there will be no cost for import of garments from Bangladesh. Similarly, in the case of import of garment from other countries, the cost has been substantially reduced by Rs 77 a piece and Rs 116 a piece where MRP is Rs 999 a piece and Rs 1,500 a piece respectively," it said. “Hence, the Indian garment industry will face stiff competition from imported garments, especially from Bangladesh where production cost is already lower than India," CITI said. The textile body has urged the government to increase import duty on MMF yarn, cotton fabric and MMF fabric by 15% to protect the local yarn, fabric and garment producers from cheap import threat, especially from FTA (free trade agreement) nations like Bangladesh and Sri Lanka. “There is a greater needto impose safeguard measures such as 'Rules of Origin', 'Yarn Forward and Fabric Forward Rules' on countries like Bangladesh and Sri Lanka that have FTAs with India to prevent cheaper fabrics produced from countries like China routed through these countries," Jain said.  |

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| **Mid-term review of FTP 2015-20 is progressive: TEXPROCIL** | **Fibre 2 Fashion**<http://www.fibre2fashion.com/news/textile-news/mid-term-review-of-ftp-2015-20-is-progressive-texprocil-229448-newsdetails.htm> |
| The [Cotton](https://goo.gl/c9YQFZ) Textiles Export Promotion Council (TEXPROCIL) has termed the mid-term review of Foreign [Trade](https://goo.gl/KnQVD2) Policy (FTP) 2015-20 as progressive and growth oriented. The revised FTP has increased MEIS rates across the board by 2 per cent for labour intensive sectors. Earlier the MEIS rates for garments and madeups were increased from 2 per cent to 4 per cent.“I am glad the Government has recognised the urgent need to address the challenges being faced by the exporters on account of the roll out of the GST regime by focusing on reducing procedural burden,” said TEXPROCIL chairman Ujwal Lahoti.“The enhanced MEIS rates will provide the much-needed relief to exporters and will certainly have a positive impact on the overall exports, especially of [textile](https://goo.gl/UiQj0F) products,” Lahoti said. He also said that the increase in the validity of duty credit scrips issued under the MEIS from 18 months to 24 months will increase the utility of such scrips.With regard to export strategy, TEXPROCIL chairman said it is reassuring that the revised FTP identifies markets in Africa and Latin America to be its new focus areas as part of the Government’s goal of exploring new markets. The revised FTP has introduced a new scheme known as Self Ratification Scheme under which Advance Authorizations will be issued in those cases where there are no SION/valid Adhoc Norms for an export product and where SION has been notified but exporter intends to use additional inputs in the manufacturing process on the basis of self-declaration. “The textiles sector, especially technical textiles sector, will benefit immensely from this scheme. The scheme also allows domestic procurements which will promote ‘Make in India’,” said Lahoti.TEXPROCIL has been representing for enhanced benefits for cotton shopping bags covered under Chapter 42 of the ITC (HS) Classification. Lahoti welcomed the increase in MEIS rate for cotton shopping bags from 3 per cent to 5 per cent.While the mid-term review has addressed many of the issues faced by the exporters, there are still some areas that need to be addressed immediately to promote exports of textiles, he said in a press release. He pointed out that cotton yarn continues to be denied any benefit under the FTP. He urged the Government to include cotton yarn under MEIS and 3 per cent Interest Equalization Scheme, extend the benefit of 3 per cent Interest Equalization Scheme to merchant exporters, cover fabrics under RoSL, increase MEIS rates for fabrics and to allow domestic procurements against EPCG Authorizations and Advance Authorizations without payment of GST for export production. |

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| **Relief for exporters: Higher duty drawback rates to offset taxes** | **Business Line**<http://www.thehindubusinessline.com/todays-paper/tp-news/relief-for-exporters-higher-duty-drawback-rates-to-offset-taxes/article9984869.ece> |
| Exporters hit by the sharp decrease in duty drawback rates on various items following implementation of the Goods and Services Tax (GST) regime would soon get some relief as the government is finalising higher rates to compensate for embedded taxes.“The GK Pillai committee has worked out the new structure of duty drawback which would take into account embedded taxes on inputs on which credit is not available. It will be finalised once the Finance Ministry approves it,” a government official told BusinessLine .Duty drawback compensates exporters for the duties paid on inputs used to manufacture exported products. The higher duty drawback rates compensating for embedded taxes is likely to be announced before June 2018, when the higher rates of export incentives for labour-intensive sectors announced by the Centre on Tuesday will lapse.Exporters allege that as the duty drawback rates do not provide for embedded taxes, their operations are coming under severe stress. Embedded taxes are levies imposed on inputs used to make products that are not taxed and, therefore, exporters cannot get a credit on them. The taxes have to be thus absorbed in the price of the item affecting its competitiveness.“Cotton is a zero duty item. But the fertiliser, pesticides and insecticides used are taxed and that becomes part of the price because you can’t get refund on it. That is embedding,” explained Ajay Sahai from exporters body FIEO.“The higher duty drawback rates together with timely refunds will help exporters retain their competitiveness when the higher incentives lapse,” the government official said. The increased incentives of 2 per cent under the Merchandise Export Incentive Scheme for labour-intensive sectors announced by the Centre has come as a relief for exporters struggling under the new GST regime.Duty drawback rates and rebate of State levies (ROSL) were revised downwards across sectors from October 1, 2017. The textiles and garments sector was amongst the ones most affected. Drawback rate for cotton garments was dropped to 2 per cent from 7.7 per cent, for garments containing cotton and man-made fiber blends to 2.5 per cent from 9.5 per cent, and the rate on garments made of man-made fibres to 2.5 per cent from 9.8 per cent.**WTO conditions**The government also has to be careful now in giving duty drawback and ensure it is strictly according to inputs consumed as India is no more eligible to give export subsidies as per global trade rules as its per capita Gross National Income has crossed $1,000 for the third year in a row. The MEIS scheme, too, could be questioned by WTO members as it is an export subsidy and no more permitted. |

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| **FinMin to compare and contrast collections in pre-, post-GST period** | **Business Line**<http://www.thehindubusinessline.com/todays-paper/tp-news/finmin-to-compare-and-contrast-collections-in-pre-postgst-period/article9984872.ece> |
| Worried by the revenue collection trends under the Goods and Services Tax, the Central Board of Excise and Customs has asked its officials to assess payments by top assesses.Ahead of the meeting by Finance Secretary Hasmukh Adhia on Saturday to discuss the trends in collections, the CBEC has asked its field formations to analyse the Central tax payments of the top 100 assessees in each jurisdiction in the pre- and post-GST period.“It appears that all the data may not be available at the registration level for revenue comparison and analysis. However, revenue analysis of all those tax payers which were our assesses in the pre-GST period may be done and comparison be made of CGST revenue with revenue trend in Central Excise and Service Tax in the corresponding period of 2016-17,” said a recent circular.Officials have also been asked to study the pattern and quantum of input tax credit CGST availed in form TRAN 1 and its comparison in the pre-GST period.“Any abnormal or unusual availment of input tax credit may be pointed,” said the circular, adding that the analysis should also explain the reasons for the variation in tax paid.The CBEC has also held internal meetings on the Central GST collection trends, since the roll out of the new indirect tax levy from July this year.Adhia has called a meeting on December 9 of Centre and State tax officials to discuss measures to arrest revenue leakages and increase collections under the new indirect tax regime. While the revenue shortfall of States is beginning to narrow, the overall GST collection is yet to stabilise and is putting pressure on the Centre’s fiscal deficit.GST collections in October dipped to Rs. 83,346 crore from Rs. 92,000 crore in September. Tax payments are expected to dip further following the duty cut on over 200 items by the GST Council in its last meeting.More worryingly, the Centre’s share in GST between August and October amounted to Rs. 58,556 crore while State GST was Rs. 87,238 crore in the period. The Centre has said it is confident of meeting the indirect tax target of Rs. 9.68 lakh crore for the fiscal. |

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| **Telangana asks farmers to terminate cotton crop** | **Buisness Line**<http://www.thehindubusinessline.com/todays-paper/tp-agri-biz-and-commodity/telangana-asks-farmers-to-terminate-cotton-crop/article9984843.ece> |
| With pink bollworm turning virulent and posing a serious threat to the interests of farmers, the Telangana government has asked the farmers to terminate the crop before December. It has ordered an intense awareness campaign to educate the farmers to uproot the plants out after third picking.If the crop is terminated by December, it will break the lifecycle of the bollworm population, lessening the risk of the incidence in the next kharif. The kharif season is coming to end as a good number of farmers have completed their second picking. The third picking doesn’t yield much produce but some farmers keep the crop, expecting one or two quintals.Telangana has registered a massive increase in cotton acreage this kharif. The acreage crossed the 46-lakh acre mark, about 15 lakh acres more than the normal acreage. Untimely rains and outbreak of pink bollworm have wreaked a havoc, causing extensive damage to small and medium farmers. But the government’s report suggest that the spread of pink bollworms is virulent and has breached the Economic Threshold Level (ETL), which could result in extensive damage.“There is an urgent need to educate the farmers on the need to terminate the crop after December in all the cotton growing areas, particularly in Adilabad and Warangal districts,” a senior government official said. He wanted the extension officers to convince to remove the crop and go for shredding of the stubbles. “The worms will survive in the stubbles and could transcend to the next crop,” he said. |

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| **Exporters get Rs 8,450-crore boost in Foreign Trade Policy review** | **Economic Times**<https://economictimes.indiatimes.com/news/economy/policy/government-rolls-out-incentives-to-boost-exports/articleshow/61931812.cms> |
| The government on Tuesday announced incentives worth a total Rs 8,450 crore to boost [exports](https://economictimes.indiatimes.com/topic/exports) and employment in labour-intensive sectors in the mid-term review of the five-year [foreign trade policy](https://economictimes.indiatimes.com/topic/foreign-trade-policy)(FTP) that was rolled out in 2015. Incentives under the Merchandise Export from India Scheme (MEIS) have been raised to 4% from 2% for leather, textiles, agriculture products and carpets. Further, to address the capital blockage of exporters, the government plans an e-wallet from April 1, 2018. A team of experts will also be set up to assist exporters on [GST](https://economictimes.indiatimes.com/topic/GST). The Centre has allowed duty free imports for exports against self-certification and raised the validity for duty credit scrips to 24 months. The scrips are incentives used by exporters to pay customs duties."Export is a strategic part of economic policy and should be part of the foreign policy also," said commerce and industry minister [Suresh Prabhu](https://economictimes.indiatimes.com/topic/Suresh-Prabhu) while releasing the review. "FTP review focuses on exploring new markets and products, increasing India's share in traditional markets and products."Referring to the implementation of the GST, Prabhu said it "would be the catalyst for spurring growth in the export sector" and added that green shoots in export growth are visible now.Exports dipped for the first time in 15 months in October, falling 1.1% to $23.1 billion. Shipments are expected to fall further in November, exporters have said, blaming it on the GST that was implemented on July 1. Last month's trade deficit widened the most in three years to $14 billion. More "simplification of procedures, single window system will facilitate the industry," Prabhu said. Though the review is aimed at taking corrective steps by assessing the impact of export sops on various sectors besides boosting small and medium enterprises (SMEs) that generate jobs, exporters said the package may not lead to immediate export growth but will stall the decline in growth of shipments."We expect the effect of these sops coming in January," said Ganesh Kumar Gupta, president, Federation of Indian Export Organisations (FIEO) and added that the group will continue to interact with the government and seek sops for handicrafts and fabrics. The five-year FTP announced on April 1, 2015, had set an ambitious $900 billion target for goods and services exports by 2020. It also has a goal of increasing India's share of world exports to 3.5% from 2%. India's goods exports amounted to $170 billion in the April-October period. Sectoral sops Under the package, incentives for goods exports is Rs 4,567 crore and Rs 1,140 crore for services. This is in addition to the recently announced doubling of incentives for ready-made garments and made-ups worth Rs 2,743 crore under MEIS.Exporters are given duty exemption scrips under the programme pegged at a certain percentage of the total value of their exports. The scrips can be used to pay duties on inputs including customs levies. They can also be traded in the market. The FTP also sought to establish an Export Promotion Mission to provide an institutional framework to work with state governments to boost India's exports. The government also aimed to promote and boost export of defence goods.  |

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| **Power must come under GST; Here is why, how and when** | **Financial Express**<http://www.financialexpress.com/economy/power-must-come-under-gst-here-is-why-how-and-when/964146/> |
| Unrebated taxes on power Will lead to increased costs and lower margins by 1-3% for several industries, eroding competitiveness and undermining Make-in-IndiaAs the Goods and Services Tax (GST) overcomes the transitional implementation challenges, it is time to look ahead to further improving it. The impact of the highest rates have been reduced by substantially paring down commodities in the 28% bracket. Simplification of procedures for small enterprises, especially those that sell to large enterprises, is under way. Bringing land and real estate into the GST is on the agenda for discussion. High priority must now also be accorded to the inclusion of electricity in the GST. Why, how, and when? Currently, there is a bewildering multiplicity of electricity taxes that vary by states and across user categories, low for consumers and high for industrial users. Taxes levied by the states thus vary from 0% to 25%. It is an important source of revenue for them, amounting to about `31,000 crore for all the states combined. On average, electricity taxes account for about 3% of own tax revenues of the states, going up to close to 9% in other states. States are therefore reluctant to give up the right to levy these taxes. But the status quo imposes large costs that seriously undermine the government’s [Make in India](http://www.financialexpress.com/tag/make-in-india/)initiative.The most serious and obvious one is that costs to industrial users of electricity are higher because they include the taxes on inputs that have gone into the supply of electricity. These include taxes on raw materials (coal, renewables) and other equipment (solar panels and batteries). Not being part of the GST means that no input-tax credit can be claimed which results in embedding of the tax in the final price. For the textile industry, for example, these embedded taxes amount to about 2% of the price. This embedding of taxes hurts manufacturers selling to the domestic market. But they hurt in particular exporters of electricity-intensive products because they are not liable to any duty drawback—relief for taxes embedded in exports. But there is a subtler way in which these embedded taxes hurt industrial buyers of electricity, creating a double whammy for them. Electricity is finally purchased by consumers and industrial users. Politics, especially populist politics, has ensured that consumers (and other users in agriculture) pay either nothing for electricity or very little. As a result, and in order to make up for the resulting losses, discoms cross-subsidise, that is, they charge higher prices to industrial users to make up for under-charging others. But the embedding of taxes adds an extra layer of cross-subsidisation. Industrial users must also be charged higher rates to make up for the embedded taxes that cannot be recouped from consumers. Totalling up all of these effects could lead to increased costs and lower margins of between 1-3% for several industries. These margins are significant especially for exporters who face ferocious international competition and where a 1% extra cost could be fatal.Another argument calls for its inclusion in the GST. Currently, there is a large bias in favour of renewables in GST policy. Inputs to renewables generation attract a GST rate of 5% while inputs to thermal generation attract higher rates of 18%. Supporting renewables might be conscious policy (and also good policy), but we are in a situation where subsidisation is proliferating across policy instruments, making it difficult to quantify the overall support. As we have discovered, complexity in the GST rate structure arises because it is burdened with having to meet multiple objectives. Support for renewables should be direct, conscious, and transparent. GST should not become the instrument for adding (non-transparently) to that support. If electricity were to be included in GST, then there would be no discrimination between renewables and thermal energy because all inputs going into both forms of electricity generation would receive tax credits. GST would then become neutral between different forms of electricity generation as good tax policy should be. Thus, the case for including electricity in the GST is compelling. The question is how? Recall that including electricity in the GST would reduce or eliminate embedded taxes in electricity-using products. That means that both the central and state governments would lose revenues that would now accrue as input tax credits to the private sector. In addition, state governments would lose taxes from electricity use itself. So, there would be two sources of losses. What should be the response? Several options are available. One would be for the Centre and the states to bear the losses of the embedded taxes since the benefits would also be shared. The Centre would then compensate the states only for the direct loss of revenues. Another would be a half-way solution. This would be to impose a 5% tax on electricity in the GST—allowing inputs tax credits to flow through the GST pipeline—but then allow state governments to impose a small non-GST able cess on top of the GST rate. In this case, however, the greater the cess, the more it would resemble the status quo with all its problems as described above. So, this half-way solution must come with some limits on state governments’ freedom to levy further taxes on electricity. But in both proposals the central government would lose revenues both from the loss in embedded taxes and from having to compensate the states. The final question relates to timing. The likelihood of fiscal losses suggests that implementation should perhaps wait till GST revenues have stabilised, say, by the end of this fiscal year. Next fiscal year would then seem the right time for action, requiring the start of discussions in the GST Council soon. In sum, there are four clear benefits from bringing electricity into the GST: reducing the costs for manufacturing; improving the competitiveness of exporters; reducing the cross-subsidisation of electricity tariffs that further undermines the competitiveness of manufacturers and exporters; and eliminating the large biases—and hence restoring neutrality of incentives—in electricity generation. There would be costs in terms of foregone revenues but the benefits would be large and states could be partially or fully compensated. Indian manufacturing is saddled with costs. Efficient GST policy should aim to reduce them. |