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पत्र सूचना कार्यालय
GOVERNMENT OF INDIA
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Aditya Birla puts on hold ₹3,000-cr Turkey plant

AMRITA NAIR-GHASWALLA
Mumbai, February 25

Aditya Birla Group has decided to defer its $510-million (around ₹3,000 crore) plant in Turkey for producing viscose staple fibre (VSF), a raw material used for making home textiles and apparels.

Turkey is the fourth largest consumer of viscose in the world, and its Adana Organised Industrial Zone was to host the Indian plant with an annual capacity of 180,000 tonnes.

Though demand for VSF continues to grow globally, the overcapacity in China, created at the time of the VSF boom, has put pressure on realisations in the global markets. It has resulted in global prices declining by around 15 per cent.

Manohar Samuel, Global Business Development, Birla Cellulose, said: "The viscose market has been in a state of turmoil, and the returns are lower. The Turkey project is on, but has been delayed because of the capacity overhang in China."

Announced in December 2011, the plant was to be the first VSF production facility in Turkey, and the investment was aimed at supporting the growth of its textile industry.

While the facility was to address Turkey's domestic demand, it would also have the potential to export about 20 per cent to the European Union and other neighbouring countries.

No expansion

Incidentally, the surplus VSF capacity in China, which has proved to be a major overhang on margins, has also stalled expansion projects of other stalwart VSF players.

End December 2014, Austria-based Lenzing Group, too, decided to refrain from any new capacity expansion projects until market conditions improved. The Lenzing Group and the Aditya Birla Group are two global viscose fibre giants, and had reportedly gained capacity of above 800,000 tonnes a year each in 2013.

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US challenging China's export sops at WTO could be advantage India

Beijing allegedly providing 'unfair' benefits to products across seven sectors

AMITI SEN
New Delhi, February 25

India could gain significantly from a recent US challenge at the World Trade Organisation (WTO) against China for alleged extension of prohibited export subsidies to a whole range of products such as agriculture items, textiles, leather, medical equipment, speciality chemicals and building materials.

New Delhi is planning to seek observer status in the consultations between China and the US, as a favourable outcome for the US could translate into lower competition from Chinese products for Indian manufacturers as well, a Commerce Ministry official told *BusinessLine*.

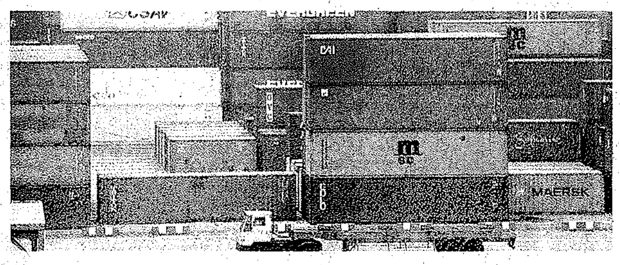
"If it is proved by the US that export subsidies are being in the form of disguised sops and incentives, then India, too, will be in a position to impose penal import duties on these products," the official said.

Higher import duties on Chinese products could help India lower imports and narrow the existing trade deficit with its neighbour, which, at $36 billion in 2013-14, was more than a fourth of the country's total trade deficit. Moreover, if proved guilty, China would also face penal duties on its products in other key markets such as the US and EU, which could make them less competitive than Indian products, the official added.

Export subsidies

All subsidies directly linked to exports are prohibited under WTO rules. Only countries with per capita income below $1,000 are allowed to provide such sops for products where their global share is lower than 3.25 per cent. The US has challenged China's 'Demonstration Bases-Common Service Platform' programme under which the country provides free and discounted services as well as cash grants and other incentives to enterprises that meet export performance criteria and are located in 179 demonstration bases (industrial clusters) throughout the country. Washington has claimed that under the programme, export subsidies are provided to manufacturers and producers across seven economic sectors and dozens of sub-sectors. The seven main sectors are textiles, apparel and footwear, advanced materials and metals (including specialty steel, titanium and aluminium products), light industry, specialty chemicals, medical products, hardware and building materials and agriculture. Being an observer in the proposed consultations between the US and China is important for India because it will not only be privy to all the issues raised by the US and answers given by China, it could also have access to information provided by China on its various subsidy programmes and incentive schemes which is otherwise difficult to get.

"If we have enough information, we too could challenge the export subsidies independently at some other time if required," the official said.



Challenging subsidies Higher import duties on Chinese products could help India lower imports and narrow the existing trade deficit with its neighbour.

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Leather, textiles need a leg up

The two sectors have tremendous export potential, but are bogged down by procedural hassles and lack of incentives

B SRIRAM

The textile and leather sectors, with a base in South India, have a competitive advantage in meeting the expectations of the 'Make in India' mantra. The vision of the textile sector is to raise exports to $80 billion by 2020. It contributes around 4 per cent to the GDP and is considered the second largest provider of employment, after agriculture.

Leather consistently figures among the top 10 sectors earning foreign exchange. It is one of the sectors identified for the 'Make in India' campaign as the export of leather is growing at more than 10 per cent year-on-year and has achieved an export turnover of $4,450 million during the first seven months of the current financial year. In this $6 billion industry, footwear alone accounts for $4 billion.

Of exports and taxes

What do these sectors expect from government? Topping the wish-list would be incentivising exports. With the foreign trade policy expected to be announced shortly, the expectation is to make our exporters competitive by broadening the incentive base and reducing the procedural hassles in obtaining these incentives.

The right policy fit For leather exports BIJOY GHOSH

While reports suggest that the commerce ministry will stick to deadlines (the eight-year period set by the WTO's agreement on subsidies and countervailing measures), restoration of the SHIS (Status Holder Incentive Scheme) scheme would provide the necessary relief in terms of duty concessions. Increase in duty drawback rates would be a welcome move. It is important that processes/documentation for claiming export benefits are simple and time-bound to ensure that no taxes/duties are embedded in the export products.

Considering the employment opportunities in the leather and textile sectors, deduction under income tax law would be welcome. The investment allowance provision would be useful. Rationalising the duty/tax structure is equally important. Companies operating under the Export Oriented Unit (EOU) scheme are realising that the scheme offers no additional incentives comparable to what's on offer for domestic players in terms of incidence of tax. An exit route from EOU without duty implications would provide relief.

The key expectation is rationalisation of the 'inverted duty structure' by exempting the levy of special additional customs duty under Section 3 (5) of the Customs Tariff Act on raw materials. Reduction of Basic Customs Duty from 7.5 per cent to 5 per cent on all textile machinery and spare parts with retrospective effect boost the sector.

The elaborate classification under customs tariff results in inordinate delay in clearance of goods.

MAT, GST and litigation

Given the size of and the income generated by leather, the thinking in the industry is that the 12 per cent excise duty levied on leather shoes is very high, resulting in high manufacturing costs.

Reducing excise duty to 6 per cent will make the industry competitive. Further, excise duty concessions provided for footwear on MRP up to ₹500 may be increased to ₹1,000.

After the introduction of MAT in special economic zones, development has slowed down. Reinstating the exemption will provide a boost to non-resident investors in the manufacturing goods sector.

Industry is also awaiting the major indirect tax reform, the Goods and Services Tax, which is expected to eliminate multiple taxes and establish a system of seamless credit. By simplifying the current complex indirect tax structure, GST will incentivise Indian manufacturing.

Tax Administration and Reform Commission (TARC) reports have provided several valuable suggestions (after considering the inputs from industry) aimed at creating the right administrative tax environment to incentivise investment and manufacturing. A crucial aspect is a litigious-free environment and approach.

The writer is a partner, Tax & Regulatory Services, EY. EY's senior tax professional Priya Balasubramanian contributed to the article. The views are personal

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CCI buys 1.5 m bales cotton from Gujarat

But traders say procurement from country's leading producer is too low

OUR BUREAU
Ahmedabad, February 25

The Cotton Corporation of India has procured 25,59,696 quintal (approximately 1.5 million bales of 170 kg each) of cotton over the last four months in Gujarat. According to traders, this is too low since Gujarat is the largest producer of the crop.

According to a statement by the government in the State Assembly, the State Government had represented three times to the Centre seeking its intervention to provide remunerative prices to cotton farmers.

"As on February 9, the Centre has assisted Gujarat by setting up 65 procurement centres in the State, through which CCI has procured 25,59,696 quintal *kapas* (raw cotton)," the government said in reply to a question on assistance from Centre after market prices plunged below the minimum support price.

However, trade sources said that the procurement was not enough for a State like Gujarat, which contributes about 30 per cent to the country's total cotton production. CCI is buying at MSP level of ₹820 per 20 kg or ₹4,100 per quintal.

Market sources said that procurement by CCI from other States was higher because of the superior quality and length of the fibre.

"Cotton from South India fetches better price at auction because of its fibre length of about 30-31 mm. In Gujarat, the widely grown Shankar-6 has the fibre length of 28-29 mm. CCI auctions are on and daily around 25,000 bales are traded electronically," said a cotton exporter from Ahmedabad.

However, cotton exports are weak as China has stopped buying from India. Small volumes are exported to Pakistan, Bangladesh and Vietnam.

Ratings agency and research firm India Ratings maintained 'Negative' Outlook on Cotton on contraction in domestic yarn production for exports, unlikely recovery in cotton exports, and a fall in domestic prices below MSP and higher carryover stocks.

"We expect the global cotton prices to be low in the medium term due to the negative sentiments. Cotton exports from India to China declined 26.4 per cent year-on-year during April-October 2014 compared with 4.3 per cent decline a year ago," India Ratings said in a report.

India's cotton exports to other destinations are unlikely to replace the quantum of lower trade with China, it said.

Raw cotton (Kapas) prices (represented by Shanker-6) are likely to trade between ₹800-900 per 20 kg, while lint (356 kg) prices will hover in the range of ₹30,260-35,600 for 2015-16.

Wilting prospects Market sources said that procurement by CCI from other States was higher because of the superior quality and length of the fibre AFP