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GST may help railways regain market share

JAGANNARAYAN PADMANABHAN

Within the capital-intensive transportation sector, where inter-linkages are significant, the Goods and Services Tax (GST) is expected to impact the freight and logistics segments the most. Specifically, the provision of hard infrastructure (involving capital outlay) and provision of services (involving passenger and freight movement) would be the areas that would see maximum impact.

As we know, customers choose the mode of transport depending on cost and timelines. The impact of GST, therefore, will be a function of this interplay.

So how could the country's biggest tax change impact the sector?

Overall, GST is expected to have an impact on the planning and execution of the government's flagship transportation programmes such as the Bharat Mala for the roads sector, UDAN for the aviation sector, and the capital-intensive expansion and upgradation of railways.

Within the three key modes of transport, here's how the impact would occur:

Road and rail

There will be a negative impact on the road construction industry because of an increase in indirect tax, and this gets accentuated because there is no reprieve currently available under the provisions of the existing concession agreements for under-construction road projects.

On the freight and passenger sides, purely on the cost aspect, roads will be at a significant disadvantage compared to rail, as there is a 13 per cent difference in the GST rate. But considering that more than 60 per cent of the country's freight moves by road, with the easing of the movement of goods (through the removal of octroi check-posts) the net freight time taken by trucks is expected to come down and the number of freight trips would increase, leading to shorter turnaround times for fulfillment.

With consolidation in warehouses, sourcing and distribution plans are expected to go through a significant change, leading to a marginal impact on toll operators over the medium term.

The movement of goods by rail will be cheaper compared with road, but availability of rakes and timeliness of delivery will weigh on transporters before they consider a shift in mode.

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Airlines

India has become the third-largest aviation market in the world, with double-digit growth in passenger traffic. Not surprisingly, airlines have placed large orders for aircraft to expand their network. The response to the UDAN regional connectivity scheme of the government has been pretty positive, too.

On the passenger side, GST on economy class tickets is 100 basis points lower (five per cent, compared with six per cent earlier), while it is 600 basis points higher for business class tickets (18 per cent, compared with 12 per cent earlier).

But input tax credit is not fully available on economy class tickets. Also, with aviation turbine fuel (ATF) — which contributes some 40 per cent of the operational cost of an airline — having been kept out of the GST ambit, ticket prices could actually increase. If airlines decide to absorb the differential, it could impact their margins.

As for purchase and lease of aircraft, currently there is double taxation, which the government has realised can have a significant negative impact. Some reports suggest that the government will correct this anomaly.

Ports and inland waterways

Although there is no negative impact of GST on the ports sector, with the reduction in the time to reach ports, the ecosystem will see an improvement in overall competitiveness.

Inland waterways transport, which is in its infancy in India, will come under the ambit of GST, which means the segment is now on a level playing field with other modes of transport. That, in turn, means the sector will have to come up with its own set of efficiencies to thrive.

To sum up, the structural changes both at the infrastructure and taxation fronts will lead to a material reduction in logistics costs, which can indirectly benefit the key consuming industries. And states that have advantages in terms of high-quality transportation and logistics infrastructure, higher population, and competitive manufacturing capability will benefit significantly because of the advent of GST.

All that should hopefully help India improve its ranking in the World Bank's logistics performance index — currently wallowing at 35 out of 160 countries — specifically if we can bring about a material difference in storage infrastructure efficiencies and timeliness of delivery.

The writer is Practice Leader and Director, Transport, CRISIL Infrastructure Advisory