



# **EXPORT PROMOTION COUNCIL FOR HANDICRAFTS**

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May 11, 2017

**Shri Nitish K. Sinha**

Joint Secretary

Ministry of Finance, Department of Revenue

Jeevandeep Building, Parliament Street

New Delhi -110001

**Sub: Representation seeking redressal on concerns about likely impact of GST on exporters of handicraft industry**

Dear Sir,

This is further to the meeting with Duty Drawback Committee held on 25<sup>th</sup> April 2017 at Ministry of Finance. The duty Drawback Committee had sought comments with respect to the issues of handicrafts sector pertaining to GST and also sought the production process of any craft that involves job workers.

As you are aware, Export Promotion Council for Handicrafts (EPCH), is an apex organization engaged in promotion of exports of handicrafts from the country and has 10000 member exporters. The objective is to promote the exports of handicrafts and to project India's image abroad as a reliable supplier of high quality handicraft goods. Handicrafts is a labour intensive sector which provides employment to over 7 million artisans which includes a large number of women and people belonging to the weaker sections of the society in rural areas. Handicrafts sector has also emerged as one of the major sources of foreign exchange earnings for the country with exports of 24,530.25 crores during the Financial Year 2016-17.

The new GST act does not provide any relief to the sector particularly with respect to the provision contained in the Section 9 (4) with regard to the Reverse charge in case of supplies from un-registered persons.

We have the following specific submissions:-

The entire production process of the handicrafts is outside the four walls of the factories of the exporters. Since, this is a cottage sector, the process of manufacturing is not limited under one roof, the process of production is spread to minimum 7 and up to 15 stages of production at the artisan (job worker) premises who are located at the different places. The Government in the past had understood this process of production of handicrafts and therefore, provided specific relief to such job workers under general exemption of Excise Notification No. 17/2011-Central Excise dt. 1th March 2011 (copy enclosed).

The Process of manufacturing when the raw material for exportable product is provided by an exporter (Each and every process is a specialized activity conducted by skilled artisans) is as under:-

## **JOB WORK FLOW CHART\***

Raw Material	Purchased by Exporters in the form of ingot/scrap/virgin metal after payment of VAT @5%
	↓
Sand casting	Send for sand casting done by Artisans
	↓
After Casting	Sent for welding because each item casted in 2 or more parts and thereafter welded by karigar
	↓
Scraping	After welding another karigar have to scrap the item to make smooth finishing
	↓
Threading	After scraping item, karigar send the item to another karigar for threading
	↓
	Now semi finish item is ready to send to exporters which are not finished.
	↓
Polishing	Polish is done piece by piece and exporter will pay piece basis payment at a requisite place
	↓
Plaiting	After Polishing Exporter checks the quality and sends for plating or power coating
	↓
Packing	Now item is ready for packing and it is also done on piece basis.

- *However there is certain specialized work of craftsmanship like engraving, enameling which require much more additional process of manufacturing.*
- *In case of merchant exporter, raw material purchased by karkhanedar and supplied to entire chain and there after billed accordingly to the exporter.*

Now under the provisions of the GST act in this regard, the entire onus is on the recipients of the services i.e. exporter under Reverse charges mechanism under section 9(4) of the CGST act. Since, the handicrafts in the past was exempted under excise/VAT notification it is proposed that all such job workers should be brought under negative list and specific notification should be brought to protect the livelihood of the artisans.

### **Impact**

- (i) The provisions of the Section 9(4) of CGST act in respect of reverse charges will adversely impact the present employment of the cottage sector artisans who predominantly belong to small and weaker sections of the society.
- (ii) The job workers (artisans) in the chain if exempted under GST rules will be revenue neutral and there will be no adverse impact on the revenues of the Government.
- (iii) Since, there is no input cost additionality in the whole process of the manufacturing undertaken at the artisans premises except the wages of the artisans, neither there is loss of revenue nor the chain of activity of GST will be affected at all.

## **Stock in hand [Section18(2)]**

In the case of handicrafts items, the gestation period for production is much longer for example in case of wooden handicrafts, the wooden logs are purchased and after sawing / seasoning, the same is also kept for natural seasoning for a longer period. Moreover, the production process for these items is very long. The prices for wood for house building industry makes it very expensive and therefore, exporters do arrange the wood stock so that at the time of order, there is no scarcity of raw material. This process of procurement providing timber legality/ chain of custody/ traceability is also an important requirement of the overseas countries. This ultimately makes the exporters keep the stock of wood for at least 2 years or more. Similarly, every country has different tastes and preferences for different wood species like acacia, dalbergia spp, teak, mango etc and prices of the product depends on the same.

Similarly in the case of the metals particularly non-ferrous metal, India is the importer of the copper, Zinc, and scrap etc. Since LME prices of the non-ferrous metals fluctuate on day to day basis, therefore exporters have to maintain proper stock of material in order safeguard them against any price fluctuation. Besides it takes 6 months from the day of procurement for designing of products, obtaining orders and thereafter production. Moreover, these metals are imported into the country in high quantities in containers with the minimum orders of 10-15 containers.

Further, there is also a rejection rate of about 5-10% of the total export supplies. These rejected supplies are also kept in stocks of the exporter for many years.

## **Impact**

The stock of the exporters, in case of 90% of exporters is normally for a period of over 2 years. The stocks have also to be made available to the artisans for long term export orders and orders already in pipeline. In case such stocks are not considered for input credit under Section 18(2), the entire process of the export orders will be adversely affected and will drastically bring down export of handicrafts as well as confidence amongst the overseas buyers. To maintain the continuous flow of export supplies at the same pace without affecting the export prices, it is important that this provision should be relaxed for informal sector like handicrafts sector by issuing requisite notification.

## **Packaging material for handicrafts**

Handicrafts are fragile in nature and also voluminous items. The shape and size of these items sometime irregular i.e it has sharp edges and also need specialized/customized packaging besides, the buyers also do not pay for the same. The special packaging has to be developed for handicrafts exporters for each and every item. These packaging materials are normally procured for more than 2 years in stocks. When the exporter work with a buyers for longer time, a specialized packaging is developed for that buyers keeping in view the mandatory testing requirements like drop test etc. These specialized packaging are to be developed and stocked in very large quantities which some time are consumed in over 2 years. The packaging has to be unique size and also cost effective for containers for its optimum utilization as per international standards. However, no such packaging is available in the market and is specially developed within the unit.

## Pre-GST Taxes

Handicrafts sector is a cottage sector with over 7 million artisans which includes a large number of women and people belonging to the weaker sections of the society in rural and semi rural areas. In the past, the Government has been kind enough and has provided concessions to this employment generating cottage sector by offering the following:-

- (i) Complete exemption for handicrafts under excise (notification no. 52)
- (ii) The sales tax/VAT is also exempt in most of the States

However, the taxes like 2% CST and 5% entry tax on few items such as iron / steel and papers, VAT (5% on metal and 14.5% on glass) is being paid by the handicrafts exporters on materials purchased by the exporters. Further, handicrafts exporters are not taking benefit of CENVAT credits.

Keeping in view the significance of the handicrafts sector in the Indian Economy we have the following submissions:-

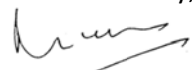
- (i) The GST rate for handicrafts sector should be at zero rate supplies
- (ii) The advance licenses, EPCG Licenses which are duty free at present should continue to be tax free under reverse charge mechanism.
- (iii) Duty draw back should be revised under GST so as to factor the increase tax cost on the procurements on account of increase in rate of taxes on input material and input services.
- (iv) All artisans should be duly recognized and not to be equated as merely job workers and therefore, under the section 9(4), the artisans (so called job workers) should be completely exempted as was in the past., therefore, the onus of paying GST under reverse charge should not be applicable on the exporters

## Prayer:

In view of the above submissions and keeping in view the role of handicrafts sector in the Indian economy, we humbly request your goodself to take necessary actions and issue the requisite clarification in order to ensure the smooth transition of our industry in to the GST regime.

Thanking you,

Yours faithfully,



**(Rakesh Kumar)**  
Executive Director