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# STUDY NOTE ON EXTENSION OF EXPORT OBLIGATION PERIOD FOR SPECIFIED INPUT OF NATURAL RUBBER WITH PRE-IMPORT CONDITION UNDER ADVANCE AUTHORIZATION


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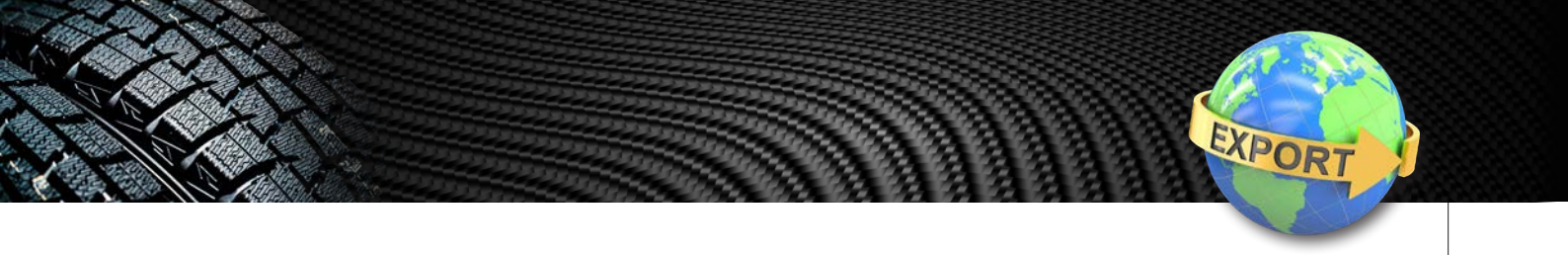
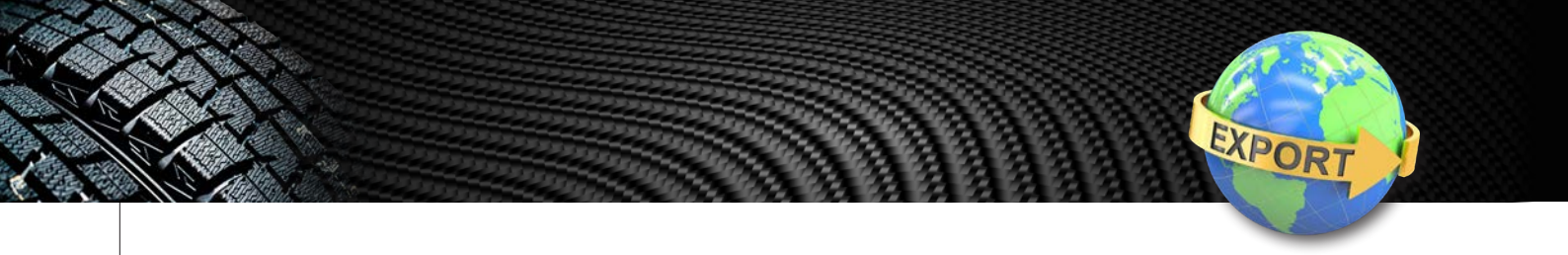



## EXECUTIVE SUMMARY

India's tyre industry, a significant global player, relies heavily on natural rubber as a primary raw material to manufacture high-quality tyres, suited for diverse terrains and global markets. Despite the distinct advantages & increasing demand of natural rubber, the Indian tyre industry faces challenges due to the short Export Obligation Period (EOP) of 6-months coupled with pre-import condition under Advance Authorizations (as per the Appendix-4J released by DGFT) for this crucial raw material, impacting its global competitiveness. The note highlights the widening gap between domestic natural rubber production and industry consumption (domestic & export) in India, necessitating substantial imports of natural rubber to meet the growing demand and export supply competitiveness. Alongside challenges imposed by economic stress & geopolitical volatility, this disparity strains the industry, emphasizing the need for an extended EOP, wherein the current 6-months EOP presents logistical, administrative and production challenges for the tyre industry. Meeting the current export obligations become complex, affecting overall efficiency and competitiveness, under the EOP imposed regime. Intense global competition, especially from countries like China, Thailand, Japan, South Korea and the fast-emerging player, Vietnam, poses a significant challenge for India's tyre industry, particularly for exports. The note underscores the operational, financial & administrative burden imposed by the short EOP, requiring frequent Advance Authorizations applications for small quantities of natural rubber which hampers the industry's ability to efficiently meet export obligations. Global geopolitical tensions and the intricate tyre production process contribute to delays in exports, making it difficult to comply with the short EOP requirements.

The recommendation of extending the current EOP, which is a non-tariff barrier (internally governed), from 6-months to 12-months is imperative for fortifying the industry's stand in the global market and fostering India's position as a competitive force in tyre manufacturing. The proposed extension provides the industry with the necessary flexibility to navigate production challenges, streamline logistics and alleviate administrative burdens. Furthermore, the proposed extension aligns seamlessly with the 'Make in India' initiative, positioning India as a self-reliant & competitive manufacturing destination. It will permit & incentivise the industry to focus on long-term planning, increased investment, research, and development without compromising competitiveness & quality.

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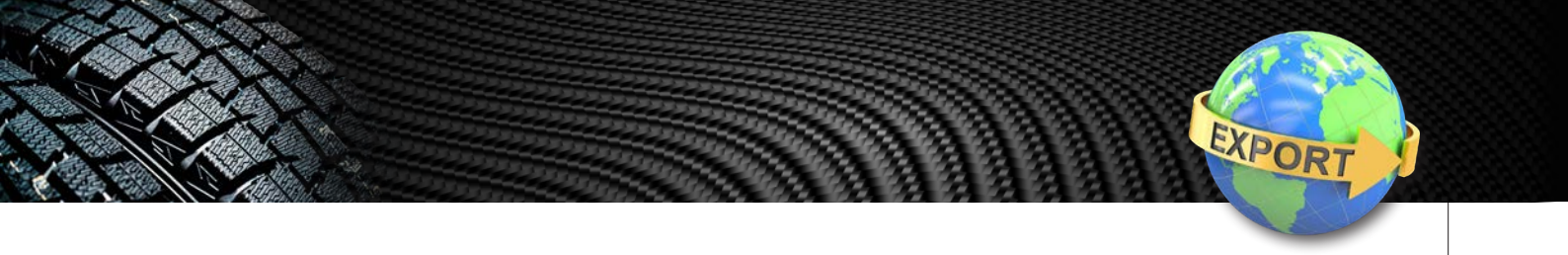



## 1. INTRODUCTION

India, as a major player in the global tyre industry, relies heavily on natural rubber, sourced from the latex of the rubber tree, for its various types of tyre productions. While efforts have been made to explore synthetic alternatives, the distinct qualities of natural rubber remain unmatched. However, this dependency exposes the industry to the volatility of natural rubber prices & production(supply), which are influenced by various factors such as climatic conditions, diseases affecting rubber trees and global geopolitical dynamics etc.

India, with its diverse topography & challenging terrains, places a significant emphasis on the production of tyres. A crucial component in this manufacturing process is natural rubber. Natural rubber's elasticity, resilience and abrasion resistance makes it an indispensable raw material for the production of export quality tyres. The unique demands of diverse terrains, from rugged mountains to muddy fields, necessitate tyres with specific properties that natural rubber provides. The manufacturing process involves stages such as compounding, extrusion, curing, and tread patterning, all of which leverage the qualities inherent in natural rubber.

In the Indian context, the symbiotic relationship between the tyre industry and natural rubber underscores the need for strategic planning and resilience. As India strives to meet the demands of diverse terrains and global markets, a balanced approach that considers environmental sustainability, technological advancements and diversification of raw material sources will be pivotal. Navigating the complexities of natural rubber dependency is not just a challenge for the industry but an opportunity to pioneer sustainable practices and fortify India's position in the global tyre market.

The primary states contributing to India's natural rubber production are Kerala, Tripura, Karnataka, Tamil Nadu, amongst others. Kerala, known for its favourable agro-climatic conditions, leads the country in rubber cultivation. The concentration of rubber plantations in specific regions intensifies the impact of localised factors, such as weather-related events or diseases, on the overall supply chain. India's export performance in the tyre segment is closely tied to its natural rubber dependency. The country's ability to competitively export tyres, depends on factors such as the availability of raw materials especially Natural Rubber, manufacturing capabilities, and market demand. Efforts to enhance production efficiency, improve quality and address environmental concerns, contribute to India's standing in the global tyre market.

## 2. OVERVIEW OF NATURAL RUBBER SECTOR IN INDIA

With reference to data released by the Rubber Board, the industry saw significant growth, with natural rubber production increasing to 8,39,000 tonnes in 2022-23 (provisional), an 8.3% rise compared to the previous year of 2021-22. In terms of consumption, India remains the second-largest consumer, accounting for 9% of the global demand in 2021. The domestic natural rubber consumption reached an all-time peak in 2022-23 at 13,50,000 tonnes, up 9.0% from the quantity of 12,38,000 tonnes consumed during 2021-22. The auto tyre manufacturing sector accounted for 70.3% of the total quantity of natural rubber consumed in the country during 2022-23. The tappable area under rubber was 7,38,640 hectares during 2022-23, of which only 5,66,300 hectares (76.7%) has contributed to the natural rubber production during the year.

As outlined in the National Rubber Policy 2019, both globally and locally, natural rubber is predominantly cultivated by smallholders, with 91% of the rubber planted area and 92% of the production coming from smallholding plantations (below 10 hectares). In India, there are approximately 1.3 million rubber growers and 0.6 million workers in the rubber plantation sector. Notably, many growers in non-traditional rubber-growing areas belong to tribal and economically disadvantaged communities, with reduced extension training imparted by allied departments such as agriculture, etc.

As per the Department of Scientific and Industrial Research, Ministry of Science and Technology, Government of India, Kerala stands out as the primary contributor to the country's natural rubber production, consisting of a total cultivation area of 3.84 lakh hectares. The state's annual output reaches approximately 3.70 lakh tonnes, accounting for over 90% of India's entire natural rubber production. Within this area, small holdings cover 92%, averaging around 0.5 hectares each. Kerala's rubber sector engages approximately 10 Lakh growers and 3.5 Lakh workers, with more than 90% of these individuals belonging to the state. Notably, Kerala hosts a robust network of intermediate rubber units involved in activities like rubber compounding and crumb rubber manufacture, etc. On the other hand, Tripura, the second-largest natural rubber producing state in India following Kerala, cultivates natural rubber across 89,264 hectares of land. The state achieves an annual production of 93,371 tonnes of rubber, contributing significantly to the country's rubber output (1).

India's rubber industry can be segmented into two sector categories: the tyre sector and the non-tyre sector. The tyre sector manufactures various auto tyres, both conventional and radial, exporting to technologically advanced countries like the USA. On the other hand, the non-tyre sector encompasses medium-scale, small-scale, and micro units, focusing on high-tech and sophisticated industrial products. In this category, the small-scale sector contributes to over 50% of rubber goods production (2).

## 2.1 SUPPLY-DEMAND DYNAMICS OF NATURAL RUBBER IN INDIA:

The Graph 1 clearly delineates a widening disparity between the production and consumption of natural rubber in the country. This persistent gap is primarily attributed to the modest growth of production and burgeoning growth of demand by various manufacturing sectors, particularly tyre industry, that have significantly contributed to the overall economic development of India.

Analysing the data from 2005-06 to 2022-23, it is evident that the production (supply) of natural rubber in India has experienced a rather modest year-over-year average growth rate of 0.7%.

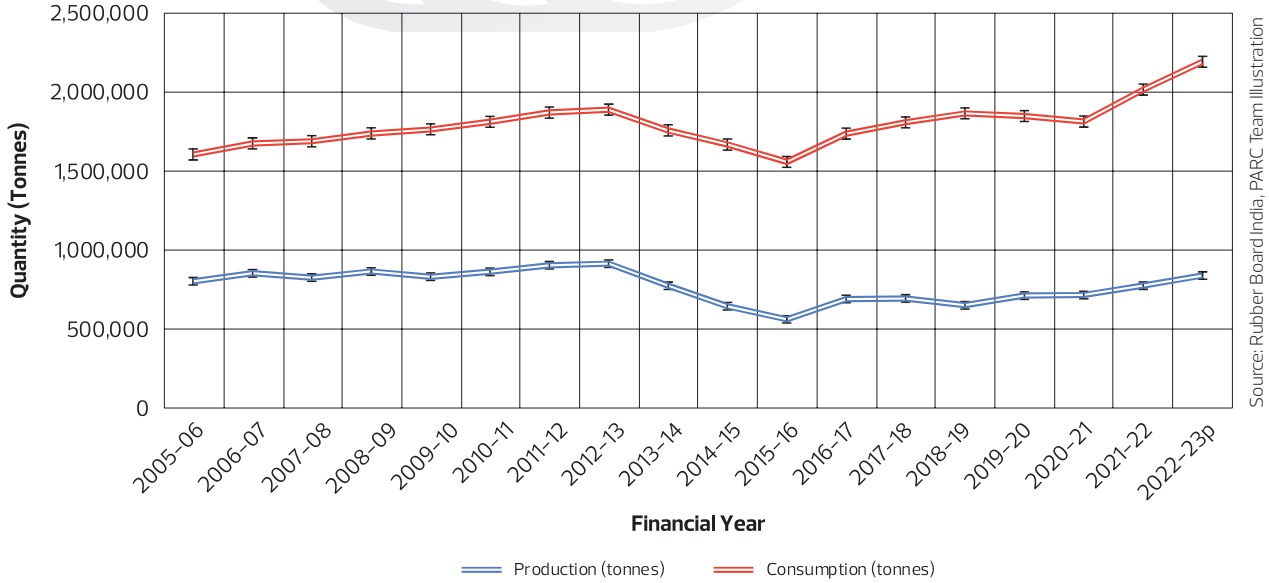
In stark contrast, the consumption (demand) of natural rubber across diverse sectors in the country has displayed a significant year-over-year average growth rate of 3.2% between 2005-06 & 2022-23. Consequently, this stark contrast between supply and demand underscores the substantial and burgeoning gap in the availability of natural rubber in India.

Notably, Graph 2 illustrates that while the gap between demand and supply remained relatively moderate until 2012-13, it underwent a drastic widening post 2013-14. Between 2013-14 & 2022-23, the natural rubber sector faced a staggering demand-supply gap of approximately 36% of the total domestic market demand. This widening gap has necessitated the import of natural rubber to meet the burgeoning export demands of the various sectors relying on this crucial raw material, the largest affected sector is the tyre industry, which accounts for an overwhelming 70% of natural rubber consumption.

In essence, the data highlights the critical need to bridge the growing disparity between the demand and supply of natural rubber in India. Importing natural rubber, to address the existing & potential gap for raw material to supply domestic & export requirements has emerged as the need of the hour to sustain the momentum of economic growth in allied sectors that heavily rely on this indispensable resource. Addressing this gap through imports becomes imperative to ensure the continued growth and stability of industries intertwined with the natural rubber sector as well as to increase the Indian industries competitive edge particularly the tyre industries in the global market.

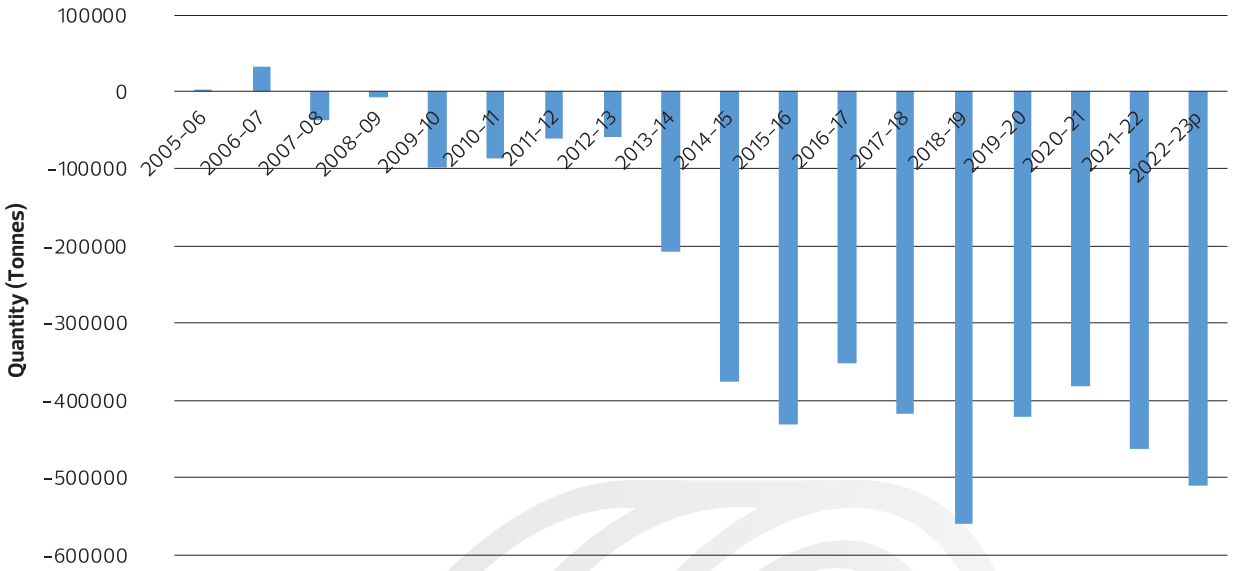
The total natural rubber import declined by 3.2% to 5,28,677 tonnes during 2022-23 compared to 5,46,369 tonnes during 2021-22, as per the statistics published by the Directorate General of Commercial Intelligence & Statistics (DGCI&S), Ministry of Commerce, Government of India. During 2022-23, 89.7% of the total natural rubber import was in the form of block rubber. Among the source countries

**Graph 1: Production-Consumption Trends of Natural Rubber in India**



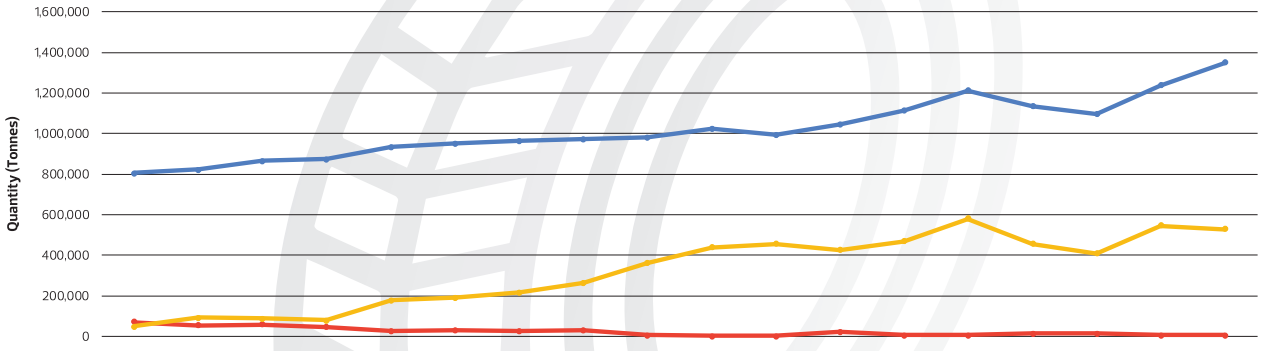

Source: Rubber Board India, PARC Team Illustration

## Graph 2: Production & Consumption Gap of Natural Rubber in India




Source: Rubber Board India, PARC Team Illustration

## Graph 3: Consumption and Import-Export Scenario of Natural Rubber in India




| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23p |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Consumption | 801,110 | 820,305 | 861,455 | 871,720 | 930,565 | 947,715 | 964,415 | 972,705 | 981,520 | 1,020,91 | 994,415 | 1,044,07 | 1,112,21 | 1,211,94 | 1,134,12 | 1,096,41 | 1,238,00 | 1,350,00 |
| EXPORT | 73,830 | 56,545 | 60,353 | 46,926 | 25,090 | 29,851 | 27,145 | 30,594 | 5,398 | 1,002 | 865 | 20,920 | 5,072 | 4,551 | 12,872 | 11,343 | 3,560 | 3,700 |
| IMPORT | 45,285 | 89,799 | 86,394 | 77,762 | 177,130 | 190,692 | 214,433 | 262,753 | 360,263 | 442,130 | 458,374 | 426,188 | 469,760 | 582,351 | 457,223 | 410,478 | 546,369 | 528,677 |

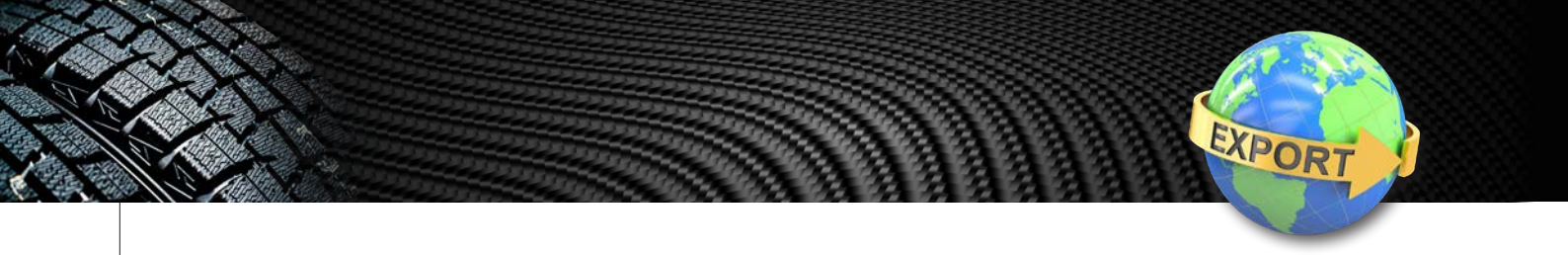
Source: Rubber Board India, PARC Team Illustration

of imports of natural rubber into India, Cote d'Ivoire dominated with a share of 22.9% in the total volume imported during 2022-23, followed by Vietnam (21.8%) and Indonesia (20.7%). Import of natural rubber during the year 2022-23 is valued at INR 7,514.2 Crore. The volume of natural rubber exports from the country increased to 3,700 tonnes in 2022-23 from 3,560 tonnes in 2021-22. The country exported 15.3% Ribbed Smoked Sheet (RSS), 30.7% latex concentrates and 52.4% Technically Specified Rubber (TSR) in 2022-23 and the main destination country was Sri Lanka. Export of natural rubber during the year 2022-23 is valued at INR 51.6 Crore.

The data presented in graph 3 indicates a noticeable increase in the Indian industries consumption of natural rubber, primarily driven by increased manufacturing activities, particularly in the tyre industry and other allied sectors. This shift is reflected in the decline of natural rubber exports, dropping from 73,830 tonnes in 2005-06 to a meagre 3,700 tonnes in 2022-23p. However, the production of natural rubber has struggled to keep up with the heightened demand from Indian industries. Despite the expansion of the tappable rubber area from 4,47,015 hectares in 2005-06 to 7,43,650 hectares in 2022-23p, the average yield of natural rubber has consistently decreased from 1796 kg/ha in 2005-06 to 1482 kg/ha in 2022-23p. This production challenge has resulted in an increased reliance on the import of natural rubber to satisfy the demands of Indian industries and uphold competitiveness in the global market, aligning with international standards.

## 3. OVERVIEW OF INDIAN TYRE INDUSTRY:

The Indian tyre industry has witnessed an increase in the demand for manufacturing tyres for export as well as for domestic sales. There is a significant increase in the demand for truck & bus tyres along with




other segments such as off-road tyres on account of increasing mobility & industrialisation in India and across the globe. The remarkable growth of the tyre industry in recent years is driven by several key factors including a surge in the demand for vehicles, an increase in disposable incomes, a growing trend towards premiumization in both vehicles and tyres, a notable increase in export activities and a concurrent decrease in the import of tyres. These factors have collectively contributed to the notable expansion of the Indian tyre industry. Beyond national borders, the Indian tyre industry is carving its mark on the global stage. The rapid strides made in domestic mobility and the burgeoning industrial landscape across the world are generating strong demand for the tyres. This has led to a drastic upswing in export activities, cementing India's position as a reliable and competitive tyre supplier.

## 3.1 EMPLOYMENT GENERATION:

The tyre industry in India serves as a robust engine for employment creation, offering a spectrum of job opportunities that span over manufacturing, research, marketing and distribution. According to a comprehensive study conducted by CRISIL Market Intelligence & Analytics (MI&A) Consulting for the Automotive Tyre Manufacturers' Association (ATMA), the Indian tyre industry supported approximately 1.9 million jobs in fiscal year 2022. Projections indicate a substantial growth trajectory, with an estimated 3.7 million jobs supported by the industry by fiscal year 2032 (3).

These numbers underscore the industry's commitment in expanding its role as a vital contributor to employment and economic prosperity. Sprawling tyre manufacturing plants, strategically located across the country, employ a considerable workforce comprising both skilled and unskilled labour. This not only bolsters the manufacturing sector but also establishes the industry as a significant employer on a national scale. Furthermore, the ripple effect of employment extends beyond the confines of manufacturing plants, extends into associated sectors such as logistics, retail, and aftermarket services. The symbiotic relationship between the tyre industry and these associated sectors highlights the industry's overall impact on job creation & emerging employment opportunities in the country. The resulting network of employment opportunities has a profound incremental effect on the standard of living for numerous households and contribution to poverty alleviation, aligning with the broader goal of inclusive economic development.

## 3.2 CONTRIBUTION TO THE ECONOMY:

The tyre industry holds a significant position within the manufacturing sector in India. The sector contributes to the development of a robust manufacturing ecosystem, with the production of raw materials, machinery, and other auxiliary products. Furthermore, the tyre industry has spurred technological advancements in manufacturing practices, driving innovation and efficiency. This, in turn, has a positive impact on the overall competitiveness of the manufacturing sector, fostering a conducive environment for industrial growth. The economic significance of the tyre industry is evident in its contribution to the country's Gross Domestic Product (GDP). As a leading player in the manufacturing sector, the tyre industry's contribution to India's manufacturing GDP stands at 2.2% in fiscal year 2022 which is projected to increase to 3.4% by fiscal year 2032 as per CRISIL (3). The sector's output, including production and sales, contributes a substantial share to the overall GDP. The value chain of the industry encompasses various stages, from raw material procurement to the distribution of finished products, thereby creating a multiplier effect on economic output. The Indian tyre industry's contribution to Good & Services Tax (GST) currently stands around US$ 2 billion in fiscal year 2022. The Indian tyre industry's enhanced turnover will not only impact manufacturing GDP but will also lead to an increase in its contribution to GST, reaching US$ 4.1 billion in fiscal year 2032 (3). This surge in GST contribution reflects the industry's increasing economic significance and financial contribution to the national exchequer.

## 3.3 UNDERSTANDING INDIAN TYRE EXPORTS AND COMPETITIVE DYNAMICS IN THE GLOBAL TYRE MARKET

India's tyre industry has played a pivotal role in boosting the country's export performance. Over the years, tyre exports have seen a remarkable fivefold surge, increasing from INR 3,444 crore in financial year 2009-2010 to INR 23,124 crore in financial year 2022-2023. Notably, the year 2021-22 marked a significant milestone with a 50% surge in export value compared to the preceding financial year 2020-21. This surge in tyre exports has made a substantial contribution to India's foreign exchange earnings, reinforcing its economic standing on the global stage. Presently, India's domestically manufactured tyres find their way to more than 170 countries worldwide, including highly discerning markets in North America and Europe. The United States remains the primary export market for Indian-manufactured tyres, constituting 19% of the

total exported tyres in the year. The top five export destinations for Indian tyres in the fiscal year 2022 were the United States, Germany, Brazil, the United Kingdom, and France (3). This demonstrates the industry's robust presence and success in diverse international markets.

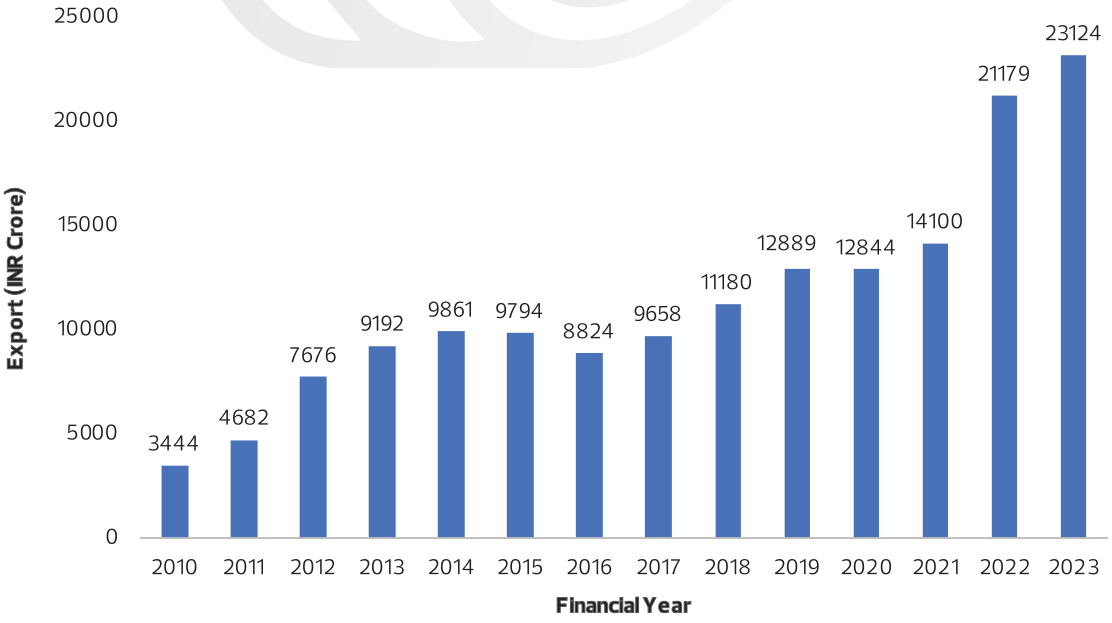
The Indian tyre export industry operates in a highly competitive landscape within the Asian continent. The first major competitor is China, followed by the Association of Southeast Asian Nations (ASEAN) countries, in addition to developed-market economies such as Japan and South Korea. The ASEAN countries have attracted global tyre manufacturers due to the perennial availability of natural rubber and a readily available & cost-effective workforce. This influx of manufacturers has fostered the development of substantial tyre production capabilities within the ASEAN region, resulting in a burgeoning export market that competes directly with Indian tyre exports.

India's position in this scenario reveals a mixed picture, suggesting stability with potential, should the policy interventions be favourable from an export standpoint, under current & future geopolitical threats. According UN Comtrade data for export tyres, despite witnessing a commendable growth rate of approximately 55% in tyre exports in 2021 and 11% in 2022, India is still in the 7th position globally in terms of tyre exports, trailing significantly behind major competitors such as China, Thailand, Germany, Japan, United States, and South Korea in 2022. The disparity is particularly stark when considering that China's tyre exports were valued at 6 times more than India's in 2022, and Thailand had consistently doubled the export value of tyres compared to India's export value between 2017 and 2022. Thailand's success in tyre exports is intriguing, considering its modest economic size of US$ 408 billion in 2022. However, its distinction as the largest global producer of natural rubber, contributing to 35% of the market share in 2022 through the production of 4.75 million metric tonnes, underpins its remarkable 2nd rank in global tyre exports.

China has established a commanding presence in the international tyre export market, boasting a substantial 20% market share. Due to inadequate local natural rubber supply, China relies on imports for 80% of its natural rubber requirements, sourcing primarily from countries such as Thailand, Malaysia, Côte d'Ivoire, Vietnam, and Indonesia. Notably, Thailand stands as the principal natural rubber supplier to China. With access to reasonably priced imported natural rubber and a favourable import & export taxation framework for value-added rubber products like tyres, China has solidified its position as the world's largest tyre exporter.

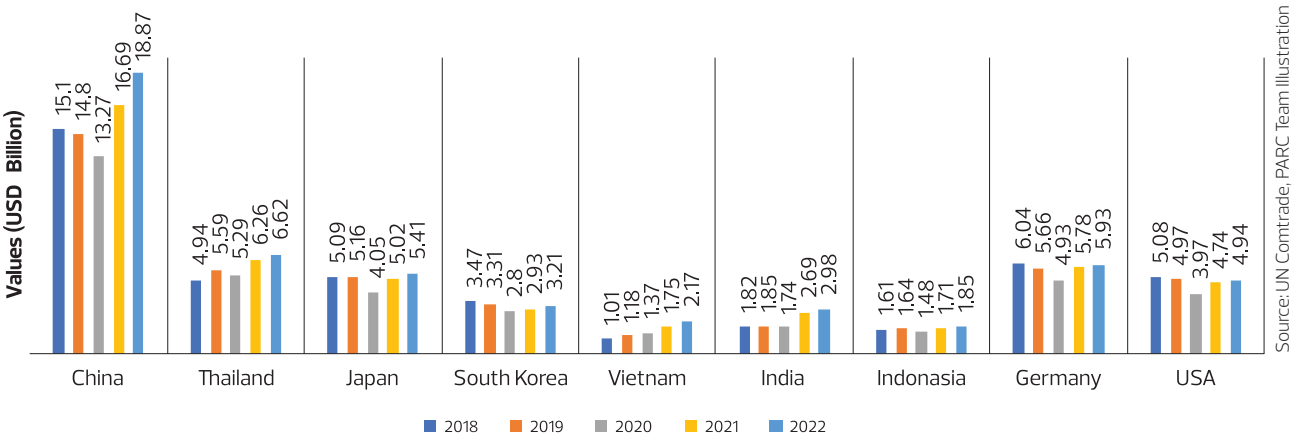
Of the total natural rubber consumption in Japan, more than 90% is utilised by the tyre industry. In order to ensure continued natural rubber supply, the country has strategically cultivated reliable partnerships and direct investments in key rubber-producing nations like Thailand, Indonesia, Vietnam, and Malaysia. This proactive approach extends beyond simple import reliance, as Japanese entities have established rubber farming and processing facilities in countries like Indonesia, Liberia, Cambodia, Laos, and Myanmar (4). Along with assured continued supply of

**Graph 4: India's Tyre Export Trends**




Source: Ministry of Commerce and Industry-Government of India, PARC Team Illustration


**Graph 5: Global Tyre Export Trends**




imported natural rubber, Japan's tyre manufacturers stand out for their continuous investment in cutting-edge technologies and efficient value chain management systems.

A comparison between India and Vietnam, despite India's economic size being approximately seven times larger, reveals a modest 14% year-over-year growth in tyre exports between 2017 and 2022, whereas Vietnam experienced a more robust 19% growth rate during the same period. Vietnam's strategic benefit from multiple trade agreements, including free trade agreements with major economies and regional blocs, has facilitated unhindered access for its goods to various markets, effectively minimizing trade restrictions and non-tariff barriers. Notably, among the exported goods and services, Vietnam's tyre exports emerge as a standout beneficiary, augmenting its competitive edge in international trade.

In light of these observations, it is imperative to extend the EOP from 6 months to 12 months which will provide the required competitive edge to the Indian tyre industry to compete with other major countries without harming the exchequer of the government. Thus, to maintain India's remarkable trajectory in tyre exports and capitalize on the global economic resurgence, continued access to natural rubber through imports and extending the EOP from 6 to 12 months becomes the need of the hour.

# 4. EXPORT OBLIGATION PERIOD AND ITS IMPACT ON THE TYRE INDUSTRY

## 4.1 OVERVIEW OF EXPORT OBLIGATION PERIOD (EOP)

The Export Obligation Period is a crucial element of India's Foreign Trade Policy (FTP) that governs the export-import trade regulations in India. The EOP refers to the duration specified for fulfilling the export commitments made by an exporter under various export promotion schemes and duty exemption/remission schemes. The duration of the EOP may vary based on the specific export promotion scheme or duty exemption/remission scheme availed by the exporter. Some of the prominent schemes include the Export Promotion Capital Goods (EPCG) Scheme, Duty-Free Import Authorization (DFIA) Scheme, Advance Authorization (AA) Scheme, amongst others.

During the EOP, exporters are required to fulfil their export commitments as per the terms and conditions of the respective scheme. This generally involves achieving the prescribed level of export performance within the stipulated time frame. Failure to fulfil the export obligations within the specified period can lead to penalties, including the requirement to pay necessary duties, along with other punitive actions as stipulated in the FTP. In certain cases, exporters can apply for an extension of the EOP due to genuine reasons such as unforeseen circumstances or macroeconomic developments. Exporters must maintain accurate records and documentation to demonstrate compliance with the EOP requirements. This includes maintaining records of exports, realisation of export proceeds, and other relevant documents. Compliance with the EOP is a pre-requisite for exporters to benefit from the incentives and concessions provided under these schemes while contributing to the overall objective of promoting exports and enhancing the country's trade competitiveness.

## 4.2 EXPORT OBLIGATION PERIOD WITH PRE-IMPORT CONDITION IN THE CASE OF IMPORTED NATURAL RUBBER

As per the APPENDIX – 4J notification released by the Directorate General of Foreign Trade (DGFT), the EOP for natural rubber is explicitly set at 6 months (5). The exporters are also required to comply with the

pre-import condition. The 6 months EOP is reckoned from the date of clearance of each import consignment by Customs Authority. This denotes a brief yet crucial timeframe within which businesses and individuals engaging in the import of natural rubber are obligated to fulfil their export commitments. The inclusion of natural rubber in this specialised appendix emphasises the importance of adhering to the prescribed time limit in the context of trade regulations. Compliance with the EOP and the pre-import condition is not only a regulatory requirement but also a strategic imperative for businesses. It underscores the need for efficient planning and execution to meet export targets within the stipulated time frame. Non-compliance may lead to penalties or other consequences outlined in the trade regulations.

## 4.3 UNDERSTANDING THE ISSUE

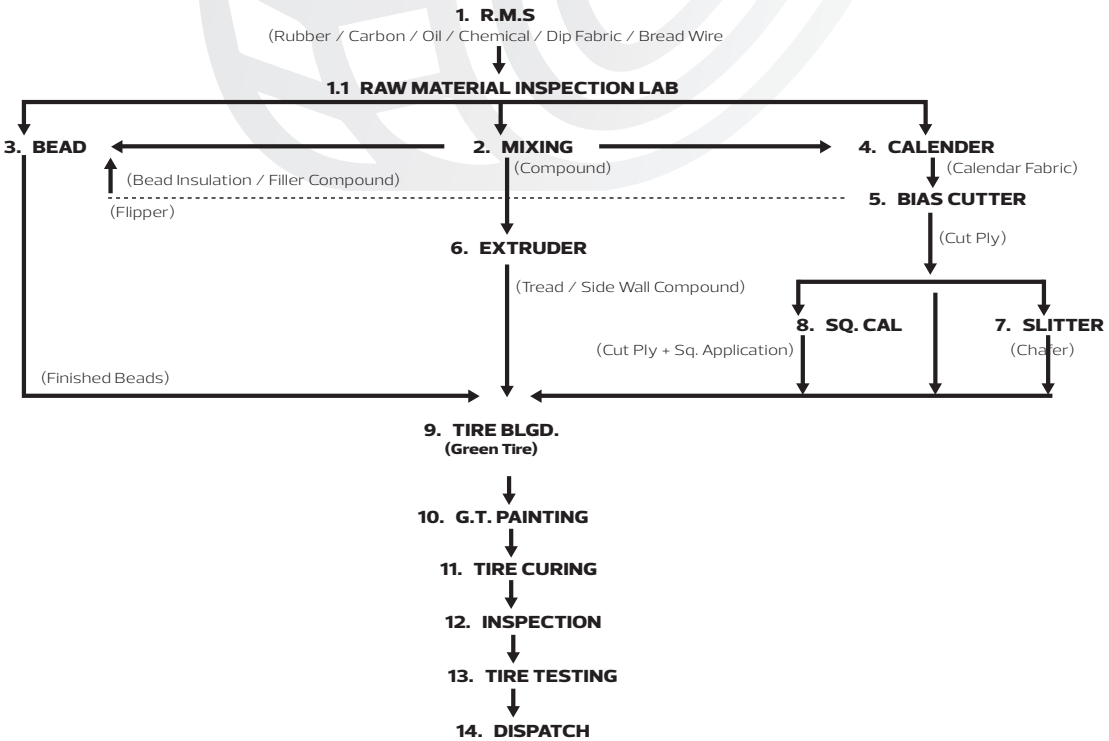
The Indian tyre industry grapples with a significant challenge stemming from the short 6 months EOP and pre-import condition mandated for natural rubber under Appendix-4J. This constraint poses serious implications for the industry's global competitiveness, when compared to the progressive regimes from competing nations. The EOP necessitates frequent applications for small quantities of natural rubber under AA, leading to a significant administrative burden on Indian tyre industries. This translates to substantial time investments in application preparation and diligent monitoring of their import and export statuses. Fluctuations in market conditions, uncertainties in order placement, delays in delivery and port procedures, and logistical complexities make timely export within the EOP timeframe difficult. These factors severely impact the industry's ability to meet export obligations and compete effectively in the global market.

## 4.4 SHORT EXPORT OBLIGATION PERIOD FOR IMPORTED NATURAL RUBBER AND ITS IMPLICATIONS ON THE TYRE INDUSTRY

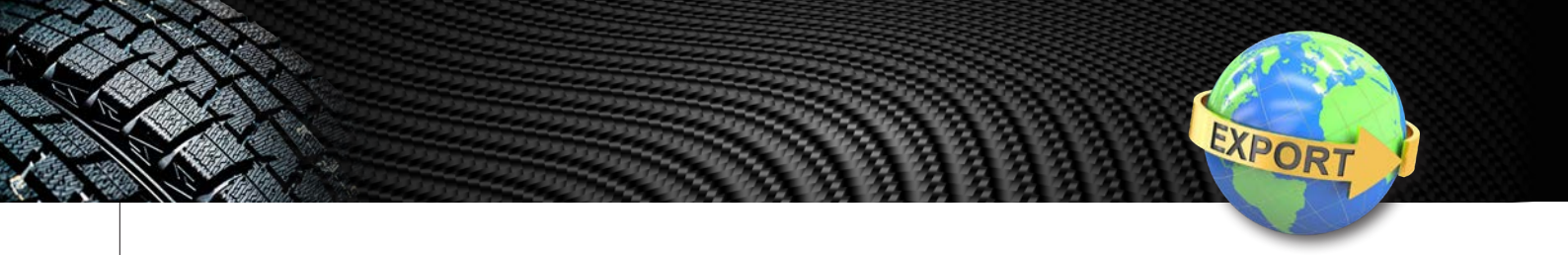
### 4.4.1 Complex Production Process:

- Manufacturing a good quality tyre, demands complex assembly of over 20 essential components, ranging from Rubber Chemicals, Carbon Black, Silica Fillers, to Consumables, Processing Oil, Synthetic Rubber, Zinc Oxide, Antioxidants, Accelerators, and Nylon Fabric, among others. The comprehensive production process starts with sourcing these diverse inputs, followed by meticulous processing, intricate production, and culminating in the meticulous stages of finishing and packaging. Each step in this multifaceted process demands substantial time and attention to detail, ensuring the high-quality end product that meets global industry standards and this demands for extending the EOP from existing 6 months to 12 months.

### Tyre Manufacturing Process Flow Chart




Source: Open Source




### 4.4.2 Logistical Burden & Inefficiencies:

- Significant time is invested in various stages of the export process. This includes the transit of export cargo through Inland Container Depots (ICDs) and its journey on board in alignment with customer delivery schedules. Time is also allocated to address procedural complexities, compliance with Rubber Board's procedure of seeking it's No Objection Certificate for import of Natural Rubber, the movement of goods from the factory to the port, internal port procedures, container loading onto vessels for export from India, and potential delays caused by port congestion or unforeseen circumstances. Moreover, Customs examinations, often randomly selected, further contribute to the timeline. Considering the cumulative impact of these time-consuming multifaceted processes, it is observed that a short period of 6 months' is not sufficient for the industry to meet their export obligation.

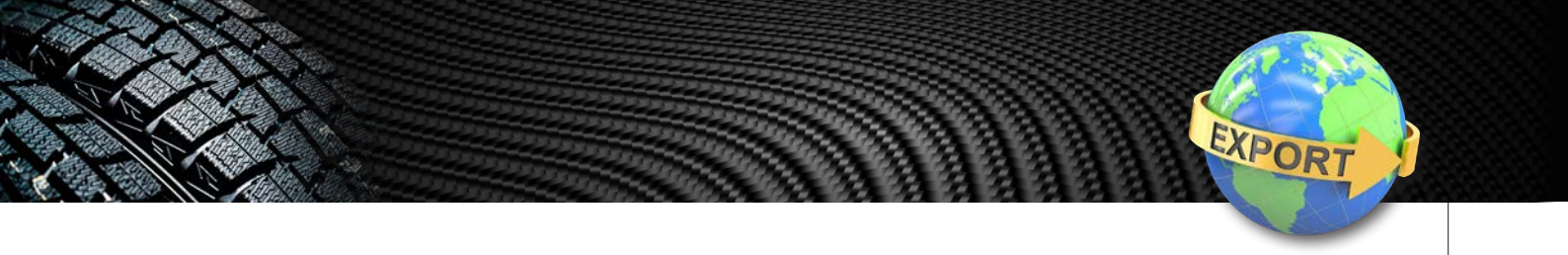
  For Example: A significant portion of the natural rubber imported into India originates from parts of Africa, a continent that faces severe developmental challenges, particularly in terms of its port & logistics infrastructure. This inadequacy in basic port infrastructure directly impacts the availability of containers and shipping liners. Compounding these issues result in the competition for container space with high-value agricultural products such as coffee, cocoa, and others. Acquiring container space within the pre-agreed timelines becomes a formidable challenge due to this competition, often leading to difficulties in securing the required space for transporting natural rubber shipments from Africa to India.

### 4.4.3 Geopolitical Tensions:

- The enduring conflicts across various regions globally, such as the Russia-Ukraine war, the Israel-Palestine conflict, among others, have significantly disrupted the global supply chain. These disruptions have caused notable delays in importing necessary raw materials and have also impacted export processes. Consequently, meeting export obligations within the relatively short 6 months EOP has become increasingly challenging. In many cases, the tyre industry is compelled to pay duty on imported materials, thereby increasing the cost of finished goods and making export of tyres less competitive in the global market.
- With lengthy supply chain along with the pre-import condition of Advance Authorizations, tyre manufacturers must import natural rubber well in advance of production to export tyres. However, confirmed demand often faces sudden fluctuations due to customer requests for either immediate or delayed delivery, leading to unexpected adjustments. The 6 month EOP for imported natural rubber, as specified in Appendix-4J, commences from the date of Bill of Entry. This time period of 6 month, coupled with demand fluctuations, creates a risk of non-compliance under the pre-import condition. Over the last 3-4 years, the tyre manufacturers are facing considerable demand volatility on account of various factors such as post-COVID-19 economic recovery, shipping container disruptions, the Russia-Ukraine conflict and other geopolitical tensions, amongst other factors. On account of these global scenarios, the tyre manufacturers are facing significant challenges in meeting the pre-import condition followed by fulfilling their export obligations within the stipulated 6 months timeframe.

### 4.4.4 Administrative Burden:

- If there is a failure to meet the EOP within the specified timeframe, the procedure involves a series of steps to obtain an extension. Initially, an application for an extension of 3 months must be submitted to the relevant Regional Authority (RA) along with a composition fee. However, if the extension requirement exceeds this period, the application escalates to the Policy Relaxation Committee (PRC) at the DGFT in New Delhi. To secure further extension beyond the initial three 3 months, a payment of relevant composition fees is mandatory, introducing an additional cost into the process. This multi-step process involves escalating levels of authority and incurs supplementary expenses, potentially impacting the overall financial and operational aspects for the entities involved.
- Owing to the issuance of large number of advance authorizations, it becomes imperative for the authorization holder to diligently oversee and track both import and export shipments linked to each unique authorization. The authorisation holder has to comply first with the pre-import condition followed by fulfilment of export obligation within 6 months from the date of import. This cumbersome monitoring process necessitates careful attention to detail, involving the close supervision of various import and export consignments associated with individual authorizations.




- Given the short 6 months EOP, the facility of clubbing does not provide significant assistance in cases where there is excess export in one authorization and a shortfall in another.

- In the scenario where a segment of the overall imported Natural Rubber, covered by a specific advance authorization, faces rejection upon delivery at the plant, the process of re-exporting this rejected portion and reclaiming authorization credits for the re-exported quantity is a time-consuming affair.
  - Re-exporting rejected shipments necessitates a prolonged timeline, surpassing the standard duration, before the authorization can be effectively re-credited for the quantity that has been successfully re-exported. This extended timeframe to rectify rejected imports significantly elongates the resolution process, potentially impacting operational timelines and resource utilisation for the entities involved in this complex supply chain procedure.
- In case of natural rubber, the facility of filing in advance Bill of Entry (BOE) cannot be utilised by importers because once BOE filed in advance, export obligation for natural rubber immediately starts eating off the mandated 6 months duration even before importers get the shipments on port.

### 4.4.5 Change in Consumption Pattern:

- Large scale tyre manufacturers are involved in the production of more than 3000+Stock keeping units (SKUs) falling under multiple HS codes, further sub-classified into multiple codes in the Systems, Applications & Products (SAP) system. Each internal sub-classification comprises various SKUs. Norms for each HS code is determined based on the actual consumption of input materials to produce the total number of tyres under multiple sub-classifications during the preceding year. Changes in sales patterns or variations in the composition of recipes by customers result in changes in material consumption, leading to excess or shortfall of natural rubber in a particular authorization. The short EOP leaves large manufacturers and exporters with limited time to address these changes, resulting in the burden of payment of duty with interest.

### 4.4.6 Shipping & Delivery process:

- In the business approach adopted by major tyre manufacturers, after a customer is on board, a comprehensive price list for all applicable SKUs is finalised and entered into the system. Customers, often distributors within a specific country, make periodic smaller orders based on their requirements. These orders might range from smaller loads (Less than Container Load – LCL) to larger ones (Full Container Load – FCL) for shipping.
  - In the case of LCL shipments, the order gets registered in the system, but the actual production is scheduled once further orders are received from the same customer meeting the required Minimum Order Quantity (MOQ). This consolidation process aims to combine multiple smaller orders into one FCL shipment. However, this method occasionally causes delays in the export process.
- As a general trend, customers place orders for future delivery, say, after 2-3 months from the date of order. While the order is entered into the system, the actual shipment is made according to the customer's required delivery date, causing delays in export under AA.
- Some customers have imposed monthly limits on the number of containers they can receive, determined by their container handling and storage capabilities. Despite having multiple container orders, tyre manufacturers are unable to ship them because of these restrictions. This situation results in export delays under AA.
- Export delays are influenced by various global events and cultural observances. Christmas vacations worldwide, summer breaks in Europe, and Ramadan contribute to these delays. Moreover, India's festive season causes a labour shortage at the plant, affecting various production-related tasks. The combination of labour scarcity and global festive holidays throughout the year impacts production timelines, subsequently causing delays in exports.
- Most of the large-scale tyre manufacturers' SKUs include slow-moving items, which are less in demand due to their specific application & usage nature. Advance Authorizations obtained for exports of these slow-moving items consistently face the issue of non-fulfilment of export obligation within the EOP.
- The majority of large-scale tyre manufacturers execute exports based on Letters of Credit (L/C) and import licences provided by the importer. Any delay experienced in the process of opening an L/C or acquiring an import permit by the importer directly impacts the export timelines, leading to delays.
- Besides Natural Rubber, the tyre industry imports various other raw materials crucial for tyre


production. Import orders often encompass tubes/ flaps, etc., which are procured externally. Delays in the supply chain of these specific components directly affect the export timeline of the final goods.

### 4.4.7 Geographical factor & Weather condition:

- Natural rubber cultivation primarily occurs in the equatorial belt, which shares growing conditions akin to the Amazon region. Consequently, weather variations wield substantial influence over the output of natural rubber. The production of natural rubber isn't consistent year-round, prompting large-scale tyre manufacturers to strategize for periods of lower output. To manage these fluctuations, they often require increased stock during lean periods or opt for staggered deliveries. However, this approach often encounters resistance from the seller who may not always agree to such terms, leading to delay in export.

## 5. WHY EXTENDING THE EOP FROM 6 MONTHS TO 12 MONTHS FOR IMPORTED NATURAL RUBBER IS THE NEED OF THE HOUR?

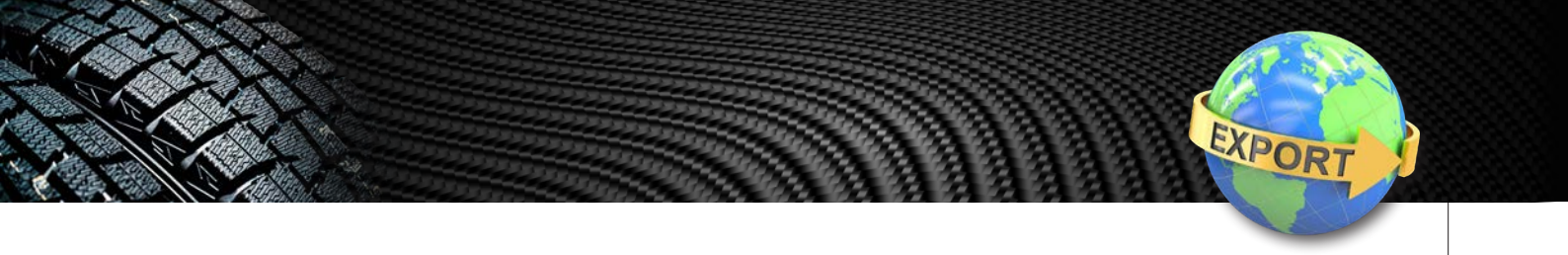
India's aspiration to emerge as a global manufacturing hub demands a comprehensive and proactive approach, encompassing strategic planning, robust infrastructure development and a supportive policy environment providing for robust & competitive incentives. This is particularly crucial for industries such as tyre manufacturing, which caters to the diverse terrains and demands of international markets. The extension of the EOP will act as an essential catalyst required for India to emerge as a global manufacturing hub in the tyre sector. This strategic move will offer numerous benefits, ranging from addressing production challenges to streamlining shipping & delivery processes, alleviating administrative burdens and optimising logistics.

**1. Navigating Production Challenges:** The extended EOP will provide a much-required breathing space for the Indian tyre manufacturing industry to navigate through the intricacies of production challenges. Fluctuations in raw material prices, a common hurdle in manufacturing, can be better managed with an extended period, enabling manufacturers to adapt to market dynamics. Furthermore, uncertainties in the supply chain, often exacerbated by unforeseen events, can be mitigated with a longer export obligation timeline, providing for a much-needed cushioning effect in the current volatile times. This flexibility empowers manufacturers to focus on long-term planning, invest in research and development, and adopt sustainable practices without compromising competitiveness.

**2. Overcoming Logistics Hurdles & Boosting Timely Exports:** The extended EOP will not only aid in overcoming production challenges but also streamline the shipping and delivery process. Timely exports hinge on efficient logistics and the extension of EOP provides manufacturers with the necessary time to optimise shipping routes, negotiate favourable contracts, and implement advanced technologies for better supply chain management. This enhancement in logistical efficiency contributes significantly to meeting global delivery timelines, fostering customer satisfaction and reinforcing India's reputation as a reliable manufacturing partner.

**3. Alleviating Administrative Burdens:** Administrative burdens often impede the smooth functioning of industries and the tyre manufacturing sector is no exception. The extended EOP will act as a strategic tool to alleviate administrative burdens by providing manufacturers with the breathing space needed for meticulous documentation, compliance and regulatory adherence. This, in turn, will foster a conducive environment for manufacturers to focus on innovation, quality control, and efficient resource utilisation, enhancing overall industry competitiveness.

**4. Remaining & Growing competitive Globally:** According to WorldsTopExports.com, in the tyre exports, India holds the 7$^{th}$ rank in the global position, although it lags significantly behind dominant market leaders such as China and Thailand. The dominance of China, which commands a substantial 20.6% share, underscores the vast disparity, with China exporting nearly six times the value of tyres compared to India. Moreover, Thailand, Japan, and South Korea emerge as formidable competitors, boasting more established tyre industries and capturing larger market shares in Indian companies' markets in Europe and US. Another entrant into this competitive landscape is Vietnam, which is rapidly increasing its export value and potentially pushing India further down the global rankings. Furthermore, infrastructure limitations within India, particularly in logistics and transportation along with a short duration of 6 months of EOP for imported natural rubber, affects the efficiency of export operations, adding an additional layer of complexity to the competitive landscape faced by the Indian tyre industries. Hence, extension of EOP from existing 6 months to 12 months becomes crucial for Indian tyre manufacturers to compete with other dominant players in the global tyre market.




**5. Catalysing the 'Make In India' Vision:** As India aims to position itself as a global manufacturing hub, addressing logistical burdens becomes paramount, the extended EOP will play a pivotal role in achieving this objective and this move aligns seamlessly with the "Make in India" vision. It will position India as a self-reliant and competitive manufacturing destination, capable of meeting the demands of diverse terrains & global markets.

## 6. CONCLUSION

In light of the intricate dynamics within India's tyre industry, particularly its dependence on natural rubber, there is a compelling case for extending the current EOP from 6 months to 12 months. This recommendation is grounded in the multifaceted challenges faced by the industry, spanning production intricacies, logistical complexities, and administrative burdens. The extension aligns strategically with the overarching goal of the "Make in India" initiative, encouraging further investment & capacity building of tyre manufacturing infrastructure and shall play a catalytic role in positioning India as a robust & competitive global manufacturing hub. The comprehensive analysis presented underscores the critical role of natural rubber in the tyre manufacturing sector, particularly for export segment tyres which caters to global demands. The symbiotic relationship between the tyre industry and natural rubber necessitates a balanced and strategic approach to overcome challenges and capitalise on opportunities. The demand and supply dynamics of natural rubber in India, as outlined in the 2022-23 annual report from India's Rubber Board, reveal the significance of the tyre industry's reliance on natural rubber and the consequential positive impact on India's economic landscape. With a clear emphasis on the contribution to employment, economic growth and India's GDP, the tyre industry emerges as a vital player in the manufacturing sector. As per the analysis, the 6 months EOP proves to be restrictive, leading to inefficiencies in the export process, increased administrative burdens, and challenges in meeting global demand variations. Addressing these issues requires a shift towards a more extended EOP. The convergence with the "Make in India" initiative forms a pivotal aspect of the recommendation to extend the EOP from the existing 6 months to 12 months. By providing the industry with a 12 months EOP, India's tyre manufacturing sector gains the flexibility needed for efficient planning, adaptation to market dynamics and a focus on long-term sustainability.

In conclusion, alongside extending the EOP from 6 months to 12 months being a strategic move, it is an imperative step towards realising India's vision of becoming a reliable global manufacturing hub. The recommendation is rooted in the tyre industry's need for adaptability, resilience and competitiveness. The implications of this extension reach beyond administrative ease, directly impacting production efficiency, supply chain management, and global competitiveness. As India positions itself on the global manufacturing stage, this policy change becomes instrumental in fortifying the tyre industry's stand and contributing to the broader economic objectives.

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