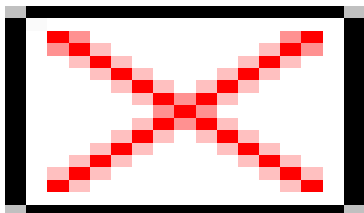


## Uncertainty brings a window of opportunities

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### **MULTIPLE**

phases of lockdown on account of COVID-19 has disrupted businesses on many perspectives - undefined demand cycle, unpredictable cash flows /working capital, erratic supply chain, to name a few. The uneven recovery rate of international markets has also added to the existing equation of uncertainty for the importer-exporter fraternity in India.

To address such challenges, business and sourcing teams have been collaborating to re-look at existing practices both from financial and efficiency perspectives. These testing times present a chance to the teams to re-evaluate the existing processes adopted and their associated costs. For businesses engaged in cross country trade, these could include, analysing various sources for imports and exports to gauge possible benefits, reviewing the current Customs duty rate structure on imports, possible approaches for optimising Customs duty payment, export-import process improvements, etc.

Against this backdrop, it would also be relevant to introspect on a few options which the sourcing and business teams can analyse with the aim to economise international transaction costs and thereby help mitigate some of the disruptions created on account of the uncertainties.

### **Re-assessing existing HSN classification adopted for imported goods incl. inputs, parts, accessories, etc.**

A Harmonised System of Nomenclature (HSN) code adopted for an imported item is of utmost importance under indirect tax law. The emphasis on HSN code for goods gets amplified for industries who consume a variety of parts/accessories/spares in their operating cycle to manufacture/assemble the final product.

Indian Customs provisions provide some notable guidelines which require careful interpretation while classifying an imported good. As an illustration, there is a plethora of classification litigation observed in respect of imported items used in assembling final products in India. These items are typically classified under the same HSN heading under which the final product is being classified. This norm, though simplistic and practical, should be implemented prudently, as there are identifiable exceptions under the Indian Customs Tariff Act, 1975.

The sourcing team can perform a high-level re-assessment of the methodology adopted for classifying their imported goods, especially components consumed for making final product. Such activity may also result in opening up of a window for optimising duty cost associated with such items by unearthing applicability of Customs duty exemptions, which otherwise were not available on account of inconsistent classification methodology adopted.

### **In-bond manufacturing**

'Demand' is an important factor for any business to plan its activities and preparing necessary forecasts. And with COVID-19's phase in FY 2020-21, this factor has become unpredictable for many sectors across industries. Manufacturing sector, having multiple impact areas, faces a higher brunt compared to other sectors.

Despite such limitations, a business can explore an opportunity of deferring or for complete remission of Customs duties payable on imported goods till point of clearance of manufactured goods, by evaluating the 'In-bond manufacturing' scheme recently introduced by the Indian Customs.

Industries having higher conversion cycle of imported raw material, fluctuating demand of manufactured product coupled with higher proportion of imported raw materials, could see a positive impact on their working capital cycle under the In-bond manufacturing scheme. Industries having substantial exports could also enjoy a complete remission of Customs duties on imported goods used in manufacturing the exported goods.

With the exercise of this scheme, a business can unlock its working capital, by deferring/remitting Customs duties on imported goods until removal of manufactured items from the bonded premises in India, which otherwise was blocked in upfront Customs duties payment or under drawback process.

### **FTAs' and PTAs'- an opportunity yet to be explored**

Free Trade Agreements (FTAs) or Preferential Trade Agreements (PTA) are mutual agreements entered between two or more countries under which each country exchanges mutual treatment to imports originating from the other contracting country. The mutual treatment involves staged reduction of Customs duty payable on imports originating from a contracting country, subject to prescribed conditions.

In these demanding times where both cost and cash flow optimisation are stressed, exploring applicability of FTA/PTA for imported goods is called for as it helps in achieving both the above objectives by reducing Customs duty payable.

Further, given that the international supply chain had been under a complete halt, on account of COVID-19 and globally teams are back to the drawing board for arranging their respective supplies, sourcing teams can deliberate on alternate procurement channels considering the impact of an FTA/PTA on the overall cost of procurements for a respective channel.

Also, arranging for an FTA/PTA mapping on the existing procurement structure by the sourcing team can help the organisation to capitalise on such unexplored opportunities and achieve the twin targets of optimising the cash outflow and reducing the overall Customs duty cost.

### **Authorised Economic Operator (AEO)**

Business processes have to be continuously modified to adapt to situations including disruptions caused by pandemics such as the COVID-19. Owing to the current economic phase, business teams have an opportunity to re-calibrate their existing business processes to make them more agile, secure, and contemporary. These process changes impact an organisation not only by increasing the productivity of business but also align them with global standards.

In addition to above, Indian Customs also extends certain benefits to organisations, vide Authorised Economic Operator (AEO) programme notified under Indian Customs law, aligned to secured international standards predominantly in the context of export-import transactions.

AEO certification provides array of monetary and non-monetary benefits. Few standing benefits are a 15-day Customs duty deferment, facility of Direct Port Delivery (DPD), self-sealing for exports, waivers in presenting Customs bond, faster processing of refunds, advance authorisation on self-certified input-output details etc.

Business teams while evaluating their current international trade processes should gauge aptness of AEO in their operating cycle. A prospect of obtaining a 15-day duty deferment coupled with efficiencies in logistics related costs could help the business in a long way to maintain healthy working capital and regain the pre-COVID momentum faster.

Resuming business after such fluctuating operating cycles is surely gruelling and appropriate financial stimulus from respective governments and authorities is expected. However, from an international trade point of view, the above represents a snapshot of the existing measures which business and sourcing teams should consider by evaluating its pertinence in their businesses.

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