**To**

**Shri Piyush Goyal ,**

**Hon'ble Minister of Commerce and Industry**

**Deptt for Promotion and Internal Trade**

**Government of India**

**Subject:** FICCI- Recommendations on Trade Issues(Chemicals and Petrochemicals ) due to Impact of Covid 19

**Dear Sir,**

**Recommendations on Trade Issues(Chemicals** and **Petrochemicals** )

1. China and other major exporting countries like Korea, Taiwan, the US, Middle East, etc. have been doing a steady ramp up of production of Chemicals and Petrochemicals as they emerge out of the crisis. The disruption in downstream and user sectors (which are more labour intensive) has slowed the offtake of the materials produced by the upstream sector. This has resulted in massive material accumulation across the supply chain.
2. In March 2020, China also announced increase in export tax rebate on 1464 items from 9% to 13% with the objective of facilitating exports and liquidating the huge inventory accumulated. This includes products where China has imported for their domestic consumption (example Mono Ethylene Glycol). India being the next-door large market is the most attractive option for China to offload the accumulated material at dumping prices.
3. With Oil price crumbling from above USD 50/barrel to around USD 30/barrel, Petrochemical prices have crashed as well leading to massive inventory loss.
4. With GDP growth projections of 1.5 to 2.5% for the current fiscal, domestic demand will be under considerable pressure for Chemicals and Petrochemicals. With faltering demand in the domestic market, Indian manufacturers have not only witnessed an increase in high cost inventories and are increasingly relying on export markets for placing material. This has also significantly impacted working capital.
5. With the continuing lockdown, the stocks will only increase in the near term.
6. Currently, Polymer & Fibre intermediate manufacturers in Public Sector and Private Sector are carrying 30+ days’ inventories, despite shutdown or significantly reduced operations. Going forward, as the situation slowly normalizes, the ramp up of production at upstream manufacturers will be fast and will further add to the inventories.
7. Processing industry will take more time on account of dependence on migrant labour before operations normalize. Moreover, inventories being carried by producers are high priced. In the first week of April alone, Polymer prices dropped by 10-15%. With overseas producers running at close to 90% operating rates, pressure on prices are expected to remain. The price changes and inventories of domestic industry are shown in annexure.
8. In such a collapsing price scenario, predatory exports from China and other major exporters to India would depress prices even further and cause irreparable damage to domestic producers in India who are already struggling with their operations.
9. The current situation presents a real threat of an extended period of price depression on account of aggressive exports from China and other countries, which will force several producers to suspend operations and ultimately close down.
10. Sir, you are probably aware that Petrochemical pricing in India is based on import parity referenced to China/NEA/SEA prices. Domestic Petrochemical producers do not have the option of pricing on cost plus margin.
11. In order to mitigate the real threat faced at present, the Chemical and Petrochemical industry seeks the following temporary interventions from the Government.

**Levy of a temporary COVID Import Tax:**

15% COVID import tax to be levied on all Chemical and Petrochemical imports under chapters 28, 29, 38, 39, 40, 54 and 55 in addition to the applied MFN duty

To be valid for a period of 3 quarters ending December 2020

To be applicable also on all preferential imports under FTAs

This additional tax can be reviewed every quarter and can be discontinued should situation return to normal

The levy of COVID import tax will result in significant revenue collection and the collection is to be deposited in the PM Care fund for fighting the current crisis

As an illustration, 4.5 million tons of polymers were imported in to India in 2018-19 and an additional 10% duty on these in the current year is likely to result in over Rs 2300 crores additional collection for the exchequer on an annual basis

The impact on the end customer on account of this COVID duty will be insignificant considering the current low-price scenario.

The COVID import tax will also provide some barrier to unusually low-priced imports under FTAs which is already a big challenge to Indian Chemicals and Petrochemical manufacturers- as import duty from FTA countries are almost nil/negligible compared to the applied MFN rate

However, items that are not available for merchant sale in India should be kept outside the ambit of this additional levy – examples include Ethylene (HS code 29012100), Paraxylene (HS code 29024300), Ethylene dichloride (HS code 29031500), Vinyl Chloride Monomer (HS code 29032100), etc.

**Increase in Duty Drawback Rates**: Increase in drawback rates for Chemicals and Petrochemicals to 10% to facilitate exports during this difficult period. Similar additional export incentive to be considered against alternate schemes like MEIS

**Safeguard Duty:** Fast tracking of pending safeguard duty and anti-dumping duty cases. It is also suggested that quantitative safeguard should be triggered automatically when imports exceeds beyond 7% of the last months imports. This mechanism has been principally accepted by the Ministry of Commerce during the recent RCEP negotiation

**Permission to operate as an Essential Sector:** Most chemical plants in China, Europe and US have been operational during this crisis too, as they consider Chemicals to be “Essential Sector”. The chemical industry has producers which make basic, intermediate and final products which are key raw materials to Pharma industry. Essential pharma products would come to a standstill if continuity of business is only allowed to them. Therefore, it is recommended that the entire Chemical and Petrochemical industry should be considered as an Essential Sector. This will also ensure uninterrupted supply of essential goods to the Pharma sector.

Submitted for your early consideration.

With every hope of receiving a favourable consideration.

Warm regards.'

Yours sincerely,

Deepak Mehta

Chairman - FICCI National Chemical Committee

**Federation of Indian Chambers of Commerce and Industry**

*Industry's Voice for Policy Change*

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