

Tweaks to pact with S. Korea mooted

India is looking to plug loopholes in its Free Trade Agreement (FTA) with South Korea following concerns over a recent sudden surge in imports of gold and related articles from that country.

Authorities are also learnt to be probing a possible 'criminal angle' behind the recent rapid rise in imports of the yellow metal from South Korea. The rise has happened due to certain firms, 'owned and operated by some Indians', allegedly misusing the India-South Korea FTA that allows duty-free import of the precious metal and its articles.

GST, the cause

Gold imports from South Korea had shot up to about \$340 million in the period July 1-August 3, 2017, compared with about \$71 million for all of FY17. The implementation of the Good and Services Tax (GST) from July 1 led to the import surge.

Pre-GST, gold imports through the non-FTA channel attracted a 10% basic customs duty (BCD) and an additional 12.5% countervailing duty (CVD), while those from the FTA route were levied a 12.5% CVD (as the FTA eliminated the customs duty on gold imports) — which discouraged such gold imports. Under the new tax regime, a 3% GST replaced the CVD.

This meant gold imports from the non-FTA route attracted 10% BCD and 3% GST, while those from the (S. Korea) FTA channel paid only 3% GST, which could be later claimed as input tax credit. What has raised eyebrows is that South Korea is not among the world's leading producers or exporters of gold and related items.

Significantly, the authorities are examining a possible criminal angle in such transactions as those entities were allegedly sending gold medallion directly from Dubai to South Korea and then exporting to India, violating FTA norms. Under the FTA, duty-free import of gold medallion into India is currently allowed only if it has met the norm of 'Change in Tariff Heading' under the Harmonised System Code.

This means one could send gold bars and rods from a third country to South Korea, convert them into medallion there, export to India and avail the zero-duty benefit. Though the Centre had last month 'restricted' imports of jewellery, precious metal and related items from South Korea, official sources said it was only a temporary measure.

In an upcoming trade meeting with South Korea, India will push for inclusion of tighter norms in the FTA on imports of gold and its items to prevent misuse.

India will insist on a clause in the FTA specifying the criteria of (at least 35%) 'value addition' as well as 'Change in Tariff Sub-Heading' to ensure that the item has undergone substantial transformation in South Korea, and not been just routed through that country to take advantage of duty-free norms.

Only those furnishing the required certificate, stating the criteria have been met, will be allowed FTA benefits. Else, such imports from South Korea will attract 10% duty. Since gold is a sensitive item for India, the other plan is to shift gold and articles to the negative list in the FTA. Work is also on to impose safeguard duty (12.5%) on gold imports from South Korea.

END

crackIAS.com