

Polyester duty cut not enough to enable imports

Our Bureau
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THE cut in Customs duty on synthetic fibres and their intermediates from 10% to 7.5% in the Budget will bring down the production cost of synthetic textiles, helping the huge but highly fragmented weaving, processing and garmenting industries. But the lowered protection level for domestic industry is not enough to make imports viable.

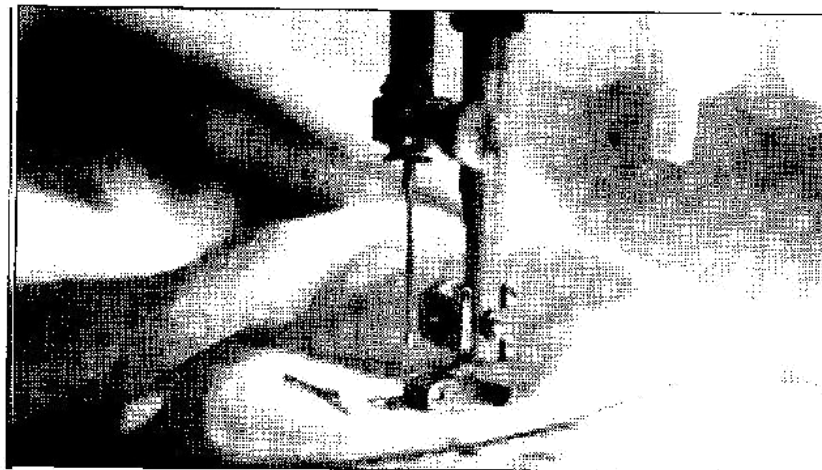
Lack of cost competitiveness of manmade fibres — polyester, acrylic and nylon — has over the years proven to be a growth constraint, scuppering India's \$46-billion textiles and clothing (T&C) industry's bid to dramatically expand its presence in the global markets. "The duty cut will make synthetic textiles cheaper to consumers and increase Indian industry's competitiveness in global markets," said DK Nair, secretary-general, Confederation of Indian Textile Industry.

Indeed, the protection level for the domes-

tic fibre (PSF and PFY) makers would compress the hitherto available margin space for Reliance and Indo Rama but imports would still be not a very attractive option for consumers of these products, with the transaction cost involved. "The reduction should have been steeper, at least to 5%, to make import of these inputs a viable option," said Mr Nair. The Customs

duty on fibre intermediates — PTA, MEG and DMT — manufactured by Reliance, Mitsubishi and Bombay Dyeing has also been cut to 7.5% so that there won't be a negative impact of the duty cut on fibres on them.

"Import will not be viable as our selling prices of PSF and PFY are much below import parity," said OP Lohia, managing director, Indo Rama Synthetics. The global demand pull would have come if the excise duty was cut, he added. Excise duty on MEG at 12% is an anomaly, while duty on PTA and fibres are at 8%. More excise relief would have helped



India to be competitive vis-a-vis China in the global synthetic textiles market, said Mr Lohia.

The under-developed Rs 4,000-crore turnover-a-year textile engineering industry in India believes the decision to impose excise duty on 40 odd machines manufactured by it

also imposed a countervailing duty equivalent to the excise duty on import of these machines. Says RS Bachkaniwala, chairman of Textile Machinery Manufacturers' Association: "While finished machinery were exempted from CVD, components used to attract the duty. This has deprived us of a level-playing field, even as the scope for new investments have been huge."

The textile industry which has been clamouring for tax relief on scores of textile machines will, however, not buy the argument. "The additional burden of 8% excise duty would make domestic as well as imported machines costlier and will adversely affect not only the textile industry but the domestic machinery industry also," said Mr Nair. "One cannot have a net gain through the use of cenvat credit," he pointed out. Over Rs 1.5-lakh crore new investment is envisaged in the textile industry in the next five years. To facilitate this, over 200 machines have been brought under concessional Customs duty of 5% over the last three years. Even some second-hand machines are being allowed to be imported under 5% duty.

The Budget extended the technology upgr-

adation fund scheme, which provides for interest subsidy on new investment for modernisation for the entire 11th Plan period. The allocation of Rs 911 crore, although an increase over Rs 535 crore for this year, would still be not enough to meet the demand, according to the industry. There is already a carryover of over Rs 600 crore for the current fiscal and the demand next fiscal would be much more than estimated. Currently, the textile machinery industry in India, consisting of over 250 units, including over 30 large units such as LMW, Himson, ATE, Harish Enterprises and Kustres, meets less than 20% of the domestic demand for textile machinery. The imports are therefore to the tune of Rs 10,000 crore a year and soaring.

Currently, manmade fibres account for 60% of the global fibre consumption, while the share of cotton is just 37%. Conversely, in India, MME share in fibre consumption is 43% and of this, polyester's share is about 35%. Cotton, wool, silk and jute account for the rest while cotton has a share of more than 90% in natural fibre consumption. This is a distortion as Indian industry cannot grow beyond a limit regardless of the global market preferences.