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Enhancing Export Competitiveness of Indian SMEs through ICT

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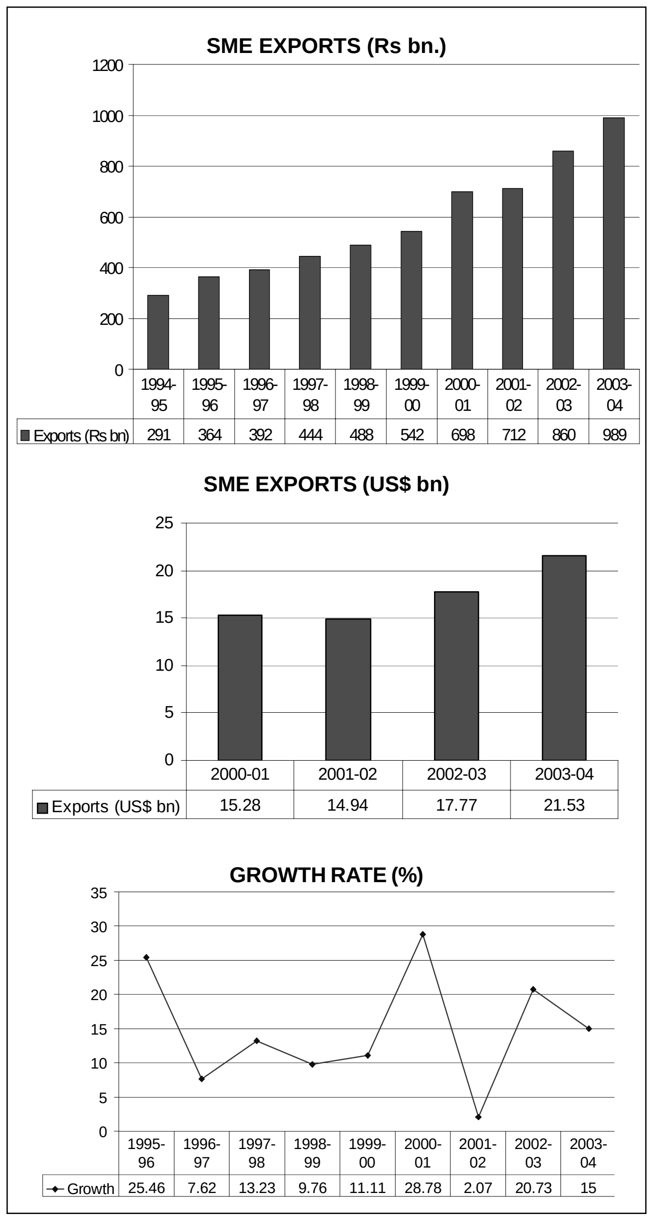
IN the current era of global industrial restructuring, Information and Communication Technology (ICT) is playing a crucial role in interlining enterprises across the internal as well as external value chains and reshaping their business models to strengthen the competitive performance. Today, application of ICT is not limited to shop floors only rather it is used widely in non-production processes such as procurement, product design, business development, and aftersales support, etc., which are considered as important non price factors of competitiveness.

The Governments recognize "Small and Medium sized Enterprises (SMEs)" for source of flexibility and their significant contribution to economies, in terms of innovation and the proportion of the labour force employed by these firms. While SMEs typically contribute to around 50 per cent of GDP and 60 per cent of employment internationally, SMEs only contribute between one quarter and one third of manufactured exports and account for a very small share, usually less than 10 per cent, of foreign direct investment (FDI) (Source: OECD, UNCTAD, APEC, Observatory of European SMEs). In most national economies, SMEs comprise more than 95 per cent of market participants, and contribute to around 50 per cent of direct value added or production. Overall, SMEs are estimated to contribute between 25 and 35 per cent of world manufactured exports.

SMEs in India

A vibrant and dynamic SME sector of Indian economy, with over 11 million units providing employment to over 27 million people, contributes to nearly 40 per cent of the total industrial production and over 34 per cent of the national exports.

SME EXPORTS (CURRENT PRICES)



Source: 3rd All India Census of Small Scale Industries.

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Exports from the SME sector have experienced excellent growth rates since the turn of new millennium. This has been mostly fuelled by the performance of units in sectors such as garments & knitwear, leather, auto components, drugs & pharmaceuticals, processed foods and gems & jewellery.

Today, SMEs in India are grappling with fast changes at the market place that is transiting from a controlled economy to a free market set-up. They being the important members within the supply chain are also exposed to the competitive pressures either directly from the market place or indirectly passed on from their higher ups in the chain. Considering the strategic role played by SMEs, it is essential to examine how can they improve their performance in international markets and how they can enhance their export competitiveness.

While several studies demonstrate the importance of technological advantage in international trade, last decade of twentieth century has witnessed technological transformations mainly led by information and communication technology (ICT). Worldwide ICT is helping SME exporters overcome the digital divide and grab superior business opportunities.

ICT Adoption in Indian SMEs

In recent years, organizations have implemented thousands of large and small innovations in software applications, work process, business organization, enterprise resource planning & management, supply chain management, customer relationship management and business intelligence & agility.

ICT adoption in the Indian SME sector can be evaluated by using, a 4 stage model. These stages are (i) Basic ICT Infrastructure, (ii) Functional Automation, (iii) Business Automation, and (iv) Business Integration. This model can also be used for benchmarking ICT adoption among different industry sectors.

Stage (i) Computerization in selective roles, Basic level computerization and LAN for Office Automation, Communication/Promotion purposes *(e.g. Word Processing, Spread Sheets, Database, Drafting, Graphics, Intranet, Email, Web site, Product Catalogues, etc.)*

Stage (ii) Computerization in selective functions *(e.g. Financial Accounting in Accounts, Material Accounting in Stores, Payroll in HR, Invoicing in Sales)* - mainly non cross functional.

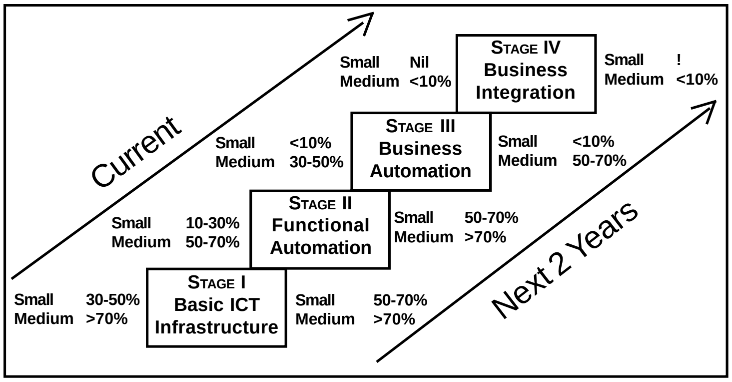
Stage (iii) Computerization in core business processes, process automation & integration *(DSS+ERP)*

Stage (iv) Computerization in business networks *(DSS+ERP+E-Commerce)*

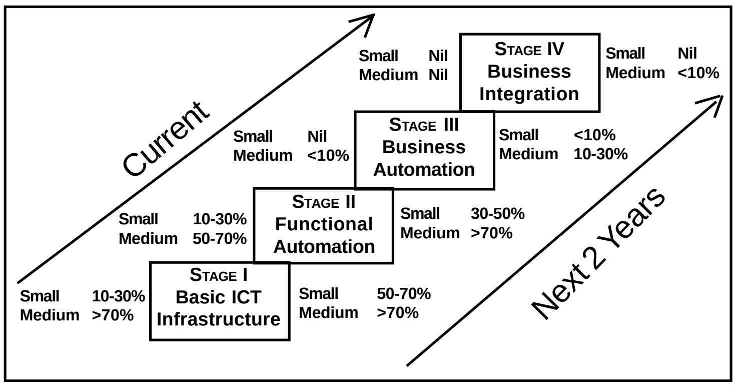
Based on the survey findings and case studies, conducted towards examining Awareness, Access, Adoption & Advantage aspects of ICT in SME industry segment and suggesting appropriate intervention strategy on ICT application to strengthen their business performance, ICT adoption in select SME sectors is presented below:

Within small scale sector of India's auto component industry, Stage (i) has been started in 30-50 per cent of the companies and in the coming two years 50-70 per cent are planning to set up the basic structure. Stage (ii) has been started in 10-30 per cent of the companies and in the future 50-70 per cent are expecting

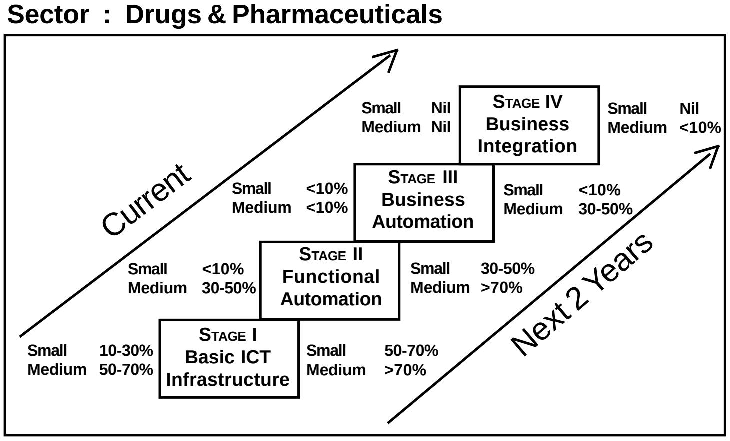
Sector : Auto Components



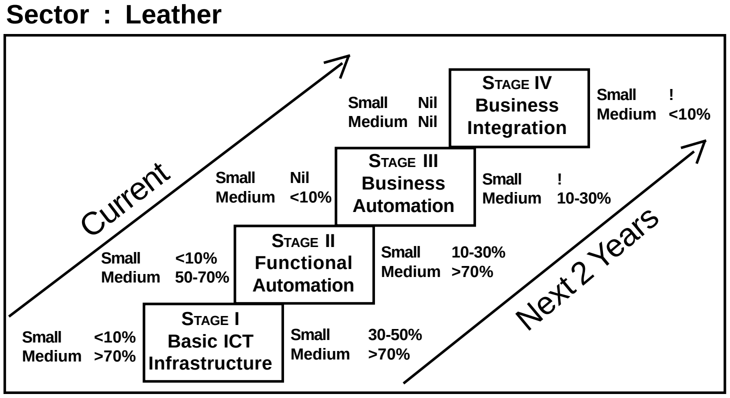
Sector : Garments



Sector : Drugs & Pharmaceuticals



Sector : Leather



to implement it. Stage (iii) integration has taken place in less than 10 per cent companies. Stage (iv) is not implemented as yet and there are no plans in future.

In medium sector of India's auto component industry, Stage (i) is set up in more than 70 per cent companies. Stage (ii) is started in 50-70 per cent of them and will increase to over 70 per cent in the next two years. Stage (iii) is integrated in 30-50 per cent of the companies and it is expected to rise to 50-70 per cent in future. Stage (iv) has been done in less than 10 per cent companies and no increase is expected here.

Indian garment industry sector is highly fragmented with around 85 per cent of the units as small manufacturers, and nearly 13 per cent medium scale, the current usage of ICT in this sector is at a very basic level supporting functional automation. But because of its unique cluster pattern, Indian garment sector has a very high scope of ICT adoption.

In drug and pharmaceutical sector small scale units account for 90 per cent of the total industry. Only 10-30 per cent of the companies have the basic ICT infrastructure, i.e. Stage (i). In the coming two years about 50-70 per cent units are planning to set up the basic ICT infrastructure. Stage (ii) is achieved in less than 10 per cent of the companies, but around 30-50 per cent are planning to use ICT in various functional areas. Stage (iii) is present in again in less than 10 per cent units and they are planning to carry it the same way. Stage (iv) implementation is not achieved as yet and there is no response in terms of future planning also.

About 8 per cent of the industry in the drugs & pharma sector is composed of medium scale manufacturers. In the current scenario, Stage (i) is present in 50-70 per cent companies. In coming two years it is expected that more than 70 per cent companies will get equipped with the basic ICT infrastructure. 30-50 per cent companies are having ICT enabled accounting systems, i.e. Stage (ii) and in coming two years more than 70 per cent will cross this stage. Stage (iii) is present in less than 10 per cent of the companies but 30-50 per cent are planning to attain this in next two years. Stage (iv) is absent at present and only 10 per cent of then have decided to go for this in coming years.

Almost 93 per cent of units in leather industry are small scale units and 6 per cent are medium scale.

Medium and large companies in this sector are mainly engaged in branding, design & development, and export activities.

Above snapshots indicate that there is tremendous scope within Indian SMEs for strategically deploying ICT and get transformed to take global leadership position.

With ICT tools, SME sector can improve upon the way it is doing business currently and become more vigilant to the finer details in its day to day operations and their implications on international competitiveness. This will help SME businesses, not only to sustain the present competition but will also provide them a platform to grow in future.

It is therefore essential for Indian SMEs to absorb appropriate Information & Communication Technology (ICT) tools to leverage business advantage. Effective utilization of an information and decision support system will provide SMEs a disciplined business environment to operate in, where decisions concerning supply and demand are fully supported by facts. This approach would also help in maximizing business value and enhancing growth and competitiveness.

■

JOINT VENTURES/ ACQUISITIONS/ SUBSIDIARIES

Sierra Atlantic Buys US Co.

Sierra Atlantic has recently announced the acquisition of Sceptre, a US-based consulting company in a cash-cum-stock deal. With this acquisition, apart from acquiring clientele of Sceptre, the company will be in a position to expand the technology offerings covering manufacturing and financial services, where the latter is stronger. ■

Pidilite Buys 75% Stake in Chemson Asia

Pidilite Industries Ltd. has acquired a majority stake in Singapore-based Chemson Asia Pte. Ltd. The company bought 75 per cent stake in Chemson.

Chemson manufactures waterproofing coating and emulsion plants. Pidilite owns the popular brand adhesive, Fevicol. Pidilite operates in two main segments: the consumer and bazaar products segment, which contributes 70 per cent of sales; and the industrial products segment that chips in with the rest. Pidilite boasts of strong brands such as Fevicol and M-Seal. In the branded consumer and bazaar products segment, the company's products include adhesives, sealants, art materials and construction and paint chemicals. In the industrial speciality chemicals business, products include industrial adhesives, synthetic resings, organic pigments, pigment preparations, surfactants which are consumed by various industries like packaging textiles, paints, printing ink, paper and leather ■

Ispat SPV in Nigerian Iron Ore Deals

Global Infrastructure Holdings Ltd. (GIHL) has acquired iron ore mining concessions for two mines in Nigeria.

The Nigerian Government has awarded long term mining concessions to GIHL for the Nigeria Iron Ore Mining Company's (Niomco) Itakpe and Ajaybanko iron ore mines, which would feed iron ore to Nigeria's largest steel plant, the 2.2 million tonne Ajaokuta Steel Company which is also controlled by GIHL. The Niomco iron ore mines have an estimated reserve of about 300 million tonne, along with a 2.7 million tonne beneficiation plant to produce iron concentrates of about 64-68 per cent 'Fe' contents. However, GIHL plans to further develop the mines.

According to the contours of the agreement, GIHL will refurbish and operate the mine in the central Nigerian state of Kogi which was built in the 1980s as the primary source of raw materials to the Ajaokuta plant. The agreement ensures that there will be an uninterrupted supply of iron ore to the steel plant. ■

Mittal Acquires 37% Stake in Chinese Steelmaker

Mittal Steel, the world's largest steelmaker, has bought a roughly $300-million stake in one of China's biggest, most profitable steel companies, thus formally entering the hungriest steel market in the world and announcing its strategic positioning for further runaway growth.

Mittal Steel has access to the best steel-making technology in the world and would introduce expertise, technology and overall experience to the Chinese company. The company has operations in 14 countries and four continents.

Mittal's Chinese acquisition is set to increase its exposure to the expanding Chinese economy. ■

Cico to Buy into West Asia Firms

Delhi-based construction chemicals manufacturing company Cico Technologies Ltd. (CTL) is entering into a joint venture with Aljabor Trading Company of Qatar to expand its operations in West Asia.

The Qatar company will have a 51 per cent stake in the joint venture, and CTL 49 per cent. This joint venture will cater for the market in the Gulf and East African countries. ■

Sundram Fasteners Ties Up with German Co. for Valve Train Parts

Sundram Fasteners Ltd. (SFL) has entered into a joint venture with a German company Bleistahl Produktions GmbH & Co. to manufacture value train parts in India. The JV company, an 100% export oriented unit, will be called Sundram Bleistahl Pvt. Ltd. in which SFL will have a 76 per cent stake and Bleistahl 26 per cent.

Bleistahl is the second largest producer of valve train parts in the world with an annual turnover of euros 45 million. It has manufacturing facilities in Brazil, Germany, Iran and South Africa. Its production facility in China is under construction. Audi, BMW, Diamler Chrysler, Ford, General Motors, Mitsubishi, Porshe, Skoda, Volkswagen, Volvo and Caterpillar are some of its customers.

The JV agreement envisages shifting the production lines of certain valve train parts. The initial capital outlay for the project would be around Rs 20 crore. SFL will put in Rs 7.50 crore, Bleistahl Rs 2.50 crore and rest would be debt. Production would commence by the end of 2005.

To start with sales, from the JV will be in the order of euros 4 million and will gradually increase to euros 25 million in the next seven years. The entire production from the JV would be procured by Bleistahl at a rate which is a "win-win situation for the JV and Bleistahl". ■

NRDC Inks Pact with American Bioscience

National Research Development Corporation (NRDC) has signed a licence agreement with American Bioscience to develop a gene delivery technology using calcium phosphate nano-particles as a non-viral vector. The calcium phosphate nano-particle was recently developed by the Delhi University's Professor A.N. Maitra and his associates.

The technology has been licensed for $345,000. In addition, the company will also pay a royalty up to 4 per cent. The agreement was signed between the Controller of American Bioscience of the USA and the Managing Director of NRDC. Owing to the recognized adverse effects of viral vectors and low transfection efficiency, gene therapy as therapeutic strategy has not yet made it to clinical practice. ■

Ranbaxy to Set Up JV in Mexico

Ranbaxy Laboratories will set up a majority-owned joint venture in Mexico to tap the growing demand for generic drugs there. The joint venture with a Mexican firm will cater to the marketing and distribution demands of the local market. The proposal was cleared by the Ranbaxy Board recently.

Ranbaxy markets its products in 70 countries and has manufacturing facilities in seven locations across the globe.

The joint venture will initially market insulins made by Wockhardt. Later, it will market other diabetology products and biopharmaceutical products. ■

KALEIDOSCOPE OF INDIA'S TECHNOLOGY EXPORT EFFORTS

IRCON Bags Two Project Export Awards

IRCON International Limited, a PSU of the Ministry of Railways, Govt. of India, has emerged as the highest foreign exchange earner from project exports during 2003-04 by repatriating Rs 221.61 crore to India. The company also won the highest award for getting new projects abroad.

IRCON has so far won 42 export awards from Project Exports Promotion Council of India, earlier called the Overseas Construction Council of India. ■

PowerGrid's Consultancy Assignment in Bhutan

The Powergrid Corporation of India Ltd. (POWERGRID) has secured an overseas consultancy assignment from Bhutan Power Corporation Limited for providing consultancy for construction of 220/66 KV substation at Pasakha Industrial Estate in Chukha Dzongkhag, Bhutan at a consultancy fee of about Rs 97 lakh. This substation shall feed the power to Phuentsholing and Gomtu apart from supplying the power to the industries at Piranha in Bhutan.

This is a part of on-going initiatives undertaken by POWERGRID to make its presence felt internationally. The consultancy assignment has been secured against a stiff competition with the reputed consultants. POWERGRID is one of the largest transmission utilities in the world which owns and operate regional & national transmission utilities in the world.

It owns and operates regional & national transmission network of more than 48,000 circuit kms. Besides implementing its own projects, POWERGRID has so far executed about 120 consultancy assignments for its various clients with aggregate business of more than US$90 million. ■

IOC-Oil India Combine Bags Oil Block in Libya

Consortium of Indian Oil Corporation (IOC) and Oil India Ltd (OIL) has won a control for building on shore oil block - Block 086 - in the highly prospective Sirte basin in Libya.

The two firms recently forged an alliance for venturing into oil and gas exploration and production in other countries.

As per license conditions, IOC-OIL will get 18.4 per cent share of any future production from the block, with the remaining 81.6 per cent going to Libya's national oil company. Libya is a member of the Organization of Petroleum Exporting Countries. ■

International Panacea to Supply Bio-fertilizers to UK Company

International Panacea Ltd, a biotechnology company, has tied up with UK's Reliance Trading Corporation (RTC) for supplying liquid bio-fertilizers for organic farming in Europe.

Initially, the IPL will supply two lakh litres of liquid bio-fertilizers to RTC. These bio-fertilizers have been developed especially to suit the temperate European climate.

The technology being used for the manufacture of these bio-fertilizers has been developed by IIT Delhi, in collaboration with a US-based biotechnologist. The bacteria and other microbial strains being used for this purpose are said to already exist commonly in nature and are claimed to be free of any side-effects.

The Commonwealth Agricultural Bureau International (CABI) has got these microbes approved from the British Government.

Most of the European countries are now encouraging organic farming to reduce their dependence of imports for meeting the growing demand for such products. ■

Export Receipts Contribute 24% of BHEL's Total Sales

Bharat Heavy Electricals Ltd (BHEL) has substantially expanded its overseas markets in the last five years. BHEL's exports have grown fast in the last fiscal with the exports of Rs 2,087 crore, accounting for 24 per cent of its total sales. BHEL's export sales in the last five years amounted to Rs 4,000 crore. Currently, BHEL ranks among the top five or six exporters of electrical engineering goods in the world with its presence ranging from the US to New Zealand.

Major thermal project contracts bagged by BHEL include $113 million contract for supply of 12 boilers to the National Electricity Board (NEB) of Malaysia. These boilers account for 1,110 MW of the operating thermal capacity in Malaysia. The company has already commissioned two turbine generators of 60 mw capacity each in Malta and Cyprus. It also supplied intricate high temperature application castings and condensers for 800 mw sets to Russia. BHEL has spread its work into Central Asia by bagging a contract for supply and installation of a hydrogenerator for Mingechaur hydro-electric power station in Azerbaijan. BHEL has also forayed globally into design, manufacture, testing, delivery to site, erection and commissioning of three 22 mw Francis Turbines for Malaysia.

The order for 150 mw gas turbine generators from Libya that BHEL received is so far the largest such order bagged by any capital goods manufacturer in India. BHEL has also executed two fast-track turnkey gas projects in Malaysia. It has also secured five major contracts for setting up gas turbine based power stations on turnkey basis in Oman. It has taken up projects in the war ridden Iraq, Bangladesh and China as well.

During the period, BHEL has also been active in the field of overhead transmission lines and distribution network in Saudi Arabia bagging three projects in succession. The navratna has its presence in over 60 countries providing operation and maintenance services, specialized after-marketing-services like residual life assessment (RLA) studies, refurbishing, and overhauling besides providing a wide variety of products like transformers, valves, oil field, equipments, etc. ■

L&T to Expand in Gulf, W. Asia

Larsen & Toubro is initiating a number of business initiatives this year in the UAE in a bid to expand its presence and boost business from the current $400 million to nearly $1 billion in the Gulf and West Asian region in three to four years.

A full-fledged facility for assembly and execution of low tension switchgear and power and motor control centres, a fabrication facility for large sized structures and equipment and an engineering centre are among the slew of projects planned.

L&T was currently assessing the scope for the projects and scouting for alliances. L&T is targeting the West Asian region, Africa, CIS (particularly Kazakhstan) and China as part of its global expansion. The company will have three area offices in UAE, Oman and Saudi Arabia to cover the West Asian region, while offices have already been established in Malaysia, Kazakhstan, East Africa and Shangai. Plans are also on to launch operations in West Africa and open a second office in China at Beijing. The moves are aimed at increasing L&T's overseas turnover from the current 17 per cent (Rs 17,000 crore) of total turnover to 30 per cent over the next five years.

L&T recently bagged a $160-million order from China and is looking at business of $200 to $250 million in Africa in the coming period. ■

ABB India Bags Rs 135 cr Order from West Asia

Power and automation technologies major ABB India has bagged export orders worth Rs 135 crore from the West Asia.

The company has bagged a turnkey order for four new 220/66/20kV outdoor air insulated substations in West Asia to be completed in 18 months.

The scope of the project includes design, procurement, manufacture and supply of equipment for the substations.

ABB's multi-producer equipment supply will include power transformers, instrument transformers, outdoor circuit breakers, medium voltage switchgear and control and relay panels from its manufacturing facilities at Vadodara, Nashik and Bangalore.

The company recently received multiple orders from West Asia for supply of medium voltage 33 kv outdoor circuit breakers from its global sourcing facility in Nashik. ■

Tinna Overseas to Supply Bitumen Modifier to Pakistan, Bahrain

Delhi-based Tinna Overseas Ltd. (TOL) has joined hands with Pakistan's National Refinery Ltd. (NRL) and Bahrain Petroleum Company (BAPCO) to launch rubberized bitumen for roads in the two countries.

Pakistan and Bahrain would use the TBM super bitumen modifier developed by TOL.

TOL has also received an invitation from Bhutan to give a demonstration of its TBM super on a 100-metre stretch at a high altitude. Besides, the company is planning to launch TBM super bitumen modifier in Sri Lanka, Bangladesh and China in the next two years.

The quality of bitumen, the main binder for making roads, has a vital effect on the longevity of roads and riding comfort of users. The TBM super modifier, a rubber additive developed by TOL in 1996, helps in enhancing the properties of bitumen by adding visco-elastic properties of rubber.

TBM super is made by chemically treating shredded rubber and other additives such as natural asphalt. ■

JPSL Bags GM Ford Auto Part Contracts

Jai Parabolic Springs (JPSL), a leading manufacturer of parabolic springs in the country, has bagged two major orders from international auto majors, General Motors (GM), USA and Ford.

The GM order is for the new version of 'T345 - SUV', popularly known as the 'Hummer' (H3). The vehicle is to be launched in April 2005 in the US market and supplies have already commenced from JPSL's facility near Chennai. The order from Ford Motor Co. is for its SUV - 'V347/48', known as the Transit. The vehicle is to be manufactured in Turkey and the UK. Supplies from Chennai for these two Ford facilities will commence from November this year.

"While the order value from GM is Rs 25 crore, the Ford order value is around Rs 55 crore. More than bagging these two orders, JPSL has designed the springs from "black box stage" for both the above orders. ■

Auto Exports Up 32.7%

Passenger cars, motorcycles and commercial vehicles fuelled automobile exports to a healthy 32.7 per cent growth in the nine months of this fiscal with foreign shipments clocking 4,53,591 units as against 3,41,626 in the same period last fiscal. Even though passenger cars and motorcycles were the big contributors in terms of numbers, commercial vehicles segment saw the maximum growth, witnessing a whopping 75 per cent increase at 19,931 units against 11,383 in April-December '03, according to figures released by the Society of Indian Automobile Manufacturers (SIAM). Goods carriers, both in the Light Commercial Vehicle (LCV) and Medium & Heavy Commercial Vehicle (M&HCV) categories, witnessed over 100 per cent growth.

L&T Bags Rs 61cr Project in Qatar

Larsen & Toubro has secured a $14-million (Rs 61 crore) order for a power plant project in Qatar. The contract is for the construction of civil works of a 750-MW combined cycle power plant in Qatar.

The order was received against international competition through Siemens Power Generation, Germany, which is the engineering, procurement and construction contractor for the project.

This project is part of the 'integrated water and power project' and the site is at Qatar Petroleum's Ras Laffan Industrial City.

The order was won by L&T's Power Plant Construction Business Unit, which belongs to its ECC division. ■

Indian Castings Export to Reach Rs 5,000 cr

The Indian Foundry Industry, the fifth largest in the world, is expected to garner an export earnings of Rs 5,000 crore by 2010 as against Rs 2,000 crore achieved last fiscal. India has the fifth largest industry in the world. But, its share in the global market is still insignificant. The country has a huge potential to become a major source for castings products in the world. The Indian Foundry Sector, which was witnessing an average annual growth of 11 per cent is expected to reach an export earnings of about Rs 5,000 crore by the end of the current decade. ■

TATA Motors Rolls Out Indica, Indigo in South Africa

TATA Motors has entered the South African market by rolling its two successful brands Indica and Indigo. It will introduce four derivatives of the Indica, which will appeal to different customers spanning the entire hatchback car segment. TATA Motors South Africa is a part of the group's larger ambitions for the country. Even, TATA Power is eyeing a foray into South Africa. The distribution and marketing of the TATA passenger cars in South Africa will be handled by Accordian Investment (Pty) Ltd., a joint venture between the Imperial Group, Ukhamba Holding (Pty) Ltd. and TATA Africa.

■

Gammon India Bags Rs 640-cr. Oman Deal

The Mumbai- based engineering firm Gammon India has bagged a Rs 640-crore contract for executing a water transmission system in Oman. The turnkey order, its largest overseas contract, will be executed by its joint venture. ■

Tecumseh India Doubles its Exports of Compressors

Tecumseh Products India Ltd. has doubled exports of ACS range of compressors at Rs 200 crore in 2004 compared to Rs 80 crore in 2003. The company attributed its performance to its aggressive marketing strategy in China, Korea and sustained growth in its exports to West Asia, particularly Saudi Arabia, and SAARC. Tecumseh India is based at Hyderabad, where it is in the process of establishing a facility for rotary compressors. ■

WAPCOS Bags Rs 351 cr. Order

Water & Power Consultancy Services (India) Ltd. (WAPCOS) has won a Rs 351-crore order for reconstruction and completion of Salma Dam project in Afghanistan's Heart Province. The contract has been awarded by the Ministry of External Affairs, India, under the Technical and Economic Cooperation.

As part of the agreement, WAPCOS, which is an ISO9001:2000 International Consultancy Organization under the Ministry of Water Resources, would provide engineering consultancy services, including construction of infrastructure facilities, pre-construction survey, review of basic design, tender engineering and model studies. The project is scheduled for completion in four years. ■

Dr. S.P. Agarwal, Prof. & Head, Centre for International Trade in Technology, Indian Institute of Foreign Trade has been awarded, in Feb. 2005 Saint George Medal by International Academy of Rating Technologies and Sociology, Ukraine, for recognition of the services being provided by the CITT, IIFT, towards promoting technology transfer, networking, and establishing links between technology, commerce and industry. CITT has been set up with the support of DSIR.

RECENT POLICY INITIATIVES

Measures to Promote Scientific R&D, Technology Exports and SSI Growth in Union Budget 2005

Measures to Promote Scientific Research and Development

Extension of weighted deduction for expenditure incurred on in-house R&D. Under the existing provision contained in sub-section (2AB) of Section 35, a company engaged in the business of bio-technology or in the business of manufacture or production of any drugs, pharmaceuticals, electronic equipments, computers, chemicals, etc, incuring any expenditure on scientific research (excluding cost of land or building) or in-house research and development facility, is allowed a weighted deduction of a hundred and fifty per cent of the expenditure so incurred. However, no deduction with regard to such expenditure incurred is allowed after 31st March 2005.

With a view to encourage the indigenous development of in-house scientific research, it is proposed to extend the time limit for availing the weighted deduction under the said sub-section by two more years, i.e. up to 31.3.2007

The proposed amendment will take effect from 1st April 2006 and will, accordingly, apply in relation to assessment year 2006-07 and subsequent years. (Clause 10)

Extension of the time limit for the purpose of tax holiday under Section 80-IB to any company carrying on scientific research and development. Under the existing provisions of sub-section (8A) of Section 80-IB, a company carrying on scientific research and development is allowed a hundred per cent deduction of the profits of such business for a period of ten assessment years, if such company is approved by the Secretary, Department of Scientific and Industrial Research, Ministry of Science & Technology, before 1st April 2005.

With a view to promote scientific research and development in the country, it is proposed to allow the deduction to companies carrying on scientific research and development, which are approved by the prescribed authority before 1st April 2007.

The proposed amendment will take effect from 1st April 2006 and will, accordingly, apply in relation to assessment year 2006-07 and subsequent years (Clause 27)

Taxation of Royalties/FTS

Tax rate on 'Royalty' and 'Fees for Technical Services' u/s 115A has been reduced from 20 per cent (plus surcharge and education cess) on gross basis to 10 per cent (plus surcharge and education cess) on gross basis in respect of agreements made on or after 1st June 2005. This is a welcome proposal as it brings down the rate of tax to a level lower than most tax treaties India has entered into, where the rate prescribed is usually 15 per cent.

Small Industry Told to Grow Up

The government has announced a slew of measures to boost small and medium enterprises. It has raised the excise exemption limit for small-scale units with a turnover of up to Rs 4 crore, instead of Rs 3 crore earlier. Also, 108 items reserved exclusively for small enterprises, with an investment up to Rs 1 crore, have been dereserved. ■

Tech Import Cost to Shoot Up

The Finance Ministry's proposal to impose a tax on services utilized by any entity in India from overseas will make import of technology a costly affair particularly for companies in the areas of manufacturing engineering, pharmaceutical, FMCG, information technology hardware, telecom equipment and engineering consultancy. The proposed service tax will now cover even royalty and remittances.

If the proposed amendment to the Finance Act 1994 suggested in the Budget in enforced, such remittances will be subjected to an additional cost of 10-20 per cent."

According to Shri Gupta, many Indian companies especially Indian subsidiaries of foreign companies, remit royalties and fees for technical services (FTS) to companies based abroad. Such amounts are remitted because of several benefits granted by the foreign companies to the Indian ones under foreign collaboration agreements, including use of trademarks, brands, logos and drawings, or for any technical or management functions performed abroad.

These benefits or services are in the nature of intellectual property services, consulting-engineering services and management consulting services. At present, such remittances are considered to be not chargeable under service tax because the Indian service tax law – the Finance Act 1994 – does not apply in areas beyond India's territorial waters. ■

Tax Sops to DTA Units After Conversion into 100% EOUs

Manufacturing and services units set up in the domestic tariff area (DTA) but later converted into export-oriented units will be eligible for tax exemptions till 2009-10.

In a circular issued by the Central Board of Direct Taxes (CBDT), the Government has clarified that undertakings in DTAs, which converted themselves to 100% EOUs will qualify for tax benefits as offered to other EOUs under Section 10B of the Income Tax Act.

For getting the tax sops, the unit has to show that it derives profits from export of articles or computer software.

The deduction would be available only from the year in which the unit gets approval as 100% EOU.

The tax benefit would be available for the remaining period of 10 consecutive assessment years beginning from the period it started manufacturing in the domestic tariff area. Further, CBDT said the deduction shall be restricted to the profits derived from exports after the unit converted into a 100% EOU.

The benefits under Section 10B will not be available after the assessment year 2009-10, which is the sunset clause for such benefits.

The foreign trade policy had a provision which laid down that units incorporated in DTA but converted into EOUs will be entitled to tax exemption under Section 10B. ■

FDI Cap in Telecom Hiked to 74%

The Union Cabinet went ahead with the decision to raise the Foreign Direct Investment (FDI) limit in the telecom sector to 74 per cent from the current ceiling of 49 per cent. Certain conditions have also been specified while allowing the increased FDI .The conditions specify that the majority directors on the board including the chairman, the managing director and the chief executive officer shall be resident Indian citizens.

The move will allow companies such as Bharti Tele-Ventures and Hutchison Essar to "regularize" the foreign holdings in their companies which have reached the levels of 67-69 per cent of their equity.

At the industry level, the decision will facilitate the inflow of much-needed capital since the telecom business is growing at more than 30 per cent annually, especially the mobile sector which has doubled in size over the last two years.

Briefing presspersons after the Cabinet meeting, the Finance Minister, Shri P. Chidambaram, said, “That the move is aimed at attracting more investments in the capital intensive telecom sector and also to make the system transparent”.

The 74 per cent holding will include all foreign investments made directly or indirectly by Foreign Institutional Investors, Non-Resident Indians, Foreign Currency Convertible Bonds, depositary receipts and convertible preference shares. The remaining 26 per cent equity will be held by Indian citizens or an Indian company. ■

Power Tariff Guidelines Notified

The Government recently notified guidelines for tariff determination via competitive bidding for procurement of power by distribution licensees. As per the guidelines, a distribution company can call for bids for supply of power through a competitive process and identify a supplier. Tariff determined via this process will not be scrutinized by the regulator. The tariff structure specified in the notification mentions a formula for energy charges which will depend on the price of fuel and scheduled generation, among other things as well as capacity charges which will be paid based on actual availability in kwh. In case of hydro projects, the hydrological risks will have to be borne by the procurer provided the data is based on authentic sources and is known to the parties in advance. At least two bidders, other than affiliate companies or companies of the procurer have not participate in the bidding. Bidders will be allowed to form consortia, with a lead member.

The guidelines have been issued under Section 63 of the Electricity Act, which mentions that if electricity is procured through the competitive process, the tariff has to be accepted by the Regulatory Commission. ■

Exim Bank to Finance Export of Tata Buses to Senegal

Exim Bank of India has extended a Line of Credit of US$18 million to the Government of Senegal for financing export of 350 Tata buses to Senegal. Exim Bank’s credit line has enabled Tata Motors to achieve this significant breakthrough in Senegal, and this could pave the way for Indian equipment, vehicles and products to penetrate the entire Francophone West African market. The 350 buses, which are expected to be exported to Senegal by Tata Motors over the next three months, together with World Bank-funded acquisition by Senegal of 480 Tata buses, will be put on roads in Dakar soon. This will create perceptible visibility for Indian vehicles/products/ technology in this West African market. ■

Customs Duty on Steel Seconds and Defectives Reduced

The Department of Revenue has issued a notification to reduce the basic customs duty on steel seconds and defectives falling in Chapter 72 (Headings 7203 to 7229) to 20 per cent from 40 per cent. The items now attract a total duty of 35.38176 (20%, 12% countervailing duty and 2% education cess). Other steel items attract a basic duty of 15 per cent. ■

Exporters Exempted from VAT

All exports will be exempt from value-added tax (VAT). The rules framed out for exports under the VAT framework are in line with the Government’s attempt not to tax exports, indicates the White Paper on VAT. As of now exporters do not pay sales tax and they use H Form instead of the usual C Form to avail the exemption. Exporters will get full refund of VAT in three months from the date on which they pay the new levy. In line with the policy of not taxing exports, units located in SEZs and EOUs would be exempt from VAT. VAT regime is effective from 1 April 2005. In case exemption is not possible, refund would be provided in three months, according to the White Paper on VAT. ■

Thailand Invites Investment in Fertilizers, Leather

Thailand, with which India has singed a free trade agreement, is inviting Indian companies to invest in several identified sectors, viz. fertilizers, leather and software. The other specific sectors for investments are agro-industry (food and rubber products), fashion (garments and jewellery), automotive, electronics and ICT and energy (bio-fuel).

Thailand needs high quality, high-end leather, leather products and designs and also leather tanneries. This country has developed an industrial estate for leather industries to facilitate foreign investment. In software sector, it requires mainly software, digital content and embedded software development. ■

DST Sets Up Rs 150 cr Pharma Research Fund

The Department of Science and Technology has set up a Rs 150-crore fund that will provide support to the Research and Development (R&D) effort of pharmaceutical companies.

"The fund was announced last year, but then it only had a corpus of Rs 10 crore. Now that has been increased to a budgetary grant of Rs 150 crore and it will become operational by the next financial year (2005-06)," Dr V.S. Ramamurthy, Secretary in the Department of Science and Technology, said recently.

In addition to the Rs 150-crore fund, nearly one third of the Department's annual budget of about Rs 250 crore was earmarked for the life sciences sector. ■

Govt. Allows 100% FDI in Construction Sector

The Cabinet Committee on Economic Affairs (CCEA) has decided to permit 100 per cent FDI in all forms of housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure in order to attract higher investments.

The move to expand the scope of FDI in the real estate sector has been prompted by the poor response from foreign investors to the earlier norms. The Government has pointed that since 2002, when the norms were announced, only nine proposals have been received so far.

The new conditions for allowing 100 per cent FDI in other real estate sectors stipulates that the minimum plot size for the construction sector would be 25 acres for serviced housing plots against the earlier requirement of 11 acres.

Though investments would have to be through the RBI's automatic route, the CCEA also agreed to delegate the power of approving individual construction projects with FDI component to the local Government authorities.

These projects shall have to conform to the norms and standards, including land use requirements and provision of community amenities and common facilities as laid down in the applicable building control regulations, by-laws, rules and other regulations of the State Governments or municipal bodies or local bodies concerned.

As of now, all such projects needed mandatory clearance from the Union Government. With the power of approval being vested with the local Government, FDI projects would now be accorded a national treatment on par with local developers.

The move is expected to have a multiplier effect on the economy by boosting construction activities of all types. It would create employment not only for skilled and unskilled labourers, technicians and artisans but also for engineers, architects and designers.

■

FEEDBACK

Dear Readers,

Indian Institute of Foreign Trade (IIFT) in collaboration with Department of Scientific & Industrial Research (DSIR) brings out Quarterly Newsletter, *Technology Exports.*

The Newsletter aims to familiarise trade & industry with the latest happenings and to bring out the policy analysis in the field of technology exports.

We have received encouraging responses from Indian missions abroad, embassies in India and trade & industry. Words of praise, especially coming from various Indian missions have been extremely fulfilling and inspiring for us.

While positive responses are highly encouraging, we believe continued "Readers' Feedback" will be the key factor not only for improving the contents but also for maintaining sustained interest.

Therefore, we at *Technology Exports* welcome Readers' valuable suggestions, inputs and constructive ideas. We would appreciate receiving specific information such as lead articles, exportable technological developments, achievements in technology related exports, etc., for publication in the Newsletter. Such information may be addressed to: Editor, *Technology Exports,* Indian Institute of Foreign Trade, B-21 Qutab Institutional Area, New Delhi-110 016.

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