

Exporters in a fix over possible tariff cost split

Begin talks with buyers, particularly for goods arriving at US ports on or after Aug 1

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Indian exporters have begun engaging with American buyers to discuss how a potential additional tariff burden would be split if New Delhi faces a 26 per cent reciprocal tariff in case an interim trade deal is not finalised by August 1.

Currently, a 10 per cent ad valorem tariff, over and above the existing most-favoured-nation (MFN) duty, continues on American imports. However, from August 1, the US administration is set to impose steep, country-specific reciprocal tariffs on its trading partners.

The discussions are particularly critical for goods that have already been shipped and will arrive at American ports on or after August 1, as the additional 16 per cent tariff could significantly impact costs.

"Typically, the 'one-third principle' is applied, where a third of the addi-

Growing cautious

- Uncertainty over tariffs impacting the bottom lines of exporters
- 26% reciprocal tariff on India could dent demand, especially for high-value items
- There will be continuity in trade since first tranche of India-US BTA may be signed in the next two-three months

tional tariff cost is absorbed each by the exporter, importer, and the consumer. Such discussions have already begun between buyers and sellers, especially for consignments that will reach the US after August 1," said Ajay Sahai, director-general and chief executive officer of the Federation of Indian Export Organisations (FIEO).



The main issue will boil down to what extent and how the additional tariff will be absorbed by businesses.

Exporters say a 26 per cent reciprocal tariff would definitely be a setback, and the uncertainty around tariffs since April has already been affecting their margins. An additional 16 per cent tariff could dent demand for In-

dian exports in the US, especially in the case of high-value items, such as electronics and gems and jewellery. That apart, companies will also have to assess the competitor nation's tariff impact. For example, India may face lower tariffs than China but almost at par with Vietnam.

Ravi Patodia, former president of All India Carpet Manufacturers' Association, said the changing deadlines for the implementation of reciprocal tariffs by the US had created uncertainty for exporters, affecting the demand profitability.

"We are also expected to absorb the 50 per cent of the increased tariff cost," Patodia said, adding that in the case of carpets, India's main competitor is Turkey, which will face a 10 per cent reciprocal tariff. This will definitely give Turkey an edge over India, he said.

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■ Few, if any, tariff lines exclusions in India-UK FTA, says MEA P4 ►

UNCERTAINTY OVER INTERIM US TRADE DEAL

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On the brighter side, even if India and the US fail to finalise an interim deal by August 1, talks will continue for the conclusion of the first tranche of the bilateral trade agreement over the next two to three months.

“Since buyers and sellers are aware that the 26 per cent reciprocal tariff will be in place only for a limited period of time and a deal could be finalised in the

next two-three months, they will ensure that there's continuity of trade,” Sahai said.

Mukesh Kansal, chairman of CTA Apparels, said buyers were growing increasingly cautious and this hesitancy is translating into deferred commitments, shorter procurement cycles, and tighter lead times.

“It is making it harder for Indian exporters to remain price-competitive, especially

against peers in nations with established trade agreements with the US. Any reduction in duties (under the trade pact) for Indian products can be a major booster for our exports to the US – our largest apparel market. On the other hand, if preferential tariffs are extended to competing nations without reciprocal benefits for India, we risk losing market share,” Kansal said.