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Journey from MEIS to RoDTEP – Exclusion of Major Exports

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BACKGROUND

A country strives to achieve a positive balance of trade. India is no different and the Government has always sought to increase its exports by providing various incentives, schemes to the exporters. This stand demonstrated by scheme provided under FTP namely: Merchandise Export from India Scheme to Remission of Duties and Taxes on Export Produce (RoDTEP). Let us understand the contours of MEIS scheme.

Merchandise Export from India Scheme (MEIS)

The Merchandise Export from India Scheme (MEIS) has been a part of the Foreign Trade Policy (2015-2020) which provides credit in the form of scrips to the exporters towards the previous year's exports. These scrips can be used towards payment of duties or may be sold.

The primary objective of the scheme was to provide rewards to exporters to offset infrastructural inefficiencies and associated costs, thereby promoting manufacture and export of notified products.

In October 2019, based on a complaint filed by the US, the World Trade Organization (WTO) panel report ruled that India's export subsidy schemes flouted its guidelines as the country's Gross National Income (GNI) had exceeded the per capita USD 1000 annual threshold above which members were banned from subsidizing its exports. The ruling held that India should do away with benefits granted under the contentious schemes including the much revered Merchandise Export from India Scheme (MEIS).

The MEIS scheme benefits as opposed to the other benefits needs to be seen in the context that the benefit is offered as an incentive over and above or in fact leveraging the competitiveness of the exporters. In compliance to the decision of WTO, MEIS was discontinued from December 31, 2020.

Remission of Duties and Taxes on Export Products (RoDTEP)

Pursuant to discontinuation of MEIS, in order to ensure that the Indian Exporter of goods can compete in the international market, Remission of Duties and Taxes on Export Products (hereinafter referred to as RoDTEP) was introduced and made effective from January 01, 2021. RoDTEP aimed at reducing the post-production transactions cost for the exporters. RoDTEP sought to provide the much-needed boost to country's exports by providing refund of taxes or duties/ levies that were currently not exempted or refunded under any other mechanism.

GST and Custom duties on inputs that are used in the manufacture of products for exports are either exempted or are to be refunded. However, certain duties/taxes are outside the



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purview of GST as well as Customs historically are not refunded to the exporter and have been treated as a tax cost by Indian Exporters.

RoDTEP Scheme is based on the principle that no duties and taxes should be exported, which would enable products of Indian exporters to remain competitive in international markets. Hence, all Industries where duties or taxes form part of the cost of exported goods should ideally be covered under the scheme for the objectives of RoDTEP to be met satisfactorily.

The scheme has been implemented with effect from January 1, 2021. The scheme provides a major boost as the benefit of the scheme is extended to all exporter of products from the effective date. Any exporter who is desirous to avail the benefits under this scheme is required to provide a declaration stating his intention for each of the export item in the shipping bill/ bill of export. The RoDTEP shall be made applicable, subject to conditions and exemptions/exclusions if any. The Ministry of Commerce has released the guidelines as well as the various RoDTEP rates that ranges to a maximum of 4% on agriproduct as part of Notification no. 19/2015-2020 dated 17.08.2021.

The scheme seeks to refund the taxes and duties that were included in the cost for the exporters by way of a drawback scheme. Such refund/rebate will be credited to the exporter's ledger account and can be utilized to pay Basic Custom Duty (BCD) on import of goods. Such credits are also available to be transferred to other importers. The exporters must exercise caution on whether GST shall be exigible in case of such transfer of RoDTEP scrip to another person. No clarity has been provided on such transfer as yet.

ANALYSIS:

- In response to the ruling of the World Trade Organisation (WTO) that India's export subsidies were not in compliance with the guidelines set out, the Central government made it certain that the Merchandise Export from India Scheme is discontinued after 2020. The Government sought to replace MEIS with Remission of Duties and Taxes on Export Products (RoDTEP).
- The general understanding was that though the rates of RoDTEP may be lower than the MEIS rates on goods, the benefit would be available to the exporters who were receiving MEIS benefit.



A snapshot of the cases where chapters under Customs tariff which were enjoying MEIS but are excluded from RoDTEP Scheme as set out in Appendix 4R is provided below:

CH covered under MEIS but not in RoDTEP	ITC (HS)
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of; isotopes
29	Organic chemicals
30	Pharmaceutical products
72	Iron and steel
73	Articles Of iron or steel

NOVELLO COMMENTS:

RoDTEP is a new age plan that has been launched as an alternate to the current MEIS scheme by adhering to the WTO norms and guidelines. RoDTEP as a scheme has been introduced to refund indirect taxes on inputs used in the manufacture of exported goods but hitherto treated as a cost and has come into effect from January 01, 2021.

This scheme is restricted to exporter of goods and does not extend to exporter of services. To claim/avail the various benefits under the scheme, all the exporters of goods are mandated to provide a declaration in the shipping bill with the requisite details.

Unlike the existing schemes wherein 2 to 5% of the FOB value was given as an incentive, the current plan provides for an issuance of transferrable scrips as a percentage of the products to be credited to the exporters credit ledger account.

These scrips can be used by the exporters to utilize against their Basic Custom duties on Imports of goods. This scheme brings a tremendous amount of relief to the exporters of the country, thereby encouraging the exporters of the country and boosting the economy.

However, we observe that RoDTEP benefits have not been extended to certain export of products which were covered in the erstwhile MEIS scheme. Novello opines that the exclusion for Chapter 30, 72 and 73 may have been due to introduction of PRODUCTION LINKED INCENTIVE SCHEME (PLIS). PLIS has been introduced for pharmaceutical drugs as well as Specialty Steel. Even though huge amount of benefits are offered to manufactures of these products under PLIS, only be those who are heavily expanding production would be able to effectively enjoy this.



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Products of these chapters form part of the Major exports within the Country. It would be unfair in many ways to keep such exporters, who would be incurring sizable amount of duties and taxes, which are irrecoverable, outside RoDTEP Scheme.

While MEIS turned out to be a bonanza for many, it was understood by the Exporters that RoDTEP Rates would be more grounded to earth. To take away the entire benefit which was hitherto enjoyed would be unfair to exporters who has been consistently earning Forex for the Country.

We would urge the industries who export products fall under the chapters mentioned *supra* to submit representations to Department of Commerce (DoC), who is responsible for determining the degree of benefit to be given under RoDTEP as well as the RoDTEP Committee which determines the ceiling of RoDTEP benefit to be provided. It is also advisable to make the representations at the earliest to avoid losing out on the RoDTEP benefit, especially considering that RoDTEP Rates are to be reviewed on an annual basis.

For Coffee and Conversations, do reach out to us at nvraman@novelloadvisors.com. We would be more than delighted to have a chat with you.

