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## **FOREWORD**

I have the privilege of presenting the Annual Report of the Tariff Commission for the year 2005-06.

The present Tariff Commission is functioning from 1997-98. The former BICP has been merged with the Tariff Commission in 1999.

The main role of Tariff Commission is to undertake studies in tariff, productivity related areas of industrial activities and provide critical inputs for appropriate policy initiatives and modifications.

During the year 2005-06, the Commission has completed studies covering diverse areas like transportation charges and regasification charges of LNG, rules of origin, refixation of norms on various controllable costs in FCI and mechanism for coal pricing and costing of various types of condoms, etc. The other important studies being carried out by the Commission are Impact of CECA on trade flow and other commercial linkages with Malaysia & ASEAN, Impact of FTA in Domestic Pharma Industry, determination of producer price of natural gas produced by ONGC & OIL etc. The Commission continued its effort to improve upon its organisational efficiency through training and inter institutional interactions.

Despite various constraints, the Commission has endeavoured to discharge its functions with utmost sincerity so as to fulfil the expectations of the Ministries/ departments which commissioned the studies.

**(A.P. SHARMA)**  
**MEMBER SECRETARY**  
**TARIFF COMMISSION**

**New Delhi**  
**Dated: 28<sup>th</sup> November,2006**

## CHAPTER 1

### TARIFF COMMISSION – ITS ROLE AND FUNCTIONS

#### Historical Background

In the pre-independence era, a tariff board existed in the Ministry of Commerce “to advise the Government on measures required for protection of domestic industry”. This was converted into a Commission by an Act of Parliament (The Tariff Commission Act, 1951) and was given statutory powers. The main functions of the Commission were to undertake various studies and recommend to the Government, requisite measures for protecting Indian industries, necessary reduction in customs and excise duties in respect of specific industries and remedial measures against dumping of goods. The Commission also undertook suo-moto studies.

2. The Tariff Commission set up in 1951 was wound up in 1976 by the Tariff Commission (Repeal) Act (No. 71 of 1976) based on the observation of the Second Fiscal Commission that the functions of the Commission were largely similar to those of the Bureau of Industrial Costs and Prices (BICP) which was set up in 1970 on the recommendations of the Administrative Reforms Commission. The BICP was bifurcated in August 1997 and the National Pharmaceutical Pricing Authority (NPPA) was carved out and placed under the Ministry of Chemicals & Fertilizers.

#### Present Tariff Commission

3. In 1991-92, the then Finance Minister (the present Prime Minister) in his Budget Speech said,

*“...I believe that the time has come to evolve a more transparent institutional mechanism for fixing tariffs and domestic prices in sectors where there might still be need for protecting Indian industry against foreign competition and for the determination of administered prices, particularly in the area of public utilities. For this purpose, we propose to restructure the Bureau of Industrial Costs & Prices and to transform it into a Tariff Commission.”*

4. Further in 1996-97, the then Finance Minister said in his Budget Speech of 1996-97.

*“... In keeping with the promises made in the Common Minimum Programme (CMP) ... Government have initiated action to set up an independent Tariff Commission.”*

5. In pursuance to this, the present Commission was established on 2<sup>nd</sup> September 1997. The Terms of Reference of the Commission as expanded in 1998 are following:

- (a) To make recommendations as an expert body, on matters referred to it by Government regarding fixation of tariff and all tariff related issues in relation to trade in goods and services, keeping in view the interest of various sectors including production, trade and consumers and taking into the account the international commitments. The Commission should aim at evolving an overall tariff structure and look into the issue of tariff rationalisation.
- (b) To study critical market access offers received from trading partners as part of WTO framework and to advise the Government on the opportunities and challenges generated by these offers (as per reference made by the Government).

- (c) To make a detailed impact analysis on select sectors like textiles, agriculture, automobiles, information technology, chemicals, steel and engineering goods through a multi-disciplinary team.
- (d) To examine the transition-period required for select industries and to recommend the gradual phasing out of the tariffs to facilitate the reform process as referred to it by the Government from time to time.
- (e) To identify the tariffication process for select economic activities as referred by the Government from time to time.
- (f) To monitor the tariff changes in the competing and trade-partner countries and maintain an inventory of tariff rates at a sufficiently detailed level.
- (g) To carry out technical studies on cost of production of different goods and services and their competitiveness in relation to other countries.
- (h) To render advice on issues referred to it by the Government on classification of goods, and products along with applicable tariff on such goods and products.
- (i) To undertake such other tasks as may be assigned by the Government from time to time.
- (j) To present an annual report to the Government of its activities.

6. In 1999 the BICP was merged with the Tariff Commission.

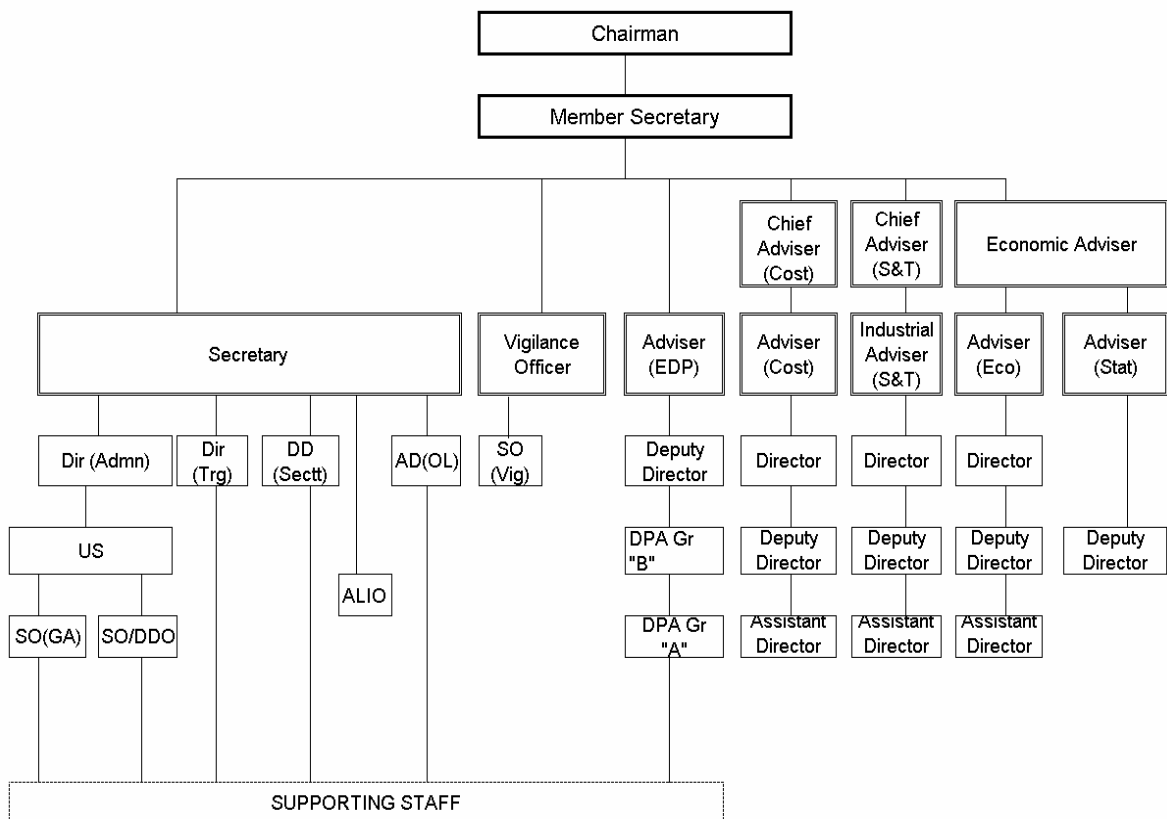
## CHAPTER 2

### STRUCTURE OF TARIFF COMMISSION

The Commission is headed by a full-time Chairman of the rank of Secretary to the Government of India and assisted by a full-time Member Secretary, in the rank of Additional Secretary.

2. The Commission has three specialised functional divisions viz economics, science & technology and finance & costing. In addition, it has a secretariat to provide administrative and secretarial support. The staff is drawn from various central services like ICAS, IES, ISS, CSS & CSSS. The Commission has its own cadre of scientific & engineering professionals. The organisational structure of the Commission is as under:

#### ORGANISATION CHART



3. The organisational structure and manpower requirements of the Commission were assessed by the Human Resource Management group formed for the purpose, which submitted its report to the Government in February, 2000. The report was examined by a Committee headed by Additional Secretary and Financial Adviser, Ministry of Commerce and Industry. However, no further action to restructure the Commission has been taken in view of the Expenditure Reform Commission's (ERC) recommendation to wind up the Commission.

4. The staff strength of the Commission as on 31.03.2006 was as follows:

S. No.	Group of Post	No. of Posts		No. of Posts Vacant
		Sanctioned	Filled	
1	Group 'A'	75	32	43
2	Group 'B' Gaz.	11	08	03
	Group 'B' Non-Gaz.	29	21	8
3	Group 'C'	36	23	13
4	Group 'D'	23	23	--
<b>Total</b>		<b>174</b>	<b>107</b>	<b>67</b>

5. The plan and non-plan Budget Estimates, Revised Estimates and Actual Expenditure during the year of 2005-06 are given below:

**Budget 2005-06**

(Rupees in lakh)

	Budget Estimate	Revised Estimate	Actual Expenditure
<b>Plan</b>	100	85	63.98
<b>Non-Plan</b>	262	262	236.83

The actual utilisation of funds under Plan and Non-Plan Heads of Budget was on the lower side primarily for the reason that the staff structure as envisaged in the Human Resource Management Group could not be put in place. Due to this, plan activities could not be pursued at the level envisaged.

6. The Plan activities of the Tariff Commission are the following:

- (i) Sectoral Studies / Development Studies
- (ii) Computerisation
- (iii) Development of Library Infrastructure



## **CHAPTER 3**

### **MAJOR ACTIVITIES**

The Commission undertook studies relating to tariff, pricing and trade related subjects referred to it by various Ministries and departments of the Government of India. During the year, eight studies were completed. Twelve studies were at different stages of completion. Besides, the Commission continued to share its expertise by participation in various expert committees formed by the government.

#### **A Studies Completed**

The Commission completed the following studies and submitted reports with appropriate recommendations during 2005-06.

##### **1. Costing of Anhydrous Ethanol**

Client : Ministry of Petroleum and Natural Gas.

The study aimed at suggesting appropriate pricing policy for anhydrous Ethanol procured by oil companies for blending with petrol (MS). Besides examining the economics of production, such issues like impact of blending on environment, availability, demand, alternative sources of raw material etc. were examined.

The report was finalised and sent to the Ministry.

##### **2. Study on realistic Cost/Price of various types of condoms**

Client: Ministry of Health and Family Welfare.

Condom, being the most widely used male contraceptive device, forms an important component of the Family Welfare Programme. The Government of India procured more than 1900 million pieces of condoms in 2004-05 for

distribution to states and various NGOs involved with the implementation of the National Family Welfare Programme. The study aimed at arriving at the realistic cost/price of various types of condoms being manufactured in the country so as to facilitate its procurement at reasonable prices.

**3. Study on determination of milling charges for raw and parboiled rice**

Client : Ministry of Consumer Affairs, Food and Public Distribution.

Food Corporation of India (FCI) procures paddy and gets it converted into rice by millers for which it pays milling charges, which forms part of the subsidy paid by the Government of India to FCI. The study on determination of normative milling charges for custom milled raw and parboiled rice in major rice producing states was undertaken on the request of the Ministry. The study was completed and the report covering all the issues referred to the Commission was finalised and sent to the Ministry.

**4. Pricing of Cost Components of LNG Import & Regasification and Transportation Tariff of NG/R-LNG**

**Client** - Ministry of Petroleum and Natural Gas and Department of Fertilizers

The study was taken up pursuant to the decision of the Inter-Ministerial Group headed by the Union Finance Minister. The study aimed at determining fair rates for regasification of Liquefied Natural Gas (LNG) by Petronet LNG Limited (PLL), transportation tariff of Dahej-Vijaipur and HVJ pipelines and marketing margin. It also, inter-alia, covered certain other issues like international/industry practice of billing of natural gas, reasonableness of other cost components post FOB price of LNG offered by PLL to various consumers, etc. The report covering all the issues was finalised and sent to the client Ministry/Department.

5. **Re-fixation of Norms on Various Controllable Cost Elements in FCI**

Client : - Ministry of Consumer Affairs, Food & Public Distribution

The study was taken up in pursuance to the decision of the High Level Committee on “Long Term Grain Policy” constituted by the Ministry.

The Food Corporation of India (FCI) is involved in the procurement, stocking and distribution of foodgrains for supply to the consumers under Public Distribution System (PDS). The operation is subsidized by the Government of India so as to maintain the prices under PDS. The main objective of the study was to identify the controllable cost elements in the total cost structure of FCI in its various operations relating to procurement, storage, movement, distribution etc. of foodgrain and suggest rationalization of those costs and recommend norms to be applied in order to improve its operational efficiency. The study was completed and the report was sent to the Ministry.

6. **Study on Transportation Charges for Bhajera-Ferozabad/Agra Spur Line and Agra-Ferozabad City Gas Distribution**

Client: Ministry of Petroleum and Natural Gas.

The study aims at examining the issues related to transportation tariff charged by GAIL from consumers in Agra-Firozabad industrial belt for transportation of natural gas from Bajhera point on HVJ gas supply pipeline. The study covered working out transportation charges for Spurline & City distribution and also as an alternative, the integrated tariff for HVJ-Bajhera –Firozabad/Agra system by combining capital and other cost of the spurline with HVJ pipeline. The report was finalised and sent to the Ministry.

7. **India's need for Critical Raw materials & identification of various sources of such raw materials in Asia, Africa and Latin America**

Client : Ministry of External Affairs

The study aimed at identifying India's need for critical raw materials (excluding the petroleum products) their domestic demand and availability of these raw materials, and identifying source countries of these raw materials in Asia, Africa & Latin America. The report was finalised and sent to the Ministry.

8. **Study on Rules of Origin – suo moto**

The study was taken up on suo moto basis as a follow up action of the studies on various Free Trade Agreements (FTA) referred by the Department of Industrial Policy and Promotion (DIP&P) and Central Board of Excise and Customs (CBE&C).

The issues concerning Rules of Origin in FTA/RTAs are evolving and developing all over the world on a continuous basis. The present study dealt with the precautions that need to be taken from the Indian side while drafting, negotiating, finalizing and signing the Rules of Origin as and when the respective framework agreements with Thailand and ASEAN are replaced by final FTAs. This study was done in collaboration with the Institute of Applied Man Power Research, Delhi.

**B Studies Under Progress**

1. **Impact of Free Trade Agreement (FTA) with Sri Lanka**

Client :- Central Board of Excise and Customs (CBEC).

The Free Trade Agreement between India and Sri Lanka came into operation in 2000. The study aims to examine the impact of FTA on the domestic

manufacturing industry including impact of tariff structure on manufacturing costs, so as to enable a review of domestic tariff structure to ensure level playing field to domestic industries that are likely to face increased competition due to FTAs.

The study is under progress.

2. **Transportation Tariff Charged by M/s GAIL for Supply of KG-Basin Gas to Power Producers through its pipeline network**

Client: Ministry of Petroleum and Natural Gas.

The study aims at examining the issue of transportation tariff charged by M/s GAIL for gas supply to various independent power producers (IPPs) through its pipeline network in KG Basin area in Andhra Pradesh.

The study is at an advanced stage of completion.

3. **The competitiveness of Indian Telecom Manufacturing Sector and demand for telecom equipments, handsets, parts and components**

Client : Department of Telecommunication.

The study aims at finding out the competitiveness of telecom manufacturing sector and demand for telecom equipments, handsets, parts and components.

Telecom equipments of vital importance such as Switching, Transmission, Terminal Equipments, Polythylene Insulated Cable (PIJF) and Optical Fibre Cable have been selected for in-depth study.

The study is under progress.

4. **Impact of Indo-Singapore Comprehensive Economic Cooperation Agreement (CECA Assessment)**

Client :- Ministry of External Affairs.

The study aims at analysing the impact of Indo-Singapore CECA on the economies of the two countries and the relevance of the findings of the study for the proposed agreement with Malaysia.

The study is under progress.

5. **Impact of taxes and duties on competitiveness of the Indian Auto Component Industry as compared to Auto Component industry in China and other South East Asian Countries**

Client: Department of Heavy Industry.

The study aims at assessing the potential of auto sector to stimulate rapid economic growth by conducting comparative study of Indian Auto Policy with other countries and also the assessment of infrastructure cost to auto industry.

The study is under progress.

6. **Export competitiveness of wagon manufacturing units in India**

Client :- Department of Heavy Industry, Ministry of Heavy Industries and Public Enterprises.

The study aims at examining performance of Indian Wagon Manufacturing Units, their export potential and factors adversely impacting their competitiveness and to suggest remedial measures.

The study is under progress.

**7. Evaluation of sustainability of the present operation of M/s Hindustan Photo Films Manufacturing Co. Ltd. in the current economic scenario**

Client : Department of Heavy Industry.

The study aims at assessment of viability of M/s HPF, its competitiveness with domestic industry and imported products and sustainability with respect to future demand and to suggest appropriate measures.

The study is under progress.

**8. Benchmarking of Machine Tools Sector, particularly comparison of M/s HMT Machine Tools Ltd. with leading players in the private sector**

Client : Department of Heavy Industry.

The main objective of the study is benchmarking of machine tool sector, particularly, comparison of M/s HMT Machine Tools Ltd. with that of leading private sector companies.

The study is under progress.

**9. Impact of Free Trade Agreement on Domestic Pharma Industry**

Client : Ministry of Chemicals and Petrochemicals

The study aims at reviewing the impact of Free Trade Agreements on domestic pharma Industry and to suggest proper guidelines in the context of new Trade Agreements.

The study is under progress.

**10. Mechanism for Coal Pricing**

Client :- Ministry of Coal.

The objective of the study is to recommend normative grade wise prices for supply of coal by M/s Coal India Ltd. and M/s Singareni Collieries Company Ltd. to power sector and also to suggest modalities for pricing of coal for other sectors.

The study is nearing completion.

**11. Study on critical analysis of the Impact of Port Tariff Regulation and the effect of such Regulation on EXIM Trade**

Client :- Department of Shipping, Ministry of Shipping, Road Transport and Highways.

The study aims to review the regulation of port tariff to understand the impact of such arrangement on overall EXIM Trade of the country and development of port infrastructure.

The study is under progress.

**12. Determination of the producer price of the natural gas produced by ONGC and OIL**

Client : Ministry of Petroleum and Natural Gas.

The study aims at determination of producer price of natural gas produced by ONGC and OIL from the nominated blocks taking into account the investments for development of infrastructure and cost of exploration and also the market conditions including price of alternate fuels and price of natural gas from alternate sources to make it sufficiently remunerative to provide incentives for future investments.

The study is in progress.

**C Dissemination of Expertise**



The expertise/specialised skills of the Commission are being shared with different government departments by way of its representation on specialised and expert committees. The Commission is represented on the following Committees Expert Groups.

1. Tariff Advisory Committee (General Insurance) of the Department of Revenue, Ministry of Finance, New Delhi.
  - i. Breach of Tariff
  - ii. Technical Group (Marine hull)
  - iii. Engineering sub-committee
  - iv. Technical Group (Petro-Chemicals)
2. Solid Mineral Fuels Sectional Committee, PCD 7 and its Sub-committee, Bureau of Indian Standards (BIS) of the Ministry of Consumer Affairs, Food and Public Distribution, New Delhi.
3. Fertilizer Industry Coordination Committee of the Department of Fertilizers, Ministry of Chemicals and Fertilizers.
4. Working Group headed by Dr. Y.K. Alagh to review the effectiveness of 'New Pricing Scheme' for urea fertilizer units constituted by Deptt. of Fertilizers, Ministry of Chemicals and Fertilizers.
5. Expert Group under the Chairmanship of Prof. Abhijeet Sen, Member, Planning Commission to examine the pricing of phosphatic fertilizers and other related issues constituted by Deptt. Of Fertilizers, Ministry of Chemicals and Fertilizers.

## **CHAPTER 4**

### **OTHER ACTIVITIES**

In addition to taking up various studies listed earlier, the Commission continued its efforts to improve its functioning by taking the following measures:

**1. CMIE Database**

Centre for Monitoring Indian Economy (CMIE) was engaged to provide their comprehensive database packages and professional support for retrieval of information to meet the present and future requirement of the Commission.

**2 Human Resource Development**

Human Resource Management continues to be an important activity in Tariff Commission to upgrade the skills of officers in changing economic scenario. In view of the increasing importance of WTO agreement on safeguards, subsidies & countervailing measures and anti-dumping, an intensive customised training programme was organised for all the economic, cost and technical officers of the Commission on these aspects at the Indian Institute of Foreign Trade (IIFT), New Delhi.

There were several other training programmes primarily focusing on WTO, regional co-operations and economic development. International competitiveness of domestic industries was another important area for enhancing their professional competence. Following is the list of important training programmes/seminars in which the officers of Tariff Commission participated during the year:

1. WTO negotiations: Towards Hong Kong Ministerial, organised by the Research and Information System for the Developing Countries, New Delhi.
2. A high level conference on “Asian Economic Integration” organised jointly by RIS, New Delhi and the Institute of South East Asian Studies, Singapore at New Delhi.
3. Regionalism in the World & Asia : Challenges and options before, India organised by RIS, New Delhi.
4. E-Governance: How the Technology changing the rules, organised by Economic Times in association with IBM at New Delhi.
5. Anti-counterfeiting in Automotive Sector, organised by the Society of Indian Automobile Manufacturers (SIAM), New Delhi.
6. Challenges ahead in Paper Industry, organised jointly by INPAPER International and the Tafcon Group at New Delhi

A number of officials from administration, PAs and Stenographers were sponsored to ISTM and NIC for acquiring advance skill on various programmes such as establishment rules, effective noting-drafting, pension and other retirement benefits, and computer training.

### **3. Promotion of Official Language**

The Commission continued to strive towards faithful implementation of various provisions of the Official Language Act and Rules to promote and progressively propagate the use of the Official Language in its working. A “Hindi Pakhwara” was organised during the period from 14<sup>th</sup> Sept.'2005 to 29<sup>th</sup> Sept.'2005. During this period, various Hindi competitions were held, such as - noting & drafting, dictation, essay writing, typing, poems and debates. Response from participants was overwhelming. Prizes were distributed to winners by Member Secretary. Meetings of the Official Language Committee were also held regularly. Books in Hindi were purchased for enriching the existing collection in the library. Sayings of eminent

persons and meanings of difficult Hindi words were displayed on the Boards located at convenient places in the office to popularise the use of Hindi.

#### 4. **Administrative Vigilance**

The Tariff Commission has been vigilant in regard to the maintenance of efficiency and integrity of its personnel and ensuring impartiality and objectivity in their functioning.

All the instructions on vigilance by CVC and extant rules and procedures relating to vigilance matters are adhered to strictly. The Commission has constituted a Complaint Committee headed by a woman officer to deal with the cases of any complaints of sexual harassment of women at workplace as required under the directions of the Hon'ble Supreme Court. No complaint has been received by the committee during the year and a congenial work environment exists for female employees working in the Commission.

#### 5. **Employment of SC/ST/OBC Candidates**

Total employees in position in the Tariff Commission are 107, majority of which is from the organised services like ICAS, IES, ISS, CSS and CSSS. Out of the existing employees, 31 belong to SC/ST and OBC categories. The details of employees of SC/ST/OBC category are as below :-

Sl. No	Group of Post	No. of Posts			
		Filled up	SC's	ST's	OBC
1	Group 'A'	32	5	1	-
2	Group 'B'	29	5	-	1
3	Group 'C'	23	5	1	1
4	Group 'D'	23	12	-	-
	<b>TOTAL</b>	<b>107</b>	<b>27</b>	<b>2</b>	<b>2</b>

