

“Timely and flawless implementation of GST will transform the future of Indian logistics industry”



“A unified tax system is one necessary condition for a common market to exist, permitting free and unimpeded movement of goods and services across a federation, thus encouraging efficient regional specialization,” suggests **D P Agarwal**, vice chairman and MD, Transport Corporation of India, in an interview with **Prerna Sharma**. Excerpts...

HOW HAS THE UNION BUDGET FARED IN BOOSTING THE PERFORMANCE OF THE INDIAN LOGISTICS INDUSTRY?

The Union Budget 2009-10 is a conservative one and gives limited thrust to the logistics sector. Moreover, the recent announcement by the government to raise diesel prices by 6-7 per cent will adversely affect the industry. However, the Budget has outlined measures to speed-up infrastructure development and we are hopeful that the proposed investment would help the Indian economy come back on the growth trajectory. Development of roads and highways in urban and rural India will reduce infrastructure bottlenecks and augment the smooth movement of trucks. The move to extend the service tax net to goods carried by Indian railways or those through coastal cargo will enable a level-playing field in the goods transport sector. We are glad that the Economic Survey has highlighted the need for a

THE SINGLE-MOST IMPORTANT REFORM THAT THE BUDGET HAS PROPOSED IS THE INTRODUCTION OF GST, WHICH PREVENTS TAX ON TAX AND UNIFIES DISPARATE MARKETS ACROSS THE COUNTRY, THEREBY BRINGING IN A COLLECTIVE GAIN FOR BUSINESSES, CONSUMERS AND GOVERNMENTS.

Today, most of the companies design their distribution network keeping in mind taxation structures rather than the requirements of servicing customers at optimal cost. These companies operate with at least one distribution center or CFA in each state, where they sell, to avoid interstate CST. With GST in place, the total warehouse space is expected to reduce by 20-50 per cent and save cost in terms of space rentals. Also, with requirement for less number of warehouses, companies can invest in equipments such as material handling systems, and IT cost can come down substantially.

IN WHAT WAYS INFRASTRUCTURE BOOST IN THE BUDGET IS GOING TO BE THE DRIVING FORCE FOR THE LOGISTICS INDUSTRY?

Infrastructural bottlenecks put extreme pressures on supply chains and logistics capabilities. To raise the bar on service standards, world-class infrastructure is vital. Investment in the infrastructure sector proposed in the Budget would ensure decongestion on roads and highways, which would greatly enhance the quality of trade in logistics industry. Moreover, dedicated freight corridors and increase in the number of wagons will add to the capacity of Indian Railways, improve transit between two

destinations and reduce operational costs.

WHAT ARE THE FIVE THINGS THAT WOULD ENHANCE THE PERFORMANCE OF THE INDUSTRY?

- Extending the national highway network and widening/upgrading existing highways. The focus should also be on building high-quality arterial roads and access-controlled highways
- Implementation of proposed plans for setting up mega logistics hubs and development of dedicated rail freight corridors
- Speedy establishment of single regulatory body for the transport sector, including roads, railways, ports and airports, as proposed in the Economic Survey
- Timely and flawless implementation of GST
- Increased emphasis on building warehousing and cold chain network, a centralized toll mechanism and reduced documentation for interstate transit. ■

single regulatory body for the transport sector (including highways, railways, ports and airports), which we have been demanding for long. This will bring in the desired checks and balances and ensure transparency in the sector.

The plans to extend investment-linked tax incentives for setting up and operating 'cold chain', warehousing facilities for storing agricultural produce, is an encouraging move. We are also hoping for timely and flawless implementation of Goods and Services Tax (GST) by April 2010, which will replace the cascading effect (tax on tax) created by existing indirect taxes.

WHAT ARE THE REFORMS THAT THE BUDGET HAS ROLLED OUT FOR THE LOGISTICS INDUSTRY?

The single-most important reform that the Budget has proposed is the introduction of GST, which prevents tax on tax and unifies disparate markets across the country, thereby bringing in a collective gain for businesses, consumers and governments. An increase in the monthly income from Rs 3,500 to Rs 5,000 for goods transporters engaged in small businesses is an appreciable feature. The Budget gives more flexibility to transport companies for payments made for plying, hiring or leasing goods carriages; the ceiling of Rs 20,000 has now been increased to Rs 35,000.

WHAT WAS THE CRITICAL NEED OF THE LOGISTICS INDUSTRY THAT THE BUDGET HAS NOT FULFILLED?

There has been no major announcement for the logistics sector per se in the Union Budget. The only relief for the logistics sector is the plans for massive investment in roads & highways and railways, including dedicated freight corridors and use of railway land bank for industrial development. Apart from infrastructure development, the other requirements of the logistics industry include the following:

Toll Policy: Multiple toll points on highways reduce efficiency and adversely affect the turnaround time of trucks. Moreover, the lack of uniformity in toll charges owing to different stretches

on BOT basis creates irregularities in the cost structure. A centralized toll mechanism is needed to ensure uniformity in the toll charges paid by truck drivers at various checkpoints. This would lead to reduction in stoppage time and create greater efficiency.

Cold Chain Service: There is a need to bring in uniformity in the sales tax structure on processed foods. There is also a need to bring down the high import duty on cold chain equipment. The government should reduce sales tax

WHAT WOULD BE THE IMPACT OF PPP ON THE PERFORMANCE OF LOGISTICS INDUSTRY?

Public-private partnership (PPP) ensures speedy, efficient and cost-effective delivery of projects. With efforts on for building infrastructure related to roads, highways, airports, ports, warehousing infrastructure (including container freight stations, container depots, logistics hubs), shipping terminals etc., it will have a positive impact on the growth and

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and excise on processed value-added foods, remove Octroi, entry tax etc. Since time-definite delivery is critical, inter-state check posts should have a clearance passage for refrigerated transportation. In order to boost export business by road to countries like Bangladesh, Nepal, Bhutan, Pakistan and Afghanistan, we need to ensure setting up of modern warehousing, cold storage and efficient equipment-handling facilities, with all the security systems, at borders.

Reduce documentation: Documentation has to be computerized and minimized, so that less number of forms are needed to be filled at check posts/offices. It will also do away with agents and unauthorized payments being made to them.

WHAT ARE THE POLICY AND TAX MEASURES NEEDED TO UPLIFT THE LOGISTICS INDUSTRY?

An integrated transport policy is the need of the hour, as its absence has deeply hampered the logistics sector in India. There should be rules laid out or a framework for warehousing segment development. Besides, there should be a check on increase in illegal warehousing.

performance of the logistics industry, as the industry is today limited by inadequate infrastructure.

AS THE IMPLEMENTATION OF GST IS SCHEDULED FROM APRIL 1, 2010, HOW CRITICAL IS IT GOING TO BE FOR THE LOGISTICS INDUSTRY?

GST will help the logistics industry in following ways:

Cascading impact of taxes: Currently, there are multiple incidences on various taxes such as custom duty, cess, excise duty, sales tax, service tax on transportation etc., which has a cascading impact on the cost of finished goods. GST is expected to significantly reduce the vertical imbalance between the Centre and the States by enhancing the tax base of the states. This, in turn, will replace the cascading effect created by existing indirect taxes.

Multiple & Inefficient warehouses or distribution centers: Implementation of GST is expected to significantly reduce the number of warehouses manufacturers are required to maintain. Consequently, there would be substantial increase in demand for integrated logistics solutions.