NOTE FOR FICCI MEETING WITH HON'BLE MINISTER FOR TEXTILES

1st July 2014, New Delhi

Announce the New National Textiles Policy Immediately

- The Expert Committee set up for reviewing the National Textiles Policy (NTP) 2000 and formulating NTP 2013 has set up a target of trebling the share of India in world exports of textiles & clothing.The size of India's textile and apparel industry is estimated at $94 billion in 2012. Out of this domestic industry is of $63 billion and exports worth $31 billion. FICCI's vision is that this target of trebling the share of India in world exports of textiles & clothing would require our exports to grow at a Compound Annual Growth Rate (CAGR) of 15.1% over the ten year period (assuming world exports in textiles and clothing grow by 5%) to reach the size of $145 billion by end of the policy period. Further, assuming our GDP grows by 7% on an average over the policy period and assuming our domestic textiles industry also grows by 7%, this would mean our textiles industry would be a $278 billion industry. Out of which we would be supplying $145 billion as exports. This has potential to create additional employment of 20 million people directly in the sector.
- Hence, given the bold targets been set by the industry, Government should announce the new policy at the earliest. FICCI has submitted its suggestions both to the Expert Committee and the Ministry. Key suggestions related to the policy are given in the annexure to this note.

Proposal to levy compulsory Excise duty on 'Branded Garments'

- We have been reading reports in various Newspapers that the Finance Ministry is considering making excise duty on Branded Garments compulsory once again. Whilst these are of course unconfirmed reports, it would not be out of place here to reiterate the unhealthy impact of such a step, if at all being considered by the Government:
  1. The definition of a "Brand" under Excise Laws includes any Garment, which has a name, or logo, or symbol or any other identification mark on the product or package. Since all Garments are sold with some label or the other, it is important to note that excise will be levied on all garments, and not merely on those meant for the rich and well off.

2. Since 80% of the Industry is still in the Small Scale Sector, this move will be a major deterrent to the survival and growth of these small manufacturers.
3. Every time Government has levied Excise on Garments in the past, we have seen that the growth of the Organized Sector has been adversely affected, as this sector cannot compete with the unorganized sector, which does not form part of the tax paying fraternity of the industry.
4. Whenever Excise has been introduced, one has observed a shift to the Grey Market, with the Government losing out even on the other forms of taxes such as Income Tax, VAT, etc.
5. The assumption loss of Rs.1200 crores in Excise is a misconception, as the Industry is not enjoying any CENVAT benefits today. However, if Excise is made compulsory, manufacturers will also be entitled to take CENVAT Credit, which will reduce the Net collection to hardly Rs.300 to Rs.350 crores.
6. Nearly 50% of a Brand's annual sales are made at discounted rates, ranging from 30% to 70%. However, excise duty, which is levied at the time of dispatch from the factory, is calculated on the full price. Therefore, the burden of Excise on the Consumer, is nearly twice than the intended levels.
7. For many of the International Brands coming to India, the current exemption from Excise Duty provides a huge incentive to them for increasing sourcing from Indian Manufacturers – as it is cheaper to source from India than import. However, with compulsory Excise, this advantage will be wiped out. International brands will prefer to import their requirements rather than manufacture in India, reducing our own manufacturing and employment.
8. It has been seen that the Industry has moved to an investment phase after a hiatus of 3–4 years, and this move will once again put a brake on such plans.

- We therefore urge the Textile Ministry to take a firm stand on this issue and ensure that the move to bring back compulsory Excise Duty on Branded Garments is not implemented by the Government.

<u>GST</u>

- The industry should be kept in the priority/lowest slab of GST as the industry provides a basic necessity to the masses with large scale employment potential.
- Unlike other manufacturing sectors which enjoy value based exemptions (Rs 1.5 crore per annum), textile sector has sector specific exemptions due to employment and other perspectives (like handlooms) and a large part of it remains outside the tax net.

Legal Metrology Act

- Instances of mis-interpretation of Legal metrology Act by the Maharashtra State metrology department have come to our notice. The industrial products such as synthetic yarns do not come under the ambit of Metrology Act. Ministry of Consumer Affairs, under whom the Act comes, should send clear instructions or amend the Act in case of ambiguity so that no harm is caused to the industry.
- Exempt garment industry from the Legal Metrology Act (erstwhile Weights & Measures Act) as it is not a perishable commodity and also garments are always opened and inspected by customers before purchase. This will reduce lot of compliance burden on the sector.

Technical Textiles

- Government regulation/guidelines are needed to encourage the production and consumption of certain technical textiles in India like increased usage of fire retardant for curtains/upholstery for public places/buildings by mandating standards/amendments of relevant Acts. High Level Committee under Hon'ble Minister with senior representatives of other Departments required to push the desired changes in legislations.
- It is important to identify and distinguish technical textiles items from the conventional items in terms of HS Codes. Expedite the formulation of HS Codes for technical textiles.
- Higher allocations for technical textiles segments for promotion of these products and creating awareness.
- Under the Scheme for Integrated Textile Parks (SITP), some minimum number of textile parks to be earmarked for technical textiles.

Black-out Period for TUFS

- Benefits under TUFS be provided to those investors who have invested during the period June 2010 to April 2011 (when TUFS was under suspension). Investors who got their loans sanctioned with banks during this period in anticipation of TUFS benefit have yet to receive any support under the scheme.

FDI Cell in Invest India

- FDI will help in the growth of the Indian textile and apparel industry in many ways. In many cases the foreign investors shy away from investing in India as they have to interact and seek clearances from many departments. FDI Cell dedicated to textile, apparel and technical textile industry, can act as a single window and coordinate with all Government departments for necessary approvals. This will really help in attracting FDI for this sector. This could be based in Invest India which is a joint venture between FICCI and DIPP.

ANNEXURE- KEY FICCI SUGGESTIONS ON TEXTILES POLICY

- **Enabling Eco- system-** There are over 100 domestic textiles clusters that have the capacity ranging from spinning to weaving and garmenting which require strong infrastructure support to make them competitive. Government should provide assistance for upgradation of existing textile clusters for developing world class logistics, infrastructure and easy to do business facilities.
- **Fibre Neutrality-** The Policy should eliminate long standing discrimination between cotton and man-made fibre on excise duty front.
- **Excise Duty on Recycled staple fibre/ filament yarn and Virgin Polyester Fibre-** There is a need to remove the distortions prevailing in the sector like excise duty exemption given on the basis of particular process.
- **Processing-** Since processing remains the weakest link of our textiles value chain, in addition to subsidy under TUFS, the sector deserves additional concessions like increased rates of depreciation etc in order to encourage investments in the sector.
- **Customs Duty-** Customs duty structure should be a cascading structure i.e. the duty differential should be progressive at each stage of value chain.
- **Technology Up- gradation Fund Scheme (TUFS)**

  a) There is a need for stable long term schemes so that the industry doesn't suffer due to discontinuation of scheme.

  b) Under TUFS, customs duty amount should also be eligible for subsidy.

  c) The machinery for manufacture of synthetic fibers post polymerization to be covered under TUFS.

  d) For weak links in textiles value chain like processing, subsidy amount could be increased to 15% capital subsidy from 10%.

  e) Knitting should receive same benefits under TUFS as is the case with powerloom since both make fabrics and are largely in unorganized sector.

- **Workers' Housing Scheme-** Providing affordable houses closer to factories will act as a major factor for retention of these workers for stable and longer periods.

- **Labor Laws Need Relook-** To make the sector achieve a high growth path, there is a need for enabling labour laws to achieve the desired targets. Some of the recent changes been proposed by Rajasthan Government are also worth considering-

  1. There is a need for increasing the overtime limits to take care of the seasonal nature of the garment industry to meet the demand for exports. States like Karnataka had passed the Bill in 2011 allowing so but the bill is still awaiting Presidential assent. If the changes could be done in Central law it would greatly help the industry.
  2. Availability of skilled and semi-skilled labor has become a major challenge for Indian Industry. The problem is serious in case of textile sector which is a highly labor intensive sector. Also, it is important to note that the sector employs a significant number of women in its different activities. One of the reasons for this shortage of manpower is non-availability of migratory labor from Orissa, Bihar & Eastern U.P. because of industrial development in these states and Government schemes like MNREGA.In order to overcome this shortage of labor, most of the industry is employing women workers from local areas. In states like Punjab and Madhya Pradesh permission has been granted by the State Government to employ women workers in all three shifts. Also, women workers are employed in night shifts in States like Tamil Nadu and Andhra Pradesh as per the decision given by Andhra Pradesh High Court and Madras High Court. However, this is not being currently allowed in UP.
  3. While the central law says that all firms hiring over 100 employees need to seek the government's permission before they are retrenched, Rajasthan has raised this limit to 300 workers.
  4. In the Industrial Disputes Act, Rajasthan has approved a three year time limit for raising disputes as opposed to the current law which sets no such limit.
  5. Another major change proposed by Rajasthan Government is to double the number of employees that a union must have before it can be recognized as a trade union. Currently, any group with 15% of a firm's employees can form a union so managements have to contend with as many as six unions. This has been doubled to 30%, so that firms have to deal with three employee unions at the most.