Prospects of paint industry

RUPALI CHOWDHURY

THE Asia Pacific region occupies a substantial share in the global paints market thanks to the presence of numerous developing countries, including China, India, Vietnam and Bangladesh, which have been witnessing a surge in investment in the development sector in the recent years.

Manufacturing in the binuclear paint industry of Bangladesh mainly takes place in megacities like Dhaka and Chattogram. This industry has virtually doubled in size over the last 10 years, creating direct employment opportunities for thousands of people while indirectly providing livelihoods to many.

In Bangladesh, the annual consumption of paints currently stands at about 180,000 tonnes. The sector recorded an over 6 percent year-on-year growth in recent times thanks to the rapid urbanisation in a country of around 167.8 million people.

The market blessed with high growth potential and congenial atmosphere has helped paint manufacturers strengthen their foothold in the south Asian country with innovative solutions and services, according to Bangladesh Paint Manufacturers' Association.

The experts and real estate sector leaders believe local and foreign investments have enabled the paint industry to achieve an annual growth of around 7-8 percent on average.

The Tk 3,700 crore industry in Bangladesh remains highly competitive with the presence of over 45 operational entities. In 2017 alone, the industry contributed over Tk 550 crore to the national exchequer in the form of taxes.

The industry is playing an important role in the infrastructural development of the country by ensuring protection of fixed assets. The protection enabled by paint coatings adds to the longevity of structures, ensuring lesser expenses and thus contributing to the economy.

The sector is expected to grow by 8 to 10 percent per annum as there is scope for increase in consumption backed by economic growth.

Companies are bringing in new types of paints that can be used at hospitals and other colour sensitive areas. Fire retardant paints are even being used to reduce fire related incidents.

Plastic emulsion, distemper, weatherproof exterior coat and synthetic enamel are the key products that hold the major market share. Plastic emulsion and distemper are close substitutes of each other. The emulsion is basically used in high-end residences all over the country and distempers are economy class products generating demand in semi-urban and rural markets.

The development in the real estate sector, gradual increase in consumer awareness about the need for protection of houses and increasing urbanisation fuelled the growth of the paint industry.

The availability of house loans and a shift from semi-permanent to permanent housing structure, a progress in shipbuilding industry and consistent economic growth are the other catalysts for such a growth.

However, the spiralling prices of raw materials in international markets, depreciation of the local currency and new supplementary duties have slowed down the sector's growth to a great extent in recent times.

Five percent supplementary duty has been imposed on painting products, which is generally, applied on luxury and non-essential goods or socially undesirable goods, or the goods that are not justified in public interest.

On top of that, excessive land prices are also restricting the urban market's growth, as around 80 percent of the housing sector cost is related to land price.

If the housing sector does not grow, it will affect paint and other building materials industry. In semi-urban/rural cities, the housing sector is expanding at a faster pace. However, the usage of quality paints is lower in those areas.

Moreover, compared to our total population, the ratio of people to number of households is quite low compared to other countries around the world. This negatively impacts not only the paint industry but also the housing and other raw materials industry.

The paint companies are finding it difficult to survive because of the rising prices of raw materials and a decline in paint consumption in the real estate sector.

If the trend continues, the industry may suffer negative growth and many paint manufacturing companies will be forced to shut down, causing massive unemployment and ultimately inflicting losses on the national economy.

The paint industry not only employs many people but is also a source of income for hundreds of suppliers and service providers whose businesses will suffer as well. For example, Berger employs over 1,000 people and has a countrywide distribution network of more than 3,000 dealers.

However, it also indirectly contributes to lives of over hundreds of thousands of architects, interior designers, paint contractors, paint applicators and shopkeepers.

Therefore, the government should take some measures such as withdrawal or a cut in supplementary duty on paints and related products to help the sector flourish further.

The silver lining for paint industry is rapid industrialisation which will open the market to tech-driven and high-end products.

On the other hand, if supplementary duty remains high, local production of specialised products will remain costly. The market will have to resort to imported products which will ultimately harm local production.

We hope and believe the lawmakers will take timely steps to help the industry keep growing.

The writer is the managing director of Berger Paints Bangladesh.

STAR/FILE

A man paints a vessel to prevent rust. The paint industry in Bangladesh has almost doubled in the last 10 years creating direct employment opportunities for thousands of people.

US proposes barring big tech firms from offering financial services, digital currencies

REUTERS

A proposal to prevent big technology companies from functioning as financial institutions or issuing digital currencies has been circulated for discussion by the Democratic majority that leads the House Financial Services Committee, according to a copy of the draft legislation seen by Reuters.

In a sign of widening scrutiny after Facebook Inc's proposed Libra digital coin aroused widespread objection, the bill proposes a fine of $1 million per day for violation of such rules.

Such a sweeping proposal would likely spark opposition from Republican members of the house who are keen on innovation, and would likely struggle to gather enough votes to pass the lower chamber.

REUTERS/FILE

Small toy figures are seen on representations of virtual currency in front of the Libra logo in this illustration picture.

Even if it were to pass the full house, it would still have to pass the senate which would also likely be an uphill struggle. Nevertheless, the draft proposal sends a strong message to large tech firms increasingly eyeing the financial services space.

The draft legislation, "Keep Big Tech Out Of Finance Act", describes a large technology firm as a company mainly offering an online platform service with at least $25 billion in annual revenue.

"A large platform utility may not establish, maintain, or operate a digital asset that is intended to be widely used as medium of exchange, unit of account, store of value, or any other similar function, as defined by the Board of Governors of the Federal Reserve System," it proposes.

Facebook, which would qualify to be such an entity, said last month it would launch its global cryptocurrency in 2020.

Facebook and 28 partners, including Mastercard Inc, PayPal Holdings Inc and Uber Technologies Inc, would form the Libra Association to govern the new coin. No banks are currently part of the group.

US firms may get nod to restart Huawei sales in two-four weeks

REUTERS, *Washington*

THE US may approve licenses for companies to re-start new sales to Huawei in as little as two weeks, according to a senior US official, in a sign President Donald Trump's recent effort to ease restrictions on the Chinese company could move forward quickly.

Huawei, the world's largest telecommunications equipment maker, was added to a Commerce Department list in May that prohibits US companies from supplying it with new American-made goods and services unless they obtain licenses that will likely be denied.

But late last month, after meeting with Chinese president Xi Jinping, President Donald Trump announced American firms could sell products to Huawei. And in recent days, Commerce Secretary Wilbur Ross said licenses would be issued where there is no threat to national security.

Trump's reversal, and rapid implementation by the Commerce Department, suggests chip industry lobbying, coupled with Chinese political pressure, may well reignite US technology sales to Huawei.

Two US chipmakers who supply Huawei told Reuters in recent days they would apply for more licenses after Ross's comments. They asked to remain anonymous.

A customer response management company and a firm that simulates cross-sectional radar for Huawei are also likely to file applications in the coming days, according to Craig Ridgley, a trade compliance consultant in Washington.

Out of $70 billion that Huawei spent buying components in 2018, some $11 billion went to US firms including Qualcomm, Intel and Micron Technology.

"Since there's no downside, companies are absolutely submitting applications, as required by the regulations," said Washington lawyer Kevin Wolf, a former Commerce Department official.

A Huawei spokesman said "the Entity list restrictions should be removed altogether, rather than have temporary licenses applied for US vendors. Huawei has been found guilty of no relevant wrongdoing and represents no cybersecurity risk to any country so the restrictions are unmerited."

US companies can currently sell goods in order to maintain existing networks and provide software updates to existing Huawei handsets, but are prohibited from making new sales of American-made goods and services.

Furthermore, not all US sales to Huawei hinge on government approvals of license requests. Some US chipmakers sales to Huawei may not need licenses because their products could be beyond the scope of US export controls since many are manufactured abroad with few US components.

US officials have sought to clarify the new policy in recent weeks, saying they will allow sales of non-sensitive technology readily available abroad if national security is protected. But they have also reiterated that Huawei remains on the entity list, and relief would be temporary.

The US semiconductor industry has been lobbying for broader relief, arguing that US security goals should be advanced in a way that does not undermine the ability to compete globally and retain technological leadership. Suppliers want to be allowed to provide customer service support for chips they build and sell overseas, or the approval to ship new American-made equipment to Huawei and its subsidiaries around the world.

Still, it is unclear which products will be granted licenses. Some US suppliers sought clarity at a conference the Commerce Department held in Washington this week.

One manufacturer's representative was told by the senior US official that licenses could be granted in two to four weeks at the conference on Thursday.

The person, who did not want to be identified, said the official did not delineate the criteria for license approvals, but she came away believing they would be made on a case-by-case basis, at least at first, as the agency seeks to form more broad opinions.

When asked about the guidance from the senior official, a Commerce Department spokesman said the agency is "currently evaluating all licenses and determining what is in the nation's best national security interest."

The United States has pending cases against Huawei for allegedly stealing American intellectual property and violating Iran sanctions. It also has launched a lobbying effort to persuade US allies to keep Huawei out of next-generation 5G telecommunications infrastructure, citing concerns the company could spy on customers. Huawei has denied the allegations.

Eric Hirschhorn, a former undersecretary of Commerce, said the problem for government officials now reviewing the licenses is that they don't know where the administration is going.

"The policy two minutes ago may not be the policy two minutes from now," Hirschhorn said.

REUTERS/FILE

A staff member is seen inside a Huawei retail store in Shanghai.

Explainer: Will India's tax on the rich hit foreign investment inflows?

REUTERS, *New Delhi/Mumbai*

THE government's budget proposal earlier this month to increase taxes on those with annual incomes of more than 20 million rupees has rattled many foreign portfolio investors(FPIs).

The realisation that the new tax likely applies to the trusts through which many foreign investors put money into Indian financial markets sent stocks plunging last week. Now, their advisors say the investors are threatening to pull funds from India unless rules are amended so that they won't take a tax hit.

Here are some facts about the new tax rules.

In her budget, Indian Finance Minister Nirmala Sitharaman proposed a tax increase of 3 percent for individuals with an annual income of between 20 and 50 million rupees, and 7 percent for those earning more than 50 million rupees.

The additional taxes apply to individuals, and groups of individuals who are an Association of Persons (AoP) or a body of individuals. It takes the tax rate of someone earning 20 million rupees up to 39 percent, and for those earning more than 50 million rupees the rate climbs to at least 42.7 percent.

The surcharge increases the effective tax rate for most FPIs, set up as Trusts or AOPs, by almost 7 percent, said Rajesh Gandhi, partner, Deloitte India. "This is a steep increase in the tax rate and is perceived negatively by FPIs."

Finance ministry officials said the government was unlikely to withdraw the new rules for foreign investors as it would send the wrong signal to domestic investors, who would still be paying the higher rates.

There is still a possibility of some relief to the FPIs, when the parliament gives final approval to the tax proposals later this month.

There are about 9,400 foreign portfolio investors registered in India, largely from tax domiciles in the United States, Mauritius, Ireland, Luxembourg, Singapore and the United Kingdom, who have invested nearly $50 billion in Indian equity, debt and hybrid instrument markets.

Tax experts say 30-40 percent of them, registered as trusts, could be affected by the new rules.

FPIs register as private trusts mainly to navigate cumbersome disclosure rules and other compliance questions. If structured as a corporate fund, they may have to pay a minimum alternate tax of 18.5 percent. In a trust structure, it is easy for investors to move capital in and out of trusts without paying high taxes, said an auditor at an international tax consultancy.

The FPIs registered as trusts will be taxed as AoPs at the new rates. Though they will continue to be charged at the previous rates of 15 percent and 10 percent on short term and long term capital gains in financial markets, the increase in the overall income tax rates mean their tax bills will go up substantially.

For corporate funds, there is no change in the tax burden on long term or short term capital gains.

Amit Maheshwari, partner at Ashok Maheshwari & Associates, said many countries don't tax foreign investors on capital gains from listed securities and there is no discrimination against trusts.

"From an investment perspective India could become uncompetitive and expensive," he said.

Tax consultants with overseas investors said the majority of investors are unlikely to withdraw their current investments particularly in the debt market though they would continue to lobby for withdrawal of tax rules.

Future investments in India could depend not only on tax rates but on corporate earnings and the fundamentals of the Indian economy compared with other countries.

Large number of FPIs may continue to use trusts and pay higher tax, tax experts said, as their promoters find the structure convenient and always have the option to shift to other markets.

The proposed rules could hit India's plans to raise $10-$15 billion through overseas sovereign bonds and its attempts to attract more foreign investment in equities and debt, as many investors may feel reluctant to invest due to uncertainty over tax rates in India.

If the government doesn't announce tax exemptions to proposed overseas sovereign bonds then there will be a negative impact, said Rishabh Shroff, Partner & Co-Head, Private Client Practice, Cyril Amarchand Mangaldas.

Government officials have suggested that they could tax interest payments on sovereign bonds under current rules. However, the details are still not public.

REUTERS/FILE

A man counts Indian currency notes inside a shop in Mumbai.