FICCI Note on Pressing Issues of India Textiles Industry

1) Technology Up-gradation Fund Scheme: The Technology Up-gradation Fund Scheme [TUF] was formulated to support and encourage investments in the textiles sector. This is one of the flagship schemes of government for promoting investments in textiles which creates highest employment in the country after agriculture. The scheme also encourages larger investments to generate larger employment. Industry has also responded well and investments in the sector have grown substantially since its launch in 1999. The objective is to upgrade and modernise Indian textile industry by encouraging it to undertake and adopt modern technological processes and capacity expansion.

a) Allocation Under TUFS: With the exports incentives been rationalized the only support for Indian Textile industry is the TUFS perhaps. Any reduction or withdrawal of benefit under TUFS will certainly lead to slowing down of investments in textiles thereby impacting employment. For the current year the budget allocation has been reduced from Rs 1864 Crore to Rs 1520 Crore under the scheme. Investments done during the last few months are awaiting project registration under the scheme. Considering the new investments done by exporters and pending applications of the last year, the budget needs to be increased to Rs 5000 Crore under the scheme.

b) Committed liability under TUF: We also understand that the scheme is under review and there are certain apprehensions of the industry with regard to the proposed scheme.

As per the current scheme, nodal bank is appointed by Ministry of Textiles to carry out various processes on behalf of the Ministry including responsibility of appraising the proposal. After sanction of the term loan, nodal bank assesses eligibility for capital and interest subsidy. This is then informed to member banks that have sanctioned term loan for the project by way of eligibility certificate. Then the bank forwards the online application to Textile commissioner's office that in turn takes up application chronologically and allots UID [Unique ID] for the project. Upon allotment of UID number, the claims of interest subsidy and capital subsidy are lodged by the banks to Textile Commissioner's office. However, after sanction of the term loan and issuance by eligibility, industry starts investments in land, civil work, signing of irrevocable supply contract, open LCs for equipment's, mobilises project teams, and draws term loan. Thus, before UID is allotted industry spends substantial part of the project cost.

The committed liability under the scheme is based on the date of sanction of term loan by Nodal bank and not date of UID allotment for which there is a precedence. In the past, whenever the scheme had lapsed, it was always linked to the date of term loan sanction e.g. R-TUFs which ended on 31st March 2013 permitted all projects for which term loan was sanctioned before 31st March 2013. It is therefore requested that the new scheme whenever formulated and ready for launch should be applicable for new proposals received by the banks thereafter. All previous sanctioned term loans should be considered as committed liability under the earlier scheme and processed accordingly.

c) Capping Subsidy under TUFS: Thirdly, capping the benefits under the scheme would be detrimental. Textiles manufacturing inherently has interdependent processes and end-to-end cost optimisation is the key for establishing economic viability. Thus, integrated projects can compete in world market with the required scale of operation which gives economies of scale and can compete with low cost producers of textile in the world market. These integrated projects cannot be created with small investments. The Ajay Shankar Expert Committee Report on new Textiles Policy envisions 20% growth in exports and 12 % in domestic sales over the next decade.

This implies that the industry should reach a production level of US$ 350 billion by 2024-25 from the current level of about US$ 100 billion for the domestic market and would be exporting about US$ 300 billion of textile and apparel by 2024-25. India should by then have a market share of 20% of the global textile and apparel trade from the present level of 5%.

The Committee further recommends that during this period India should attempt a structural transformation. This would maximise employment generation and value creation within the country. In the process, investment of about US$ 120 billion would take place and about 35 million additional jobs would get created. Therefore, if it is proposed to put a cap on subsidies under the scheme it will discourage large investments that are required to achieve the above mentioned targets and result into loss of competitiveness of Indian manufacturer in the world market.

2) Fibre Neutrality: The textiles value chain in India bears differential tax treatment whereas there is no distinction globally between cotton and man-made fibres. The levy of different rates has created needless distortions. In India, while excise duty on natural fibres like cotton, wool and flax is nil, that imposed on manmade fibre, filament and yarn attract as high as 12.5%. Countries like China, Pakistan, Sri Lanka, Indonesia and Thailand follow fibre neutral policy i.e. the duty on cotton/cotton yarn and MMF/MMF yarn textiles are imposed at the same level. The global fibre consumption trend in future is likely to further tilt in favour of man-made fibres. One of the concerns raised by industry is that MMF being a high technology and high investment area requires an enabling and better fiscal environment. At present, India also doesn’t have the complete value chain in MMF i.e. fabric, processing and apparel making. Reduction in excise duty on MMF will stimulate the growth of the industry by attracting investments leading to completing the value chain and higher production and exports and thereby generate additional employment. Historically, lower excise on manmade fibres have triggered tremendous growth as can be seen from data below. Since 2012-13, industry is continuously under contraction.

	Excise Duty	Growth Registered in MMF
2006-07:	08%	05%
2008-09:	04%	11%
2009-10:	08%	10%
2010-11:	10%	04%
2011-12:	12%	04%

We suggest that the excise duty on man-made fibres should be reduced to 8% to reduce the huge gap between man-made fibres and cotton. The revenue loss on this account would be made up with increased consumption as witnessed in 2008-09 when the excise duty on man-made fibres was 4%. Further this will help the downstream industry especially weavers at Surat, Bhiwandi and Bhilwara who have been going through tough times as the excise duty paid on man-made fibres cannot be Cenvated because the value chain breaks at the Yarn / Fabric stage.