Star BUSINESS

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BUDGET PROPOSALS

CPD for discontinuation of money whitening provisions

Suggests rural employment guarantee scheme in Monga-hit areas

STAR BUSINESS REPORT

Independent think tank Centre for Policy Dialogue (CPD) has recommended discontinuation of all direct and indirect provisions for whitening black money in the budget for the year 2007-08.

"Special tax treatment in respect of investment in house property, land and motor vehicles has to stop," the CPD said in its budget proposals that include more than 100 suggestions.

The suggestions are made under seven heads -- general fiscal measures, export-import, social sector, price support for producers and consumers, regional development and sectoral measures, needs of the marginalised and restructuring tax administration.

The CPD said in view of regional disparity in three divisions of Rajshahi, Khulna and Barisal, the government may consider introducing a Rural Employment Guarantee Scheme. This scheme may seek to provide guaranteed employment to one member of every household below a threshold income level for at least 100 days a year, especially in the lean (Monga) season. The minimum wage could be Tk 100 per day. Technical experts can draw plans for individual villages in consultation with local leaders, elected representatives and community leaders. Local government along with NGOs may be involved in implementation of this programme. This scheme will be particularly suitable for Monga affected areas, and could be implemented in phases, it recommended.

The CPD said taking note of the current drive against corruption and with a view to raising revenue intake on a sustained basis, a scheme involving voluntary disclosure of untaxed income may be introduced under certain conditions for a limited period.

"Untaxed income may be declared at the highest applicable rate for the corresponding category of assessee plus 5 percent penal charge. The declared income must be embodied in investments in properties, productive capacity or liquid/semi liquid forms."

"This proposed scheme for disclosure may be available for a period not exceeding 90 days. These provisions will not absolve anybody from legal actions if the source of income is later revealed to be illegal. Such cases will be dealt under existing legal provisions for criminal offences," the CPD added.

Finance Adviser Mirza Azizul Islam at a meeting on May 16 said the government may introduce a provision for whitening black money, but the offer may be made through alternative measures, not the upcoming national budget.

"Instead of keeping the provision in the budget, alternative measures might be offered to whiten black money," he said.

The CPD said tax exemption limit may be revised upward to Tk 150,000 from the existing Tk 120,000 considering the rise in living expenses since it was re-fixed two years back in FY06 from Tk 1,00,000 to Tk 1,20000.

It proposed further enhancement of the scope and coverage of the Large Taxpayers' Unit (LTU).

The CPD further said tax holiday facilities have to be replaced with accelerated depreciation allowance. With a view to encouraging setting up of industries in less developed regions including Chittagong Hill Tracts, additional concessional rates may be considered for these areas, it proposed.

"The corporate tax slab applicable may be extended in the cases of banks and insurance companies (45 percent) to other high profit making service industries such as mobile telephone companies. Alternatively, the cell phone companies will have to enlist themselves in the stock market to avail lower tax rate," it continued.

The CPD said zero rate of duty should be abolished, other than in cases where international treaty or obligations exist or strong humanitarian reasons prevail, or where it is necessary to reduce tariff to stabilise market price.

"Dispersions of duty rates must be enhanced within 4-digit tariff heads. Supplementary duty may be enhanced on high-value vehicles and other items generally used by the richer segment of the society," it recommended.

It suggested that concessional import duty on raw materials for major export industries and also for industries having export potential may continue. "All dyes, chemicals and other raw materials used in textile sector may not have more than 5 percent import duty."

For providing incentives to the backward linkage domestic textile sector and enhancing competitiveness of the apparels sector in the international market, the existing 5 percent cash incentive may continue, it said.

It also said to develop and strengthen backward linkage textile industry and the country's traditional jute industry, a Technology Upgradation Fund may be introduced, perhaps with an allocation of Tk 100 crore. "Credit provided under this scheme on concessional rates of interest will assist the industries to undertake technological restructuring initiatives, modernise their plants through installation of new machines and state-of-the-art technologies," it observed.

The CPD said the coverage of the Equity Entrepreneurship Fund (EEF) may be expanded beyond agriculture and IT-related projects. It may cover other potential areas, such as light engineering, plastic, melamine, electronics. The allocation may be enhanced from Tk 200 crore to Tk 300 crore.

It recommended that customs duty on newsprint may be reduced to 10 percent from 25 percent. The effective tax rate on newsprint is currently 48.75 percent.

It said to ensure SME sectors' access to credit facilities and considering high cost of financing and also with a view to providing encouragement to the banks and financial institutions, a Refinancing Scheme was introduced in the national budget for the FY07 with an allocation of Tk 100 crore. "The upcoming budget may continue this support with enhanced allocation for providing credit at concessional interest rate. The modus operandi of the SME Foundation may be reviewed."

The CPD said government needs to introduce zero tariff for selected essential commodities considering domestic price situation and international market price; this is more pertinent particularly for commodities whose import price is high (e.g. lentil).

Government needs to replace the existing ad-valorem tariff structure by 'specific duties' for selected essential commodities, it said. "Government may reduce or withdraw the high supplementary duty on certain commodities (e.g. currently 15 per cent for whole cream milk powder, crude soybean oil and crude palm oil)."

The government needs to provide subsidy directly to the farmers who are using diesel for irrigation, the CPD added.

Tata Tea sells 30pc stake in Glaceau

RATAN BHATTACHARYA, *New Delhi*

So far the overseas acquisitions by Indian companies have been hitting the headlines. Now, it is the sale.

In the biggest-ever stake sale by an Indian company abroad, Tata Tea has sold its 30 per cent stake in US energy drink major Glaceau to global soft drink giant Coca Cola for 1.2 billion dollars, making a profit of 523 million dollars.

The Tata Tea had bought the stake in Glaceau in August last year. Glaceau, which commands a 30 per cent market share in the United States, sells a wide range of fast-growing beverage brands including vitamin water.

The sale of stake by the Tata Tea came after a flurry of overseas acquisitions by the Tatas and other leading Indian business houses in the last two years.

Analysts said the sale by the Tata Tea drives home the point that Indian companies will find it tough to get going when it came acquisitions when confronted by the financial might of multinational companies like Coca Cola.

The Tata's stake sale in Glaceau comes at a time when the Indian group is planning to enter into beverage segment in India, including tea and packaged drinking water. For this, the Group has already hived off its tea plantation businesses in the eastern Indian states of West Bengal and Assam.

Reacting to the news of stake sale, the price of Tata Tea share had shot up by seven percent in the Indian bourse on Friday.

Bilateral disputes should not hinder Safta implementation: Adviser

Establishment of economic union proposed

STAR BUSINESS REPORT

Bilateral discrepancies among the Saarc member countries should not be entered into Safta process as such two-sided disputes sometimes stands as bottlenecks of implementing the regional pact, said Finance and Planning Adviser Mirza Azizul Islam yesterday.

He said, "A political will in the region is the most important to make sure that bilateral disputes do not enter into the Safta process".

Quoting from his own experiences on Safta negotiations, the adviser also said, "I strongly feel that bilateral disputes sometimes stood as an obstacle to achieving the Safta goals."

The adviser was addressing the inaugural session of a seminar on 'Trade Liberalisation under Safta' at a hotel in Dhaka jointly organised by Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and Saarc Chambers of Commerce and Industry (SCCI) in cooperation with Friedrich Naumann Stiftung (FNSt).

Ugen Tshechup Dorji, president, Jamil Mehboob Magoon, senior vice-president of SCCI, and Mir Nasir Hossain, president of FBCCI, also spoke on the occasion.

The finance adviser however stressed the need for deeper tariff cut and wider product coverage, shortening of sensitive list, mutual recognition of certification and harmonisation of standard, improvement of physical connectivity, simplification of customs regulations and procedure for movement of goods, special and differential treatment for the least developed countries (LDCs) to further develop the Safta (South Asian Free Trade Area).

He said, "Trade has been more concentrated between selected developing countries and developed countries rather than that among the developing countries. There are number of reasons for this undesirable reality".

Lack of physical connectivity and historical prejudices, which were nurtured by the colonial regime, are the reasons behind the undesirable economic reality of the South Asian region, he explained.

Citing an example of traditionally inadequate physical connectivity among the countries in the region, he said some years back it was very easy to fly in London from Dhaka than from Dhaka to Delhi.

Pointing out the positive and negative aspects of trade liberalisation, Islam said trade and investment should really be aggravated in the Saarc region.

About Safta's potentiality, he said Safta can be an effort to break down barriers to banish all prejudices and to promote sustainable growth in all countries in respect of equality and mutuality.

Describing Safta 'not a quick walk', he said,"It is a matter of satisfaction that it was completed. But a full realisation of its potential would require concerted actions on many progresses".

To resolve the challenges on the way of Safta implementation, he said, cooperation between public and private sectors is a crucial factor.

Echoing the finance adviser's view on public-private sector cooperation, the SCCI president said, "Safta is still in a nascent stage and requires the mutual support and efforts of these two sectors for making this significant initiative a success."

He said with the implementation of Safta, it is estimated that the current level of intra-regional trade will rise from $6billion to $14billion.

The FBCCI president emphasised a timeframe to resolve the trade disputes for Safta implementation.

For implementation of the Safta roadmap through downsizing the negative products list, immediate tariff reduction and a residual tariff liberalisation, he said, "We must address these issues within a mandatory timeframe."

UNB adds: The business session was held at Sonargaon hotel with former commerce minister Amir Khasru Mahmud Chowdhury in the chair.

As a way out of the deadlock over making the Safta functional, a delegate from Pakistan, Mahmood Ahmed suggested a change in the traditional mindset based on distrust between Pakistan India.

"We have to change our mindset; we must build trust on each other, otherwise Safta will fail to reach its desired destination," the Pakistani business expert said.

Desal De Mel, a research officer of the Institute of Policy Studies in Sri Lanka, in his presentation also blamed Indo-Pak paranoia for putting free trade on the back-burner.

FBCCI director MA Rouf mentioned that non-tariff and para-tariff barriers impeded improvement of Bangladesh's trade relation with India.

Indian Deputy High Commissioner Sarvajit Chakravarti denied all allegations against India and said, "We are here to work with you."

Talking to newsmen after the seminar, Amir Khasru Mahmud Chowdhury looked further forward to prescribing that it is better to establish 'economic union' or 'customs union' rather than pursue trade liberalisation.

He also emphasised holding meeting of the Saarc finance ministers once a year to advance the matters of trade and finance.

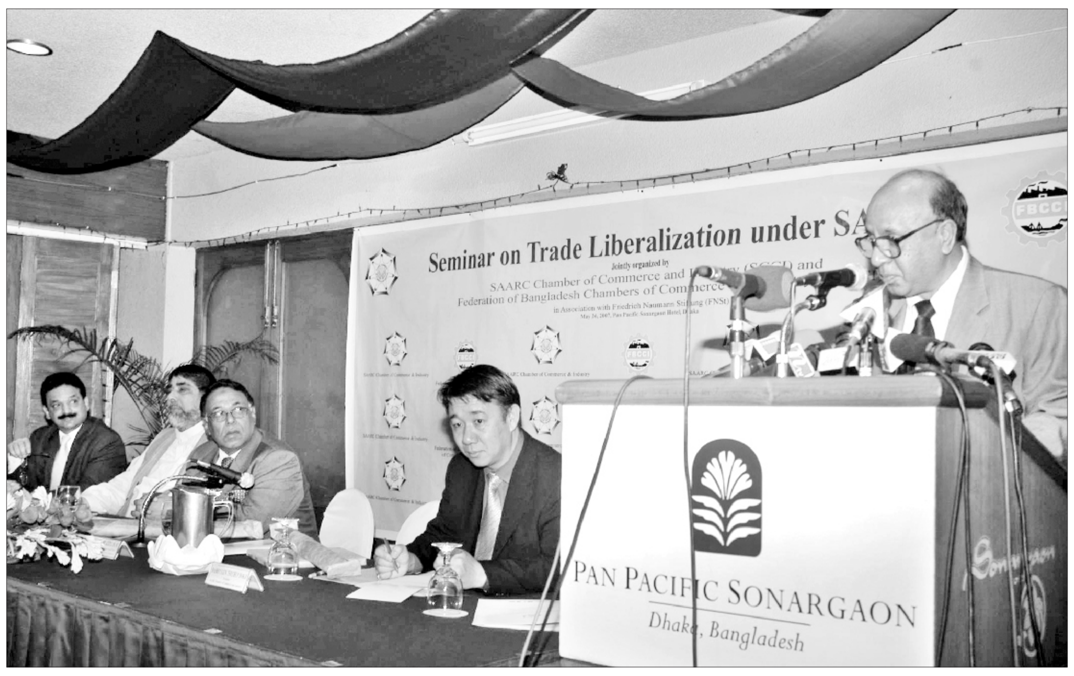


PHOTO: STAR

Finance and Planning Adviser Mirza Azizul Islam addresses the seminar on 'Trade Liberalisation under Safta' jointly organised by FBCCI and SCCI in Dhaka yesterday. SCCI President Ugen Tshechup Dorji and FBCCI President Mir Nasir Hossain were present, among others.

US files WTO complaint against India over alcohol duties

AFP, *Washington*

The United States filed a complaint Friday at the World Trade Organization against India, saying its duties on alcoholic beverages and other imports violate global trade rules.

The US action followed a similar complaint lodged by the European Union earlier this year at the Geneva-based WTO.

"India is an important export market for US products and the United States and India have successfully worked on a number of important trade issues. However, we believe the layers of customs duties India applies to US products, in particular to wine and distilled spirits, are not in line with its WTO commitments," said US Trade Representative Susan Schwab in a statement

"We are disappointed that WTO consultations failed to resolve our concern with the duties and that we must resort to a WTO panel. The United States will continue to work toward a resolution of this issue with India but we must ensure a level playing field for US products around the world."

US officials said that India, on top of its basic customs tariffs, imposes an additional duty of 20 to 75 percent on the value of imports of beer and wine and from 25 to 150 percent on imports of distilled spirits.

WTO starts membership talks with Iraq

XINHUA, *Geneva*

Ambassadors to the World Trade Organization (WTO) Friday held their first meeting on Iraq's membership application to the 150-member trade body.

The meeting was participated by a high-level delegation from Iraq, which was led by Iraqi Trade Minister Dr. Hammadi al-Sudani. It aimed to discuss and examine Iraq's trade legislation and its formity to WTO principles.

During the meeting, all WTO members expressed their strong support for Iraq's accession and most of them stated that this accession would have a positive impact on Iraq's economic development and contribute to strengthen the multilateral trading system, trade officials said.

Saarc chamber moves to remove non-tariff barriers

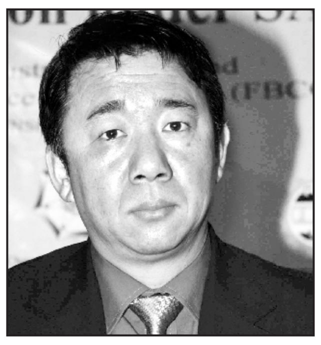
Says chamber president

JASIM UDDIN KHAN

The Saarc chamber has taken initiatives to remove non-tariff barriers that stand in the way of increased trade in South Asian region, says president of the chamber.

"We have asked national federations to make lists of non-tariff barriers they face. We will send the lists to member countries and ask them to address the issue. We hope the issue could be solved through consultations," Ugen Tschechup Dorji, president of Saarc Chamber of Commerce and Industry (SCCI), told The Daily Star on Friday on the sidelines of the chamber's executive committee meeting onboard a ship in the Meghna.

Dorji, a Bhutanese national, said the main objective of the chamber is to address the issues that hinder regional trade. The chamber is working through the national federations to have more products on the list of regional trade, he added.



Ugen Tsechup Dorji

On the meaningful implementation of Safta (South Asian Free Trade Area), Dorji put accent on harmonisation of products standards and introducing of common customs union.

Emphasising the need for full implementation of Safta, he said it should be implemented as per the original sprit of the agreement.

Dorji also called for bridging the gap between politics and business in liberalising the trade regime. "We are trying to invite politicians at different seminars and workshops in a bid to bridge the gap," he added.

The president wanted a strong secretariat of the chamber, saying if the chamber has a strong secretariat, it will give support to member chambers.

CPD's diagnostic study on price of daily essentials: Recommendations

The recommendations to control the prices of essentials are extracted from the study titled 'Price of Daily Essentials: A Diagnostic Study of Recent Trends', which was conducted by the CPD (Centre for Policy Dialogue) for the Ministry of Commerce, Government of Bangladesh.

Part II

A. Overarching Issues (continued)

(i) Reduce Transportation Cost. Transport sector should be under strict vigilance; tonnage restrictions should be reviewed, and middlemen/brokers from the loading point, as mentioned earlier, should be eliminated. Distance wise transportation cost could be decided through a tripartite meeting between traders, transport owners and government. The river and railway networks should also be explored to examine the viability of transporting essential items to various parts of the country.

(ii) Rejuvenate the Moribund TCB. The GoB should take necessary measures to rejuvenate the moribund TCB and turn it into a modern corporation in line with the public procurement regulations. Experts and professionals from related disciplines must be recruited with mandate of taking decisions on importing essential commodities as recommended by DMS and acting as a watchdog to monitor the overall market situation. The relationship between TCB's operational procedures and the public procurement regulations needs to be examined carefully. TCB has already taken an initiative to import edible oil and whole milk powder which is a welcome decision to stabilise the price of these commodities in the coming days particularly in view of the sharp rise of global price of these items.

(iii)Restore Business Confidence in the Market. The government may repeatedly transmit the message that the honest business persons and entrepreneurs have nothing to fear and be apprehensive about. The distinction between people who have breached public trust by abusing state power to amass personal wealth and those who indulge in corrupt practices while conducting their business will need to be made. In case of the latter, the thrust will have to be on playing henceforth by the newly instituted rules of the game. The members of the law enforcement will need to play an important role in restoring business confidence in the country.

(iv) Broad-base and Streamline OMS Initiatives. The government should continue its OMS of essential commodities through TCB, Food Directorate, BDR and Ansar and VDP till the food price inflation is checked. Efforts may be made to extend OMS up to the district level. However, the government needs to have an estimate of the direct/indirect subsidy provided through these operations.

The government may also encourage the corporate actors to come forward with direct and scaled-up sale to consumers to help generate a sobering impact on the market. These efforts may particularly be encouraged in the month of Ramadan.

(v) Make Mandatory Display of Maximum Retail Price (MRP) on Product. The CPD would like to strongly recommend that producers/importers/processors area asked to display the MRP on a mandatory basis along with the manufacturing and expiry dates on the packet/container. A massive campaign should be conducted among the retailers and consumers not to sell and buy these products above the specified MRP. However, the MRP may be modified to match the production/import cost which must be subject to public notification. The government may introduce an executive order towards strict implementation of its directive in this regard which will ensure effective use of MRP at the retail level.

(vi) Promote 'Producers' Marketing Association. For domestically produced products, the best option is to remove the existing market imperfections and inefficiencies in the value chain. By establishing producers' cooperative and marketing organisation and by creating a more direct link between producer and consumer it would be possible to have a positive impact at the retail price of essential commodities. This would also be a mechanism to provide reasonable (fair price) to producers. The government may encourage the existing NGO networks/private sectors to take a more proactive interest in this segment of the supply chain i.e. in the area of marketing of agricultural commodities.

The government must urgently identify some suitable locations within and around Dhaka and other big cities to establish new arots so that more options will be available for both producers and retailers. This is expected to reduce the monopoly power of the vested interest groups in existing arots by infusing more competition at this level of the market structure.

(vii) A National Storage Policy. The government needs to formulate a comprehensive National Storage Policy for both public and private sectors. One important consideration in this regard should be public health concerns. Food items and non-food items such as chemical products should be stored separately. Besides, government should allow the private entrepreneurs to use public storage facility and should provide adequate subsidy for storing daily essential commodities. Government of India is providing a subsidy of 25 per cent for such services that was applicable for all agricultural commodities. This will reduce the storage cost and thereby reduce retail prices of these commodities. In the proposed national policy, storage time should also be fixed for essential commodities considering both health and supply issues in line with the recently proposed Anti-hoarding Act of GoB.

(viii) Establishment of an Advanced Agri-Portal. CPD recommends that initiatives be taken to establish an integrated national Agri-Portal titled "Bangladesh Agricultural Information Network Centre (BDAGINC)" under the Department of Agriculture Information Service (AIS), Ministry of Agriculture. All relevant agencies will provide information to AIS to create and update this portal. The information will be publicly available. This portal will provide, at the preliminary stage, region wise national demand, supply and price information for major essential commodities. The global production and price information collected by the proposed DMS will also be integrated in this database. The BDAGINC can follow the initiatives taken by the Indian Agricultural Portal-AGMARKNET which covers market, price, infrastructure and promotion related information for efficient marketing. Information can also include grades, labeling, sanitary and phyto-sanitary requirement, physical infrastructure of storage and warehousing, marketing laws, fees payable, etc. At later stage, this portal will consider other agro-commodities.

(ix) Prepare Markets for Upcoming Ramadan. The government needs to assess the demand, domestic supply and import as well as price situation of essentials for which there is a substantial increment in demand during the month of Ramadan. This is necessary to avoid any possible supply shortage and the resultant abrupt jump in prices. Preparation should be there to launch OMS at an expanded scale during this particular period. Outlets run by the BDR and Ansar/VDP need to be kept operational during that period.

(x) Strengthen Flanking Measures. Social safety net programmes such as "Food for Work" should be expanded to support the worst affected sections of the populace due to the ongoing price hike. It is to be noted that in the budget of FY2006-07, a total of 1057 thousand MT foodgrains (including 849 thousand MT rice and 208 thousand MT wheat) was proposed to be distributed under the non-monetized food distribution programs (Food for Work, VGD, TR, GR etc). The allocation for foodgrains under these safety net programmes should be increased significantly in the upcoming budget for FY08.

The government may also consider providing dearness allowance to government employees and employees of statuary bodies. The allowances could be fashioned in three tiers with 15 per cent for the lower, 10 per cent for the middle and 5 per cent for the higher scale employees (the three tiers could be worked out taking cognisance of relative justice, proportion of income going for food and the fiscal burden of the proposed measure).