

**No.S-4/4/2000-TPC (Pt.)
Government of India
Ministry of Textiles**

...

Udyog Bhavan, New Delhi
Dated November 9, 2001

OFFICE MEMORANDUM

**Subject – Constitution of the Steering Group on
Investment and Growth in Textile Industry.**

WHEREAS the Prime Minister, after considering the problems of the textile industry, has approved the constitution of a Steering Group on Investment and Growth in Textile Industry,

NOW, therefore, a Steering Group is constituted as follows:

Composition:

- | | | |
|----|--|------------|
| 1. | Shri N.K. Singh, Member, Planning Commission | - Chairman |
| 2. | Secretary (Textiles) | - Member |
| 3. | Secretary (Revenue) | - Member |
| 4. | Secretary (Labour) | - Member |
| 5. | Secretary (Chemicals & Petro Chemicals) | - Member |
| 6. | Additional Secretary (Banking) | - Member |
| 7. | Director General of Foreign Trade | - Member |
| 8. | Representative of CII, FICCI and ASSOCHAM | - Members |

The Steering Group may also interact with representatives of different Industry Segments such as Powerlooms and Handlooms, Financial Institutions and other Experts and seek their views.

Terms of Reference:

- (a) Periodically review and monitor the implementation of policies and programmes outlined in the National Textile Policy-2000 (NTxP-2000) and devise further measures necessary for attracting requisite investment and growth in textile sector.
- (b) Review export scenario and identify measures to enhance export competitiveness of Indian textiles in the changing global scenario particularly in the post-2004 period.
- (c) Evolve a growth oriented fiscal policy for integrated development of the textile industry covering all its segments and furnish an interim report in this behalf by 31st December, 2001.

The Steering Group would make periodical reports/recommendations to the Government.

The Steering Group will be serviced by the Ministry of Textiles.

Sd/-
(Kiran Dhingra)
Joint Secretary

To:
Chairman and all Members.

Copy forwarded to :

PS to PM
PS to FM
PS to Dy. Chairman, Planning Commission
PS to MOT
PS to MOS(T)

**EXTRACTS OF THE INTERIM REPORT OF THE
STEERING GROUP – RECOMMENDATIONS AND
EXPLANATORY NOTES**

The Group had extensive discussions with various stake holders, studied available reports and analysed the impact of the present fiscal policy on investment and growth. The Group felt that the fiscal policy regime needs to be rationalised to encourage large investments in the sector and equip it to face post MFA challenges. The main recommendations of the Group are summarised below:

(i) Completion of CENVAT chain

The Group is of the view that a continuous CENVAT chain is necessary for encouraging investment and technology upgradation. It will reduce distortions in the system and provide CENVAT credit at all stages of production.

This can be done by:

- withdrawal of CENVAT exemption on hank yarn (plain reel and cross reel) of cotton and man-made fibres. The handloom weavers should be compensated through an appropriate, hassle-free rebate / refund scheme to be announced simultaneously and implemented through the State Governments.

- introduction of optional CENVAT on grey woven fabric with a simplified procedure for assessment with CENVAT credit to those who opt for the same. All powerlooms may be brought under the CENVAT regime by 1.3.2005.
- withdrawal of CENVAT exemption on grey knitted fabrics and knitwear with the facility of CENVAT credit.
- levy of ad-valorem CENVAT on all power processing units with the facility of CENVAT credit with a simplified procedure as follows:
 - Actual document based (value based) credit for processing own fabric.
 - CENVAT levied only on value added (processing charges) for job work undertaken by such processors in respect of duty paid grey fabrics only.
 - In case of non-duty paid grey fabrics, deemed credit be continued to cover duty paid on yarn. Such deemed credit should be less attractive than document based credit. This arrangement needs to be continued till all grey fabrics are brought under CENVAT regime.
- reduction in 12/7 power driven processes for cotton and man-made fabrics to only 3 processes in the hand processing sector subject to the condition that the units are registered as hand processing units in the small scale sector.

- restricting CENVAT exemption available to Registered Cooperative Societies, Apex Societies or other organizations setup / approved for the development of handloom for hand processing with aid of power or steam to only 3 processes. Processing of handloom fabrics to be supported through an appropriate scheme.
- setting up a Committee to recommend procedural simplification necessary to introduce CENVAT in decentralized sectors.

(ii) Reduction in the cost of critical machinery

The Group recognises that the cost of machinery is a critical factor in attracting investment in modernisation and technology upgradation. As a general principle, the cost of textile machinery be reduced by bringing down the customs duty to 5% and exempting the same from CENVAT. In particular, the following may be considered with a sunset clause for a period of three years upto 1.3.2005:

- Continuation of exemptions / concessions announced in last year's Budget.
- Exemption from CENVAT on semi-automatic/automatic shuttle looms along with weaving preparatory machinery to support programme of modernisation of 2,50,000 powerlooms.
- Exemption from CENVAT and CVD on 44 processing machinery items of List 18 of Notification No. 17/2001-

Cus. Dated 1.3.2001 – to encourage investment in the state-of-the-art processing industry.

- Exemption from CENVAT and CVD on Jute machinery.
- Exemption from CENVAT and CVD on critical items of reeling, twisting, weaving and processing machinery of silk industry. The basic customs duty may be reduced to 5%.
- Reduction in custom duties on dedicated spare parts to the same level as that of the complete machinery.
- Reduction in customs duty on machinery required for manufacture of man-made/synthetic fibres and yarns as may be recommended by Department of Chemicals and Petrochemicals.

(iii) Encourage investment in garment sector

Various Expert Committees have expressed the view that the growth in textile sector will be export led and garment driven. To encourage large investment in the sector, it is recommended that:

- (i) SSI excise exemption scheme presently available to woven readymade garment sector may be withdrawn.
- (ii) CENVAT on knitwear sector with the CENVAT credit facility on actual basis be introduced.

(iv) Enhancing competitiveness of textile industry

(a) CENVAT rate structure

To enhance the competitiveness of the Indian textile industry, the Group recommends a merit rate of 8% for the textile sector (with a few exceptions) for a period of three years and proposes the following CENVAT rate structure:

Sr. No	Product	Recommended CENVAT Rate
1	Cotton yarn - cone - hank in plain/cross reel	8% 8%
2	All yarns i.e., spun and filaments (except POY/PTY/PFY)	8%
3	POY/PTY/PFY	16% (CENVAT 8% + SED 8%)
4	Woollen yarn	8%
5	All man-made/Synthetic fibres	16% (no change)
6	Grey woven fabrics of all fibres	8% (Basic)
7	Processed woven fabrics of all fibres	8% (Basic)
8	Grey knit fabrics of all fibres	8%
9	Processed knit fabrics of man-made, blended, woollen	8%
10	Processed knit fabrics of cotton	8%
11	Knitwears of all fibres	8%
12	Garments (woven)	8%
13	Silk	No change (from the existing exemption)

Since the CENVAT rate for man-made/synthetic fibres is higher than the CENVAT rate of yarn (except POY/PFY/PTY), the CENVAT credit at yarn stage should be limited to the actual CENVAT incidence at yarn stage. In case of filament fabrics, CENVAT credit should be capped at the level of actual CENVAT incidence at fabric stage. No positive credit would be admissible at yarn or fabric stage.

The CENVAT credit would be admissible against production of actual duty paid documents.

(b) Customs duty

The Group recommends the following customs duty structure in respect of raw materials and their inputs so as to make these items available to the user industry at competitive prices to encourage maximum value addition within the country:

- Reduction in customs duty on apparel grade wool and flax fibre from **15% to 5%**.
- Exemption from **4.2%** Special Additional Duty of Customs (SAD) on import of Rayon Grade Wood Pulp.
- Reduction in customs duty on intermediates of synthetic fibres and yarns (DMT/ PTA/ MEG/ Capraloctum) from **20% to 15%**.
- Duty free import of specialty filament yarns which are not being manufactured indigenously (list to be finalized jointly by Ministry of Textiles and Dept. of Chemicals and Petro-Chemicals).

(v) Review of CENVAT exemptions

The Group recommends:

- Introduction of an optional CENVAT scheme for those engaged in mercerising / doubling / cabling etc., of yarn with CENVAT credit based on document.

- Withdrawal of SSI excise exemption on woollen/shoddy yarn and wool tops to tackle the problem of large scale misuse of the excise exemption facility.

These recommendations need to be accepted as a package. Selective application of the elements of this package will lead to further distortion and hence not recommended.

EXPLANATORY NOTES ON **FISCAL POLICY RECOMMENDATIONS**

COMPLETION OF CENVAT CHAIN

A continuous CENVAT chain encourages CENVAT credit (including on capital goods) and reduces distortions thereby encouraging investment and technology upgradation in efficient and high quality units. Currently the CENVAT chain is broken at following important stages:

- Yarn (in plain reel hank form for all and cross reel hank for specific handloom agencies).
- Grey fabrics (in the powerloom and knitwear segments)
- Processing (hand processing with the aid of power, differential CENVAT regime for independent power processing and cotton knit fabric/knitwear processing).

The issues for consideration in this regard are the following:

(i) YARN STAGE

It has been recognized that the Handloom sector needs a differential treatment considering its importance in rural employment particularly among poorer sections, its contribution to the preservation of traditional skills, its potential for exports and its structural disadvantages. However, the benefits of fiscal on the issues duty concessions extended to the Handloom sector sometimes go to unintended beneficiaries. The recommendations with regard to the Handloom sector attempts to eliminate the

scope for excise duty evasions while protecting the genuine interests of handloom weavers.

Status

Almost all the raw material items such as cotton yarn, yarn of artificial staple fibre (in plain reel hank), cotton yarn and specific man-made spun yarns of artificial staple fibre and polyester staple fibre, (in cross reel hank) when purchased by a registered Apex Handloom Cooperative Society, National Handloom Development Corporation or a State Government Handloom Development Corporation, and the payment for which is made by cheque drawn by such society / corporation on its own bank account are exempt from excise duty (8% for cotton, 16% for spun yarns of man-made fibres).

Objective

To tackle the problem of evasion / misuse and address the concerns of the handloom sector by introducing an alternate system for supplying yarn to weavers to retain their existing advantage.

Consultation with Industry Groups

Consultations with certain segments of the industry indicated that if the incidence of duty incurred can be reimbursed/ compensated through a hassle-free mechanism, there may not be objections to such a proposal. However, concerns were expressed about the efficacy of the proposed mechanism and the impact on the

availability of yarn to handloom weavers especially in rural areas where cooperative societies are not functional. The proposed scheme may need to be more attractive than the present system.

Recommendations

All yarns be brought under the excise net. The handloom weavers should be compensated through a rebate /refund scheme implemented through the State Governments. The rebate / refund scheme needs to be announced concurrently with the announcement of withdrawal of excise exemption. Such rebate / refund is estimated at approximately Rs. 380 crores. The design and implementation of the scheme should be done in consultation with the stakeholders / State Governments to ensure a smooth changeover to the new system.

(ii) GREY FABRIC STAGE

Status

- All grey woven fabrics produced on powerlooms (approximately 16 lakh nos.) are exempt from payment of CENVAT; all grey knitted fabrics are also exempt.
- This exemption has created distortions between the organized industry and decentralized sector resulting in investments flowing into the exempted segments thereby creating a situation in which only 5% of fabric is produced in the organized sector affecting quality.

Objective

To provide a level playing field and to encourage investments and modernization in high quality weaving and knitting thereby ensuring a balanced growth.

Consultations with Industry Groups

During discussions with industry representatives, there was a broad consensus that the CENVAT chain needs to be completed. However, considering the practical difficulties in introducing and enforcing a CENVAT chain across various segments, options may be given to critical segments like powerlooms to encourage them to join the CENVAT chain.

It was also felt necessary to provide a hassle-free, simplified assessment/levy system for such small units (preferably based on service tax/sales tax model).

Recommendations

(a) **Grey woven**

The introduction of CENVAT across the sector is desirable but there are administrative difficulties ensuring compliance in the disbursed powerloom clusters. While introduction of CENVAT to the entire powerloom sector could be attempted in a period of 3 years, a beginning could be made by introduction of CENVAT at grey woven fabric stage with the powerloom units being given an

option to come into CENVAT chain. With the proposal to abolish excise exemption on hank yarn, many powerloom units are likely to opt for CENVAT on grey woven fabrics to enable them to get CENVAT credit.

It is therefore, recommended that CENVAT may be introduced on grey fabric stage of powerloom produced fabrics on an optional basis with a simplified procedure for assessment.

(b) **Knitting and knitwear**

All yarn including cotton yarn used by the knitting industry is excise paid. At the grey fabric stage all knitted fabrics or knitwear are exempted. All knitted fabrics and knitwear made of man-made fabrics and blends are subjected to CENVAT at processing stage. Knitwear industry is not as decentralised as powerloom and most of the units are operating as SSI units therefore, to bring entire knit fabric/knitwear sector under the purview of CENVAT chain would be desirable enabling the knitting and knitwear industry to avail of full CENVAT credit.

It is, therefore recommended that knitted fabrics and knitwear be brought under the CENVAT regime with no exemptions.

(iii) **PROCESSING**

Status

The following different types of CENVAT duty have been prescribed for processed fabrics depending on the structure of the processing units:

- Ad-valorem excise duty at the rate of 16 percent for composite units and for the ***independent power processors*** with an investment of above Rs.3 crore.
- Option to pay ad-valorem duty of 16 percent or specified chamber (capacity) based fixed duty for ***independent power processors*** upto Rs.3 crore investment limit.
- Complete exemption for ***hand processing units*** without the use of power or using the specified 12 and 7 power driven processes for cotton and man-made fabrics respectively.
- Complete exemption for processing of woven fabrics of cotton, man-made and blended with the aid of power or steam by a factory owned by a ***registered Handloom*** Cooperative Society, Apex Society or other organization set up / approved for the development of handloom
- Complete exemption for processing of cotton knitted fabric/knitwear.

Objective

The differential and discriminatory duty structure on processed fabrics has impeded the growth, profitability and

competitiveness of the high tech process houses. Processing has been recognised as the weakest link in the value addition chain. Imposition of uniform rate of duty would bring equity and pave the way for attracting large investments in this sector thereby improving the quality.

Consultation with Industry Groups

While the industry representatives were broadly in agreement with the suggestion that processing should be brought under the CENVAT chain the difficulties expressed were in relation to the procedures regarding valuation of the fabric and the difficulties in case of job work being undertaken by processors. The need to put together a hassle free system of assessment and collection of CENVAT was emphasised.

Recommendations

(a) Independent Power Processors

A movement was made in this year's budget by giving an option to independent power processors to pay ad valorem duty or specified chamber (capacity) basis fixed duty basis upto Rs. 3 crores investment limit. It is observed that most of the units have opted for ad valorem duty to take advantage of CENVAT credit. This movement made in last year's budget needs to be carried forward and all the independent power processors need to be brought under ad valorem CENVAT.

It is, therefore, recommended that-

An ad-valorem rate of CENVAT may be levied on all power processing units including independent power processing units of all types processing woven or knitted fabrics with the facility of CENVAT credit on actual basis with a simplified procedure for assessment as follows:

- actual document based (value based) credit for processing own fabric.
- CENVAT levied only on value added (processing charges) for job work undertaken by such processors in respect of duty paid grey fabrics only.
- In case of non-duty paid grey fabrics, deemed credit be continued to cover duty paid on yarn. Such deemed credit should be less attractive than document based credit. This arrangement needs to be continued till all grey fabrics are brought under CENVAT regime.

(b) **Hand Processors**

The exemption for hand processors with 12/7 power driven processes for cotton and man-made fabrics needs to be revised to ensure that only genuine hand processing units get the benefit of CENVAT exemption. While the ideal solution would be to remove exemption to all hand processors who use power as a practical solution, it has been found that 3 power processes namely, open-end scouring, hydro-extracting, and calendaring needs to be permitted to make fabric saleable.

It is, therefore, recommended that hand processing with upto 3 power processes namely open-end scouring, hydro-extracting, and calendaring may be exempted from CENVAT subject to these units being registered as SSI hand processing unit.

Since processing of handlooms is not synonymous with hand processing, support under various schemes like Deen Dayal Hathkargha Yojana may be enhanced to upgrade the quality of processing of handloom fabrics.

(c) **Exemptions available to power process houses owned by handloom organisations:**

At present processing of woven fabrics, cotton and man-made blended fabrics with aid of power or steam owned by registered Handloom Cooperative Society, Apex Society or other organisation set up/approved for development of handloom is exempt from payment of excise duty. While it is proposed to support processing of handloom fabrics through schemes like Deen Dayal Hathkarga Yojana, the exemptions given to such process houses where fabric other than handloom fabric is also processed need to be withdrawn to plug the loopholes and evasion in CENVAT.

It is, therefore, recommended that exemption available to power process houses owned by registered Handloom Cooperative Society, Apex Society or other organisation set up/approved for development of handloom be removed. Schemes to support high quality processing of handloom fabrics may be strengthened.

(d) **Simplification of procedures for payment of CENVAT**

The reluctance of processors to come into the CENVAT chain is largely due to the procedural difficulties in maintaining detailed accounts, and in handling disputes related to the value of the fabric etc due to the decentralised nature of their operations. Therefore, procedural simplifications in the CENVAT regime especially for the decentralised sector is considered essential. This will enable the Government to bring in the decentralised sector under the CENVAT chain within a period of 3 years as envisaged.

It is therefore, recommended that a Committee may be set up to look into **the procedural simplifications** required for bringing the decentralised sector of the textile industry under the CENVAT regime with particular emphasis on **processing and powerlooms**.

EXPLANATORY NOTES ON **FISCAL POLICY RECOMMENDATIONS**

REDUCING COST OF CRITICAL MACHINERY

Status

The high rate of excise duty, which is non-modvatable in most of the segments dampens the demand for new textile machinery and makes investment unattractive. Similarly, the high rate of customs duty also makes the cost of state-of-the-art imported textile machinery prohibitive. Textile machinery attracts CENVAT @ 16% and different rates of customs duty, i.e., concessional rates of basic duty of 5% with or without CVD on specific textile machinery items and normal rate of basic customs duty of 25% on other items. Customs duty has already been reduced for shuttleless looms and import of shuttleless looms has been exempted from CVD.

Objective

Rationalisation of fiscal duty on critical machinery items to support programme of modernisation of 2,50,000 powerlooms and make technology upgradation affordable and flow of investments attractive in the textile sector especially in processing, powerlooms silk and jute.

Consultation with Industry Groups

During consultations with the industry, there was a unanimous view that the reduction in cost of machinery is

a critical intervention to encourage investment in modernisation/technology upgradation.

In order to reduce cost of machinery, the customs levies on dedicated spare parts should also be brought down to the same level as that of the machine. This will encourage indigenous manufacturer to produce high quality machines at lower cost.

Recommendations

To reduce customs duties to 5% and exempt CENVAT across the board on all critical machinery related to textiles.

In particular, the following recommendations are made (with a sunset clause upto 1.3.2005).

- Continuation of exemptions / concessions announced in last year's Budget.
- Exemption from CENVAT on semi-automatic/automatic shuttle looms along with weaving preparatory machinery to support programme of modernisation of 2,50,000 powerlooms.
- Exemption from CENVAT and CVD on 44 processing machinery items of List 18 of Notification No. 17/2001-Cus. Dated 1.3.2001 – to encourage investment in the state-of-the-art processing industry. List of machinery is at **Appendix-I**.
- Exemption from CENVAT and CVD on critical items of reeling, twisting, weaving and processing machinery of silk industry. The basic customs

duty on these machinery items be also brought down from 25% to 5% - to modernise and upgrade technology. List of machinery is at **Appendix-II.**

- Exemption from CENVAT and CVD on Jute machinery for a period of three years. The items to be extended CENVAT and CVD exemption covered under various Headings of Central Excise Tariff are indicated in **Appendix-II.**
- Custom duties on dedicated spare parts to be brought down to the same level as that of the machinery.
- Reduction of customs duty on machinery required for manufacture of man-made/synthetic fibres and yarns as may be recommended by Department of Chemicals and Petrochemicals.

EXPLANATORY NOTES ON **FISCAL POLICY RECOMMENDATIONS**

ENCOURAGING INVESTMENT IN GARMENT SECTOR

Status

Readymade woven garment sector was de-reserved from exclusive production in SSI sector and SSI investment limit for knitted fabric and knitwear was enhanced from Rs.1 crore to Rs.5 crores. Readymade woven garment attract CENVAT of 16% with exemption from CENVAT on first clearance upto Rs.1 crore for home consumption under SSI excise exemption scheme. Knitted fabric and knitwear is exempt from CENVAT.

Objective

To enable the industry to reap the benefits of SSI de-reservation policy / enhanced investment limit and to encourage investment in the readymade garment and knitwear sectors.

Recommendations

- CENVAT on readymade garments without exception at the rate of 8%.
- Introduction of CENVAT on knitweaves at par with woven readymade garments (2/3rd production is for exports).

EXPLANATORY NOTES ON **FISCAL POLICY RECOMMENDATIONS**

ENHANCING COMPETITIVENESS OF TEXTILE **INDUSTRY AND MAKING TEXTILES AFFORDABLE TO** **THE MASSES**

It is recognised that the textile industry is going through a critical phase. It has to face the challenge of export competitiveness in the post MFA regime. Moreover, the industry has to gear itself up for facing possible import penetration with the dismantling of quantitative restrictions and reduction in custom tariffs. In addition, the social objective of making available, affordable clothing to the poorer sections of society has also to be achieved.

In the above context, the textile industry deserves a **merit rate of CENVAT at 8%** across the board. It is also recognized that introduction of merit rate of 8% in the textile industry would spur growth in the critical segments of the industry.

The merit rate is to be considered with a sunset clause (1st March, 2005)

Recognising the global trend and expectations of the middle class and lower middle class for quality and durable fabrics and garments the percentage use of blended yarns and fabrics vis-a-vis cotton is expected to increase. Polyester and blended fabrics have become the preferred fabrics of the common man. The fiscal duty structure therefore needs to capture this market reality.

(I) **CENVAT RATE STRUCTURE**

Recommendations

Given the practical difficulties of introducing a merit rate of CENVAT across the board in the textile sector particularly with reference to the revenue implications, the following recommendations could be considered:

Sr. No	Product	Recommended CENVAT Rate
1.	Cotton yarn - cone - hank in plain/cross reel	8% 8%
2.	All yarns i.e., spun and filaments (except POY/PTY/PFY)	8%
3.	POY/PTY/PFY	16% (CENVAT 8% + SED 8%)
4.	Woollen yarn	8%
5.	All man-made/Synthetic fibres	16% (no change)
6.	Grey woven fabrics of all fibres	8% (Basic)
7.	Processed woven fabrics of all fibres	8% (Basic)
8.	Grey knit fabrics of all fibres	8%
9.	Processed knit fabrics of man-made, blended, woollen	8%
10.	Processed knit fabrics of cotton	8%
11.	Knitwears of all fibres	8%
12.	Garments (woven)	8%
13.	Silk	No change (from the existing exemption)

In the above recommendations, fabrics and garments are proposed to be brought under a uniform CENVAT rate of 8% which will encourage voluntary compliance in the powerloom sector. Moreover, the fact that the duties are being reduced on fabrics and garments will encourage

investment in these sectors and would also send the right signals to the consumers and ensure that the fabric will become cheaper even with the completion of CENVAT chain. By keeping all man-made/synthetic fibres at 16% CENVAT and POY/PTY/PFY at 16%, the revenue implications of the recommendations would also be addressed to a large extent.

In the above recommendations the CENVAT rate for man-made/synthetic fibres is higher than the CENVAT rate of yarn (except POY/PFY/PTY). The MODVAT credit at yarn stage should be limited to the actual CENVAT incidence at yarn stage. In case of filament fabrics, MODVAT credit should be capped at the level of actual CENVAT incidence at fabric stage. No positive credit would be admissible at yarn or fabric stage.

It is also recommended that AED at fabric stage be abolished in view of the decision to introduce State VAT.

The CENVAT credit would be admissible against production of actual duty paid documents.

The above recommendations are not revenue-negative. In fact, even without considering the buoyancy in the sector, they will yield more revenue than the present levels.

(II) CUSTOMS DUTY STRUCTURE

The customs duty structure necessary for reducing the cost of machinery to encourage investments in modernization and technology upgradation has been discussed earlier in textile machinery. The

recommendations with regard to customs duty rationalization to increase export competitiveness and value addition and to ensure availability of intermediates to the user industry at reasonable prices and also to reduce the cost of clothing within the country are as follows:

(a) Wool - Apparel grade wool and flax fibre – basic customs duty.

Status

Production of wool fibre is deficient in the country and the industry depends largely on imports for its raw material requirement. Similarly, the other raw material of this sector namely, flax fibre is not produced indigenously and the requirement is met from imports. The present rate of basic customs duty on apparel grade wool and flax fibre is 15%.

Objective

To make good quality raw material available to increase exports since India has strength in woollen weaving.

Recommendations

To ensure availability of good quality raw material to add value to exports, it is recommended that basic customs duty on apparel grade wool and flax fibre be reduced from 15% to 5%

(b) Reduction in import duty on Rayon Grade Wood Pulp

Status

The main raw material for the production of artificial fibre/filament yarn namely, Viscose Staple Fibre and Viscose Filament Yarn is Rayon Grade Wood Pulp. The production of Rayon Grade Wood Pulp in the country is not sufficient to meet the entire demand and some portion (about 30%) of Rayon Grade Wood Pulp is being imported on payment of customs duty of 9.2% (Basic 5% + SAD 4.2%).

The Industry has been representing that special long fibre pulp is not being manufactured indigenously due to non-availability of required type of soft wood and pointed out that blending of 25-30% long fibre soft wood pulp with indigenously available short fibre wood pulp is necessary for meeting the quality parameters of rayon products in the context of the international competitiveness.

Objective

To supplement the availability of Rayon Grade Wood Pulp through imports thereby reducing the dependence on indigenous pulp manufacturing industry on domestic forest resources.

Recommendations

To augment the availability of viscose fibres/yarns to the user industry at reasonable prices, the Group recommends that the import of Rayon Grade Wood Pulp be exempted from **SAD**.

(c) Intermediates of man-made synthetic fibres - (DMT / PTA / MEG / Caprolactum) for synthetic fibres and yarns

Status

Prior to Budget 2001-02, the basic customs duty on intermediates of i.e., DMT/PTA/MEG/ Caprolactum was higher (25%) than synthetic fibres and yarns (20%). In the Budget, the basic duty on intermediates was brought down to 20% and at present synthetic fibres / yarns and their intermediates attract same duty of 20%.

Objective

To encourage maximum value addition and to ensure availability of intermediates to the user industry at reasonable prices.

Recommendations

The Working Group on Xth Plan has projected a growth of 8-8.5% for PSF/PFY to meet increasing domestic demand and also to stay in tune with the global growth in blended fabric/garments.

Reduction in basic customs duty on intermediates from 20% to 15%.

(d) Reduction in import duty of Man-made/Synthetic Filament yarns, not manufactured in India

STATUS

The import of all the man-made / synthetic filament yarns is allowed freely with basic customs duty of 20%. There are certain filament yarns such as Cupramonium and Acetate which are not being manufactured indigenously. Besides, certain specialised yarns also do not have any indigenous angle.

Objective

The availability of such yarns, being raw materials, required for the production of high value textile items / technical textiles, needs to be augmented.

Recommendations

Considering the absence of indigenous angle and near absence of present import of these yarns, it is suggested that the customs duty on these yarns be completely abolished. The list of such specialty yarn may be finalized by Department of Chemicals & Petro-chemicals.

EXPLANATORY NOTES ON **FISCAL POLICY RECOMMENDATIONS**

REVIEW OF EXCISE EXEMPTION

Status

At present excise exemptions are available under following broad categories:

- SSI sector.
- Products which are used as raw materials predominantly in decentralised sector.
- Items where value addition is marginal.
- Sector specific excise exemptions
 - Handloom sector
 - Jute sector
 - Silk sector
- Product specific exemptions.
- Misc. exemptions (Khadi, processing grey fabrics manufactured in prison)

Objective

To stop misuse of the excise exemption and reduce distortions between organised and unorganised sector so as to encourage quality improvement through modernization and at the same time continue to support the concerns of the genuinely disadvantaged sectors.

Recommendations

- **(with regard to mercerizing/ doubling/ cabling etc., of yarn).**
 - Since the value addition at this stage is low, and investment range from very small to large covering a large number of units it is recommended that CENVAT exemption be made optional. In such a scenario, those who opt for CENVAT can get credit and for the rest the incidence of CENVAT will be captured at fabric stage.

- **(with regard to woollen/shoddy yarn).**
 - The misuse of SSI excise exemption extended to woollen / shoddy yarn and wool tops has created market distortions by unfair competition to the units of organized sectors. To encourage investment and also improve quality of products of small units, it is recommended that SSI excise exemption on woollen / shoddy yarn and wool tops should be withdrawn.

(Other recommendations have been listed in the respective sub-headings)

RECORD OF THE PROCEEDINGS OF THE 2ND
MEETING OF THE STEERING GROUP ON
INVESTMENT AND GROWTH IN TEXTILE
INDUSTRY

The Second meeting of the Steering Group on Investment and Growth in Textile Industry was held under the Chairmanship of Shri N.K. Singh, Member, Planning Commission on 17th September 2002 at 11:30 pm at Hotel Taj Mahal, Mumbai. The list of participants is annexed.

2. After the formal welcome of the guests, the discussions were initiated by Shri S.B. Mohapatra, Secretary (Textiles). He thanked Shri N.K. Singh for the positive sentiment in textile industry, which was created due to fiscal corrections done during the last budget, as a result of the recommendations of the Steering Group. The need of the hour now, is to take this process of fiscal corrections to its logical end, Secretary added. He listed the following issues which need to be addressed on priority to revive and support the textile industry: Accelerating the modernization particularly in weaving and processing sectors, improving the credit and investment flow, fiscal corrections, rehabilitation of weak but potentially viable mills.

3. Shri N.K. Singh, Chairman of the Steering Group, in his opening remarks raised the following 5 issues on which the response of the participants was sought:

- (i) Whether textile industry has a long time future? There is a general perception that this sector has very serious endemic problems. What are the basic parameters on which this future depends?
- (ii) What kind of fiscal regime would be necessary for nursing the textile industry back to health and for generating the kind of large investment which are required for sustaining high levels of productivity in this sector?
- (iii) What kind of changes are necessary in the pattern of credit and financing mechanism?
- (iv) What could be the creative ways for debt restructuring in the textile sector and the sources of putting such large investments?
- (v) What are other overarching considerations like the kind of labour laws structure and other macro parameters which also have impact on the textile industry?

4. Shri Singh further added that, various segments of textile industry, deserve complements for their support to building a consensus towards completing the CENVAT chain, which was initiated in the last Budget. The option given to the powerloom industry to come under the excise

net was only an interim measure and the idea was to have a common and unbroken CENVAT chain ultimately, he said.

5. Shri Subodh Kumar, Textile Commissioner made a brief presentation about the domestic market size, production, exports, technology profile and other salient features of Indian textile industry. He said that the industry which accounts for an insignificant percentage of imports has been the single largest exporter and has further potential to grow. He pointed out that the decentralized powerloom sector and the processing sector are required to be strengthened by way of technology upgradation to support the growing apparel industry. For this purpose, liberalization of rules governing import of second hand looms and additional investments need to be ensured on priority basis. The debt restructuring of the units which borrowed in the past at a high interest rate, coverage of working capital, atleast for one year, under TUFSS could be some other measures, which would improve the investment climate in the industry.

6. Shri Rajaram Jaipuria, Chairman, ICMF, while thanking Shri N.K. Singh for the recommendations related to fiscal corrections carried out in the last budget, mentioned that those corrections have had very positive impact on Indian textile industry. He suggested that completion of CENVAT chain with 8% duty, will further

improve the financial health of the industry. He mentioned that the export target of US\$ 50 billions set out in the National Textile Policy is not very difficult to achieve, provided the required credit flow is ensured at concessional interest rate. He suggested that the banks and other financial institutions need to adopt a realistic and sympathetic approach towards the textile industry. The TUFs need to be extended up to 2010 instead of 2004, Shri Jaipuria, suggested. He also suggested that the promoter's contribution under TUFs need to be brought down, to the level of 10%, in order to make the scheme more effective. The re-payment period for loans should also be extended, up to 15 to 20 years, for the textile sector.

7. Shri S.P. Oswal, CMD, Vardhaman Group, mentioned that the Indian clothing industry being the single largest foreign exchange earner and largest employment provider (next to agriculture) has immense significance for the Indian economy as a whole. This industry will help in bridging the regional disparities and imbalances in the country and therefore fits into the over all objectives of our planning process. The success story of Indian spinning industry which has been able to capture a sizeable market in the world, offers useful lessons for other sectors also, to emulate. The reasons for success of spinning industry were modern technology, reasonably higher level of operations, non-reservations, non-discrimination of tax structure and absence of exemptions. We can replicate

this model in other sectors of the industry, particularly weaving and processing. What is required is full MODVAT chain with 8% duty without any exemptions. The concept of deemed MODVAT, which is leading to misuse, should be done away with. The TUFs, despite its limitations has been working satisfactorily. The investment for modernization and rehabilitation of potential units needs to be stepped up in a focused manner, as was done in the case of China. These additional investments are required to be pumped in over the next 3 years, so that our industry is prepared adequately to exploit the opportunities emerging out of the phasing out of the quotas. The thrust now needs to be on making the business operations of textile industry a profitable one. The investments will follow once the industry appears to be promising.

8. Mr. Nikhil Meswani, Executive Director, Reliance Industries said that the Indian textile industry has very bright future, especially after the fiscal corrections carried out in the last budget. While the spinning and upstream industry is reasonably modernized, investments are urgently required in the down stream segments like weaving, processing etc., for modernization. The import of second hand machinery should liberally be allowed without any restrictions, since it is the most cost effective method of modernization. The benefits available under schemes like EPCG etc., should be made applicable in case of import of second hand machinery. Mr. Meswani also

added that completion of CENVAT chain will drastically improve the competitiveness of our textile and clothing industry. He pointed out that though duty on yarn get Modvated at fabric stage, the real problem was that because of higher incidence of CENVAT on yarn, there is a high amount of unutilized credit which will not be reflected in a unit's PLA and will not allow to find the working capital. Therefore, there is a strong case to bring down CENVAT rate on filament yarns. The financial institutions should adopt a pro-active approach for mergers, consolidations/ takeovers which would improve the viability of the sick but potential units. Shri Meswani has also suggested that an Industry Group may be constituted to study the China model, so that lessons that can be applied in Indian situation could be learnt for the benefit of the industry. He also stated that the duty on man-made fibers needs to be rationalized, over a period of time, so that a fiscal policy framework, which would provide a level playing field for various sectors of the industry to compete and grow in a healthy manner, is in place.

9. Mr. V.K. Ladia, Member, ICMF spoke about the differences in duty structure for filament and spurn yarn. These differences are essentially based on the technology and production systems. Therefore, he suggested that any effort to bring both these sectors' duties at par, should be a very gradual process, without affecting the sustainability of spinning industry. He also suggested that high input costs

on raw materials, electricity etc., need to be addressed to make the industry competitive. The Financial Institutions/ Banks should be allowed longer repayment period and also the requirement of working capital should be met by the bankers, liberally.

10. Mr. Arun Jariwala, Chairman, FIASWI, mentioned that the powerloom industry is not in a position to opt for duty payment in view of variations in duty structure at yarn stage. Therefore, it is necessary to rationalize the duty structure at various stages which would complete the CENVAT chain and encourage the powerloom weavers also to pay the excise duty. The deemed MODVAT credit enjoyed by the composite sector, should be made applicable to the decentralized sector also. He also suggested that chemicals and dyes, used by independent processing industry, should be modavated. The excise duty on weaving preparatory machinery should be removed and certain preparatory machinery, which are not covered under TUFSS, should also be brought under the scope of TUFSS.

11. Mr. Chintan Parikh, Arvind Mills & Member ICMF mentioned that bullishness being witnessed by the industry, due to limited fiscal correction carried out in the last budget, indicates that the industry is capable of emerging stronger, if right kind of policy environment is created. He also suggested that CENVAT chain should be

completed. With the absence of quotas after 01/01/2005, we need to look at the issues related to accessing the markets for our exports, in a more focused manner. The strategy needs to provide thrust to the garment industry, which has potential to become engine for growth. There should be a strategy for revival of sick but potentially viable units by way of management consolidation etc. He added that the textile industry, with highest domestic value addition, can withstand any foreign competition and therefore, this industry should be given adequate priority by the Government. The inadequacies of MODVAT credit for dyes and chemicals, which are also inputs, need to be corrected. In China, the interest rates are as low as 4% with 20 years repayment and our TUFs should have similar provisions. The independent modern processing units, which have technology as per TUFs prescription, should not be allowed to become sick due to higher interest rates at which they borrowed, before the TUFs came into existence. Therefore, some debt restructuring by taking the TUFs subsidy into account along with higher moratorium period should be thought about. He also suggested that different financing arrangements for predominantly export oriented units needs to be worked out.

12. Mr. O.P. Lohia, Managing Director, Indo Rama, mentioned that although the labour related issues are important for the industry in general, they are not the core

issues, except for garment industry, at the present juncture. The main problems being faced by the industry are low productivity and high costs. He cited the example of China where the share of man-mades has been steadily increasing at the cost of cottons; this has helped China, in boosting its exports. Similar kind of strategy should be adopted in India also and for this purpose the duties on synthetics fibres need to be brought down to the level of 8%, as applicable to cotton yarn.

13. Mr. A. Mohan, President, AIMTEX, Coimbatore said that the modern textile processing units, which came up in the last 10 years have unfortunately become sick in view of huge interest rate on the loans and also seasonality of operations. He suggested that since the investments have been made in this modern technology, as bench marked in the TUFSS, the interest subsidy benefits as available under TUFSS should also be made applicable to the modern processors which came up before the introduction of TUFSS. He also added that the 5% TUFSS interest subsidy, even if it is provided, may not be adequate and therefore a comprehensive strategy of revival for modern processing units should be worked out. The scheme similar to the one implemented in Sri Lanka where Textile Reconstruction Fund was introduced, could be thought about for restructuring of the debts related to modern processing units.

14. Mr. R.K. Dalmia, President, Century Textiles, said that the labour reforms are required to be done on priority and also the quality of infrastructure needs to be upgraded, which will have beneficial impact on the industry's competitiveness.

15. The representatives of Industrial Finance Corporation of India, Industrial Development Bank of India, Export & Import Bank, Punjab National Bank and State Bank of India mentioned that the TUFS has been working satisfactorily. They have also mentioned that the TUFS has helped the Financial Institutions/ Banks in better recovery and therefore no credit worthy proposal is rejected by the banks under TUFS or otherwise. The exposure norms of Financial Institutions/ Banks for various sectors are the barriers in increasing the credit flow to the textile industry. Resetting the interest clock to take care of the past higher interest will warrant high provisioning in the accounts books of the Banks which may hit bottom line, they added. However, in genuine cases, where relief is possible within the existing frame work, it is being extended on case to case basis. The fact, that major percentage of NPAs are in textile industry, discourages the Financial Institutions/ Banks to go for aggressive lending to the sector. The longer repayment period like 20 years, as suggested by some industry representatives, may not be a good idea, they added. Banks and Financial Institutions also supported the demand for a level playing field between

various sub-sectors of the textile industry, which would plug the duty evasion routes and improve the financial viability of efficient units and would restore the confidence of Banks and Financial Institutions in the textile sector.

16. Mr. B.K. Patodia, Managing Director, GTN Textiles Limited, said that knitting sector has not yet been de-reserved so far, though it was announced in the last budget. Further, the units which have potential, but are sick at present, need to be identified and some strategy should be thought about for their rehabilitation.

17. Mr. R.L. Toshniwal, mentioned that the exports need to find priority in the Government's strategy, since the exports create demand for up stream value addition activities. The interest rates for export credit should be brought down, taxes that are paid should be returned timely, second hand machinery to be allowed under EPCG, master spinners to be allowed to pay excise duty in case of powerlooms and MODVAT should be allowed for independent process house also, he suggested.

18. Mr. P.T. Patodia, President, FIEO, suggested that the policies of other countries with respect to the exports need to be studied. He also suggested that the interest rates on working capital should be brought down. He added that textile industry, being the oldest industry of the country, naturally accounts for high NPA.

19. Mr. Atul Chaturvedi, Joint Secretary, Ministry of Textiles, during his intervention at various stages of the proceedings, mentioned that reduction in duties on machinery has helped in modernization of the industry. The fiscal corrections carried out in the last budget have not only helped in creating positive sentiment in the industry but also resulted in additional revenue (from the measures such as bringing the hank yarn under excise net). Therefore, the need of the hour is to carry on this exercise of the fiscal corrections that was initiated last year, and also to address other related issues, so that the Indian Industry would be able to exploit the opportunities emerging out of globalization of trade. He also mentioned that there are indicators which suggest that India is likely to be the second largest buying hub for international buyers/ retailers like Wall Mart, Gap etc. Therefore, a concerted strategy involving the Government and the Industry will help in exploiting these opportunities, he added. The debt reconstruction scheme of Sri Lanka was gone through and the CII was requested to study and develop a scheme suitable for our Indian situation. The industry may also come up with ideas about the features of such scheme, Shri Chaturvedi added.

20. Mr. S.B. Mohapatra, Secretary (Textiles), while summing up mentioned that the implementation issues related to the last year budget would be sorted out jointly

with the Department of Revenue. The Steering Group could meet after a period of 2 months to carry forward this exercise. The suggestions of the industry for unbroken CENVAT chain, removal of deemed MODVAT, debt restructuring etc., will have to be discussed and appropriate actions to be taken.

21. Based on discussion, Chairman Shri N.K. Singh drew the following conclusions:

- a) There is a consensus that there should be unbroken CENVAT chain, without exemptions, with 8% duty and also dis-continuation of deemed MODVAT credit.
- b) The fiscal policy should aim at providing a level playing field for orderly growth and sustenance of various sectors of the industry such as man-mades and cotton. Bridging the difference in duty structure between these two sectors could be considered, in a gradual manner, over a period of time, so that both the sectors could grow in a healthy competitive environment.
- c) The Ministry of Textiles prepare a base paper for debt swapping/ debt management/ debt restructuring for the textile industry, so that the potential and viable units could be revived.
- d) The administrative issues related to import of second hand machinery need to be sorted out by the Ministry of Textiles with the Ministry of Commerce. The

principle should be that the Government should not micro-manage such commercial decisions of the companies with respect to the use of technology.

- e) TUFSS be extended up to the end of 10th Five Year Plan i.e., year 2007, in view of the positive impact of the scheme on modernization of the industry.
 - f) The Ministry of Textiles should consider setting up of an Industry Government Group to study the Chinese model of providing policy support for growth and investment of textile industry.
 - g) The Indian textile and clothing industry, the oldest industry of the country, which meets one of the basic needs of the population i.e., clothing, will have to be supported and strengthened and for this purpose, the Government and the industry should work together.
- Meeting ended with a vote of thanks to the Chairman.

**LIST OF PARTICIPANTS ATTENDED THE STEERING
GROUP ON INVESTMENT AND GROWTH IN TEXTILE
INDUSTRY ON 17TH SEPTEMBER 2002 AT HOTEL
TAJ, MUMBAI**

Sr. No.	Name & Designation	Organisation
1.	Shri N.K. Singh, Chairman	Steering Group
2.	Shri S.B. Mohapatra, Secretary (Textiles)	Ministry of Textiles
3.	Shri Atul Chaturvedi, Joint Secretary	Ministry of Textiles
4.	Shri Subodh Kumar, Textile commissioner	Ministry of Textiles
5.	Shri R C M Reddy, Secretary	Textile Committee
6.	Shri Sanjeev Saran, Chairman	SRTEPC
7.	Shri Lalit Desai, Dy. Chairman	TEXPROCIL
8.	Shri Dalbir Singh, CMD	(Central Bank) IBA
9.	Shri Chintan Parikh	ICMF
10.	Shri Rajaram Jaipuria	ICMF
11.	Shri V K Ladia	ICMF
12.	Shri C S Gokhale	Reliance Industries
13.	Shri (Dr.) B. Samal, CMD	Allahabad Bank
14.	Shri P D Patodia	FIEO
15.	Shri D K Nair, Secretary General	ICMF
16.	Shri O P Gupta, Asst. General Manager	Indian Overseas Bank
17.	Shri Prem Malik	Mafatlal Ind. Ltd.,
18.	Shri V Y Tamane	ISA
19.	Shri B K Patodia, Managing Director	G T N Textiles Ltd.
20.	Shri S W Patwardhan, CGM	IDBI
21.	Shri T B Ananthanarayanan, G.M.	IABL
22.	Shri S Raychaudhuri	Allahabad Bank
23.	Shri Anees Noorani, Vice-Chairman,	Zodiac Clothing Co.
24.	Shri R K M Prasad, CGM	IFCI Ltd.
25.	Shri S K Singhai, AGM	IFCI Ltd.
26.	Shri R I S Sidhu, Zonal Manager	Punjab National Bank
27.	Shri Suresh Kotak, President	ASSOCHAM
28.	Shri M Y Momin, Chairman	PDEXCIL
29.	Shri A N Jariwala, Chairman	FIASWI
30.	Shri R C Jhamtani, Adviser (Industry)	Planning Commission
31.	Shri Y Vijayanand, CGM	State Bank of India

32.	Shri A R Muralidharan, GM	SIDBI
33.	Shri Brij Mohan, ED	SIDBI
34.	Shri Nikhil R Meswani, ED	Reliance Industries
35.	Shri Thomas Varghese, President	Grasim Industries
36.	Shri O P Lohia, MD Indo Rama	FICCI
37.	Shri S P Oswal, CMD	Vardhaman Spinning Mills Limited.
38.	Shri R K Dalmia, President	Century Textiles (Birla Group)
39.	Shri N Parikh, Board Director.	Arvind Mill Ltd.
40.	Shri R L Toshniwal	Indian Spinners Associaton
41.	Shri (Dr.) K B L Mathur, Joint Secretary (IF)	Banking Division MOF
42.	Shri Subrat Ratho, Zonal Jt. DGFT	DGFT
43.	Shri Siddhartha Rajagopal, ED	TEXPROCIL
44.	Shri K Sathianandan, DGM	SIDBI
45.	Shri H B Saraiya	FIASWI
46.	Shri R Kannan, General Manager	ICICI Bank
47.	Shri C L Ghalsasi, Chief Manager	ICICI Bank
48.	Shri G K Gupta, Chairman	Textiles Committee
49.	Smt. Hiroo S Advani, CGM	EXIM Bank
50.	Shri (Dr.) Mohan, T Mathew, Economist	Indian Merchants Chamber
51.	Shri S Sinha, Information Manager	FICCI
52.	Shri A Mohan, Treasurer, CBE	AIMTEX

ANNEX-V**EXCISE EXEMPTIONS TO BE CONTINUED**

S.No.	CH/SH	Description of goods
1.	5001.00	Silk –worm cocoons suitable for reeling
2.	5002.00	Raw silk
3.	5003.00	Silk waste (including cocoons unsuitable for reeling, yarn waste and garneted stock)
4.	5101.00	Wool, not carded or combed
5.	5102.00	Fine or coarse animal hair, not carded or combed.
6.	5103.00	Waste of wool or of fine or coarse animal hair, including yarn waste, but excluding garneted stock.
7.	5201.00	Cotton, not carded or combed
8.	5202.00	Cotton waste (including yarn waste and garneted stock)
9.	5207.00	Khadi, that is to say, any cloth woven on a handloom in India either wholly from cotton yarn or in admixture with silk or woolen yarn, handspun in India and certified as Khadi by an officer duly authorized in this behalf by the KVIC.
10.	5207.00	Poly Vastra, that is to say, any cloth containing cotton and polyester woven on handloom from yarns hand spun in

		India and certified as Poly Vastra by an officer duly authorised in this behalf by the KVIC and processed by a factory owned by the KVIC or any organization approved by the KVIC for the purpose of processing of Poly Vastra.
11.	5207.10	Fabrics of cotton or man made fibres woven in a prison and subjected to further process outside the prison by an independent processors or a composite mill.
12.	5301.00	Flax, raw or processed , but not spun; flax tow and waste (including yarn waste and garnetted stock)
13.	5303.00	Jute and other textile bast fibres (excluding jute; true hemp and ramie) raw or processed but not spun; tow and waste of these fibres (including yarn waste and garnetted stock)
14.	5305.31	Ramie, raw or processed but not spun; tow, noils and waste of ramie (including yarn waste and garnetted stock)
15.	5509.21	Poly Vastra, that is to say, any cloth containing cotton and polyester woven on handloom from yarns hand spun in India and certified as Poly Vastra by an officer duly authorized in this behalf by the KVIC and processed by a factory owned by the KVIC or any organization approved by the KVIC for the purpose of processing of Poly Vastra
16.	6307.10	Indian National Flag.

CENVAT EXEMPTION ON ESSENTIAL WEAVING
PREPARATORY MACHINES ALLOWED FOR IMPORT
UNDER NORMAL CUSTOMS DUTY OF 25%

Preparatory Shed:

- Warping machine including sectional warping machine, with yarn tensioning devices and accessories
- Draw warping and sizing machine
- High Speed multi cylinder sizing machine / zero twist sizing machine
- Beam knotting machine.

In the looms shed:

- Warp tying machine
- Bahnson's humidification plant

CENVAT EXEMPTION ON TEXTILE MACHINERY
ALLOWED FOR IMPORT UNDER CONCESSIONAL
CUSTOMS DUTY OF 5% AND EXEMPTED FROM CVD

1. High Speed Warping machine with yarn tensioning, pneumatic suction devices and accessories.
2. Beam knotting machines.
3. Effluent treatment unit with biopaq reactor, activated sludge process, activated carbon, ultrafiltration ozonisation facilities.
4. Combined contipress/decatizing machine.
5. Effluent treatment unit with automatic sensing devices, automatic controlled chemical dosing, dissolved air floatation (DAF), reverse osmosis, sludgeewatering, decanters, ultrafilters, vaccum filters to deliver water for reuse.
6. Hydraulic Flat Paper Press/Continuous Hydraulic Flat Paper Press /Rotary Press.
7. Fully fashioned high speed knitting machine.
8. Computerised Pattern maker/Pattern grading/marker machine.
9. Computerised embroidery pattern-making machine with plotter.
10. Carding Sets, for use in woollen textile industry.
11. Auto control type humidification plant.

**CENVAT AND CVD EXEMPTION ON CRITICAL
GARMENT MACHINERY ITEMS ALLOWED FOR IMPORT
UNDER CONCESSIONAL CUSTOMS DUTY OF 5%**

1. Computerised flat bed knitting machine.
2. Whole garment making machines (knitted).
3. Computerized embroidery machines.
4. Embroidery machines with 10 heads and above.
5. Pocket Creasing machines.
6. Power driven cloth cutting machines.
7. Band knife cutting machines.
8. Laying and cutting machines.
9. Spreading machines.
10. Sewing machines with in-built motors.
11. Button hole sewing machine.
12. Button stitch sewing machine.
13. Bar tacking machine.
14. Collar turning and blocking M/C and cuff turning and blocking machine.
15. Cuff press.
16. New automatic collar turning machine.
17. Quilting machine.
18. Snap fastness fixing machine and/or siwa there of.
19. Thread cleaning machine.
20. Portable boiler for steam press.
21. Steam cabinet.
22. Vacuum table.
23. Dry to dry cleaning machine.
24. Stain/spot removing machine gun.
25. Shirt folding machine.
26. Form finishers.
27. Collar contour trimmer.
28. Conveyor for garments.
29. Button and rivet fixing machine and/or dies thereof.
30. Computer aided design system
31. Fully automatic grey fabric inspection machine with roll to roll winding having micro process recorder.

ANNEX-X

REDUCTION IN CUSTOMS DUTY FROM 25% TO 5%
AND EXEMPTION FROM CENVAT AND CVD ON
CRITICAL GARMENT MACHINERY ITEMS

1. Garment sand blasting/brushing machine.
2. Hook and bar machine.
3. Hydro-extractor machine.
4. Garment washing machine.
5. Waistband attaching machine.
6. Label/tag inserting machine.
7. Profile cutting machine.

ANNEX-XI

REDUCTION IN CUSTOMS DUTY FROM 25% TO 5% ON MACHINERY & EQUIPMENTS REQUIRED FOR MANUFACTURE OF POLYESTER STAPLE FIBRE & POLYESTER FILAMENT YARN REQUIRED IN TEXTILE INDUSTRY – provisional list (to be finalised in consultation with Department of Chemicals & Petro- chemicals)

CONTINUOUS POLYMERIZATION PLANT

Sr.No.	Description of Plant & Machinery
1	<u>Polymerizing equipment</u> including Esterification Reactor, Vapor Separator with Condenser, Polymerization reactor with agitator, Spray Condenser, Static Mixers, pumps, piping valves, instrumentation & electricals
2	<u>Slurry Preparation system</u> , Mix & Feed Tank Agitator (Turbine type design), Monomer Feed system including pumps, cooler, piping, valves, instrumentation & electricals
3	<u>Additive Preparation System</u> (Catalyst, TiO ₂ , Inhibitor, DEG, IPA, Color Toner, Heat Stabilizer) including dispersion mill, filters & injection nozzles.
4	<u>IITM (Heat Transfer Medium)</u> Heating system including pumps, piping, valves, instrumentation & electricals
5	<u>PTA conveying system</u> including container unloading platform, pumps, rotary feeders, piping, valves, instrumentation & electricals
6	<u>Polymer Transfer line equipment</u> including Polymer

	Coolers, Polymer Filters, Jacketed Polymer Pumps
7	<u>Solid State Polymerization equipment</u> including Pre-Crystallizer, Crystallizer, Rotary Feeders, pumps, piping, valves, instrumentation & electricals
8	<u>Automatic Chip Cutting Equipment</u> including Chips handling & conveying system, pumps, piping, valves, instrumentation & electricals
9	<u>Process Control Equipment's</u> viz. Viscosity measuring equipment (Viscometer), Distributed Control System (DCS) with accessories, Vortex Flow Meter, Mass Flow Meter, Rotameter, Speed Transmitters, Oxygen Analyzer, pII analyzer, Moisture Analyzer, Flow Restriction Orifice, Annubar, Piccolo Orifice, McLcod Gauge, Level Switches
10	<u>Physical Laboratory Equipment's</u> viz. Moisture Analyzer IR, Aquameter-KF Tetrameter, x-ray Fluorescence Spectrometer, Ultrasonic Cleaner with accessories, COD Reactor with Colorimeter, Bacteria, Colony Counter, Conductivity Meter, Gas Chromatograph, Filter Apparatus – Millipore, DEG Reflux Station, Incubator, BOD Meter with Incubator, Magnetic Stirrer, Differential Scanning Calorimeter, pII Meter with accessories, Incubator shaker, UV-Spectrophotometer with accessories, Velometer, Hydrometer, Refractometer, Viscometer, Cryostat, Muffle Furnace, Potentiometer, Colorimeter, Titration Apparatus, Automatic absorption Spectrometer.

POLYESTER STAPLE FIBRE PLANT

Sr.No.	Description of Plant & Machinery
1	<u>Spinning Equipment</u> including Manifold, spinning beams, pumps packs, spinnerets, Pre-heating ovens, filter elements.
2	<u>Polymer Transfer line</u> including Extruder, Color Blender Continuous Polymer Filter (CPF) with filter elements, pumps, piping, valves, instrumentation & electricals.
3	<u>Draw-Off Equipment</u> including Take-up Equipment, Oiling rollers, Diverter rollers, Yarn Guides, Control Panel, Thread cutters and aspirators, Spin defect detectors, Draw off units, Tow guide equipment, Lace-up / Suction Gun.
4	<u>Can Traversing system</u> including Low lift can transport truck
5	<u>Draw Line (Fibre Line)</u> including Creel, Tow guide stand, Draw Frames, Drawing Bath, Heat Set Calendar / Thermosetting Unit, Tow Assembler, Draw-off Unit, Tensiometer Roll, Steam Box, Crimping Machine / Crimper, Spray Box, Tow Guide System, Cable Dryer, Tow Cutting & Grinding Machine, Tow Cutting Blades, Tow Cutter Reels
6	<u>Hydraulic Baling Press</u> including Accessories, Weighing Machine, Strapping machine, Dock Levelers, Automatic bale handling equipment with robots & computers
7	<u>Process Control Equipment's</u> viz. Precision anemometer, Thermohygraph, Aspiration psychrometer, Ultrasonic cleaning unit, Spinneret inspection system, Infrared Pyrometer, Optical

	Temperature Measuring Instrument.
8	<u>Textile Laboratory Equipments</u> for fibre testing viz. Color measuring instrument, Fibre balance, Carding unit for testing abnormal fibre, Vibromat, Fibre strength tester, Fibre shrinkage Tester, Magnifier with illumination, Fibre dyeing unit, Humidity tester, Microscope with camera, Crimp balance, Ministry Card Favimat, Thermohygrograph, Psychrometer, Staple Cutting Device

POLYESTER FILAMENT YARN PLANT

Sr.No	Description of Plant & Machinery
1	<u>Spinning Equipment</u> including Manifold, Spinning beams, pumps, packs, spinnerets, Pre-heating ovens, Filter elements
2	<u>Polymer Transfer line</u> including Extruder, Color Blender Continuous Polymer Filter (CPF) with filter elements, pumps, piping, valves, instrumentation & electricals.
3	<u>Take-up Equipment</u> including Take-up frames, Godet Rollers, Yarn Guides, Control Panel, Thread cutters and aspirators, Air & interlace Nozzles, Lace-up / Suction Gun, Take-up & Draw Winders.
4	<u>Packing & Automation Equipment</u> including Automatic doffers, Automatic Bobbin Storage & Handling system with accessories, robots & computers
5	<u>Draw Texturising Machine</u> including accessories, Creel, Rollers, Heaters, Intermingling Jets, Ceramic guides, Doffers
6	<u>Textile Laboratory Equipments</u> for yarn testing viz. Dyeing Machine, Automatic Tensile Tester, Projection

Microscope, Denier Skein Reel, Entanglement Tester, Knitting Machine, Denier Auto Count, Dynafil, Tensiometer, Uster Testing machine, Memo Tense Stroboscope, Shore Hardness tester, Anemometer, Online Finish Checking Instrument, Box compression Tester, Paper Tube Compression tester, Bursting Strength Tester

DUTY FREE IMPORT OF YARNS & FIBRES WHICH ARE NOT MANUFACTURED IN INDIA (Provisional) – to be finalised in consultation with Department of Chemicals & Petro-chemicals

1. Nylon 66 High Tenacity Yarn & Mono Filament Yarns.
2. Nylon 66 High Tenacity yarn All deniers
3. Nylon 66 Semi-dull & Bright Yarns
4. Nylon 6 mono-filament 30 denier and above.
5. Nylon Air Crimped 300 denier and above
6. Nylon 11 in Bright & Semi dull
7. Polyester High tenacity yarns above 4.5 grams/denier
8. Kevlar Yarn/Aramide
9. Polythelene Yarn
10. Glass fibre filament yarn different grades
11. Spandex or lycra yarn
12. Nylon Staple Fibre
13. Acetate filament yarn
14. Acetate Staple Fibre
15. Nylon U.V. Treated yarn
16. Nylon flame retardant yarn
17. Polyester U.V. Treated yarn
18. Polyester flame retardant yarn
19. Nomex High temperature resistance yarn
20. Teflon treated polyester/spun & blended yarn
21. Teflon treated polyester & nylon yarns
22. Viscose FR Filament/Fibres
23. New high performance textile fibre belcotex
24. Carbon fibre
25. Carbon filament
26. Cupramonium yarn

ANNEX - XIII**INVESTMENT REQUIREMENT OF THE TEXTILE INDUSTRY**

Sr. No.	Particulars	Investmnt (Rs.Crore)
I	Cotton ginning and pressing (As estimated CTM)	Advisor,
1	1200 factories @ Rs.1.5 crore.	1,800
II	Spinning Segment (Based on Sathyam Committee)	
1	Requirement for next eight years towards normal replacement of component of mills with about 11-12 mn. spindles, which are fairly modern from preparatory to auto coning.	1,600
2	Modernisation needs of mill with another about 12-13 mn. spindles in varying degrees at the blow room, carding, draw frame auto-winding stages etc.	4,500
3	Replacement of about 5 mn. new spindles will need to be installed (mostly by way of cent percent replacement) to meet the projected demand in the next five years.	4,500
	Total	10600
III	Weaving	
1	50, 000 shuttleless looms :	
	(i) Investment in 20,000 high speed new shuttleless looms @ Rs. 30 lakh per loom	6,000
	(ii) Investment in 30,000 second- hand shuttleless looms @ Rs. 10 lakh per loom	3,000
2	Investment in 2 lakh semi-automatic looms @ Rs. 1 lakh per loom	2,000
3	Investment in 50,000 automatic looms and indigenous low speed Rapier looms @ Rs. 3 lakh per loom	1,500
4	Total investment in high and medium technology looms (1+2+3)	12,500
5	Investment in weaving preparatory @ 15% of investment in looms	1,875
6	Customs duty @ 9.2% on 50,000 imported	925

	shuttleless looms + expenses	
7	Total investment in weaving plant and machinery (4+5+6)	15,300
8	Other investment @ 50% of Plant and Machinery cost	7,650
	Total investment	22,950
IV	Knitting	
1	<u>Present scenario:</u>	
	(i) Estimated knitted fabric production	6696 Mn. Sq. Mtrs.
	(ii) Percentage share in total fabric production	16%
	(iii) Hosiery yarn consumed	500 Mn. Kg
2	Projected yarn requirement by the end of 2006-07, i.e., terminal year of 10 th Five Year Plan	1200 Mn. Kg.
3	Additional knit fabric production	700 Mn. Kg.
4	Assuming average production of a knitting machine @ 200 Kg./day, annual estimated production per machine	70,000 Kg.
5	To convert 700 million kg. Hosiery yarn into fabric, requirement of knitting machines	10,000 machines
6	<u>Size-wise break up of knitting machines:</u>	
	(i) Large machines (26" – 30" diameter)	5,000 (3000 new)
	(ii) Smaller machines (< 26" diameter)	5,000 (3000 new)
7	<u>Projected Investment in Knitting:</u>	Investment (Rs.Crore)
	(i) Investment in 3000 new large high speed knitting machines @ Rs. 25 lakh per machine	750
	(ii) Investment in 2000 second-hand large high speed knitting machines @ Rs. 10 lakh per machine	200
	(iii) Investment in 3000 new smaller high speed knitting machines @ Rs. 20 lakh per machine	600
	(iv) Investment in 2000 second-hand smaller high speed knitting machines @ Rs. 5 lakh per machine	100
	(v) Total investment in 10,000 machines	1,650

	(vi) Customs duty @ 26.67% + expenses	450
	(vi) Grand total of required investment	2,100
8	Other investment @ 50% of Plant & Machinery cost.	1,050
	Total investment	3,150
V	Woven processing	
1	<u>Production of fabrics from installed 3 lakh looms</u> :	Mn. Linear Mtrs.
	(i) Production from 20,000 high speed new shuttleless looms @ 80,000 metres per annum	1,600
	(ii) Production from 30,000 second-hand shuttleless looms @ 45,000 metres per annum	1,350
	(iii) Production from 50,000 automatic looms and indigenous Rapier looms @ 30,000 metres per annum	1,500
	(iv) Production from 2 lakh semi-auto looms @ 22,000 metres per annum	4,400
	(v) Total Fabric production	8,850
2	Assuming 15% grey fabric exports, quantity of fabric to be processed	7,500 (approx.)
3	Number of process houses required with capacity of 1 lakh metres per day, i.e., 35 million metres per year to process the fabric	215 process houses
4	Investment required @ Rs. 80 crore per unit	Rs. 17,200 crore
5	Other investment @ 50% of Plant and Machinery cost	Rs. 8,600 crore
	Total Investment	Rs. 25,800 crore

VI	Knit processing	
1	The knitted fabric is generally either from grey yarn or from dyed yarn. The grey yarn knitted fabric is essentially required to be scoured and bleached, though mercerizing, dyeing, printing and finishing are also done. A portion of hosiery fabric may be processed in woven fabric process houses by making certain modifications in the machines. In case of some processes, i.e., dyeing, even such modifications may not be required and soft flow and jet dyeing machines used in woven fabric processing, can be used for hosiery fabric processing as well. Out of the 700 million kg. of additional knitted fabric, 150 million kg. are expected to be yarn dyed while the rest 550 million kg. will be fabric dyed	
2	The annual processing capacity of a modern knit fabric process house of reasonable size @ 6 metric tones per day and 350 working days	2100 MT, i.e. 2.1 Mn. Kg.
3	Number of process houses required to process 700 Mn. Kg. knit fabric (approx.)	330
	(i) Expected high-tech process houses	200
	(ii) Expected medium-tech process houses	130
4	Projected Investment in knit processing:	Rs. crore
	(i) Investment in plant and machinery @ 22 crore (inclusive of customs duty) per high-tech process house including yarn dyeing.	4,400
	(ii) Investment in plant and machinery @ 10 crore (inclusive of customs duty) per medium technology process house including yarn dyeing.	1,300
5	Other investment @ 50% of Plant and Machinery cost	2,850
	Total investment	8,550

VII	Clothing (CMAI)		
1	Target for Export Less : Current Export	\$ 25.0 bn. \$ 5.7 bn.	
	Additional exports required	<hr/> \$ 19.3 bn. or say \$ 20.0 bn. over 8 years	\$ 2.5 bn. / year
2	Our current UVR (Jan/Dec 2001) is \$ 3.6 per piece. Considering the current slow down in USA & EU as well as intense competition in overseas markets, there will be a downward pressure on our UVR. It should be safe to work on the basis of a UVR of \$3.00 per piece.		
3	At \$3.00 per piece, the additional production (only for export) required per year (for 8 years) will be $\$2.5/3 = 0.83$ say 0.85 billion pieces / year = 850 million pieces / year :		850/300 = 2.8 mn. pieces / day
4	Working on the basis of 14 pieces / machine/day the requirement of additional sewing machines = $2.8/14$		0.20 mn. / year
5	Sewing machine prices are depressed today due to economic recession and lack of orders due to unwillingness on the part of industry to modernise / expand owing to imposition of excise duty on woven garments. With passage of time, there will be a recovery. Hence, it would not be prudent to base our calculations on these depressed prices.		
6	Working on Rs.40,000 per sewing machine, the annual investment required for sewing machines will be Rs(40,000X0.2) million :		Rs.8,000 mn. / year
7	Ancillary machines required will be (0.4X0.2) million / year:		0.08 mn. / year
8	Prices of these fluctuate depending on the job and the type of garment (jacket, shirt, trouser etc.). It would be fair to work on the basis of Rs.2,00,000 / ancillary machine in which case the additional annual investment on ancillary machines = Rs.(2,00,000 X 0.08) million :		Rs.16,000 mn. /year

9	Thus the total additional investment on machinery to reach the target of additional exports = Rs. (8,000+16,000) million :	Rs.24,000 mn. /year
10	The investment necessary for 8 years = Rs. (24,000X8) = Rs.1,92,000 million :	Rs.19,200 crore
11	Other investment @ 25% of Plant and Machinery cost	Rs.4,800 crore
	Total Investment	Rs.24,000 crore
VIII	Jute (Sathyam Committee Report)	Rs. 500 crore
IX	Silk , wool etc. (Sathyam Committee Report)	Rs.1,200 crore
	GRAND TOTAL	Rs. 98,550 crore

PROGRESS OF TUFSS AS ON 30.09.2002

- ◆ 1886 applications with a project cost of Rs.15128 crore have been received under TUFSS.
- ◆ 1650 applications with a project cost of Rs.11671 crore have been sanctioned a loan of Rs.5789 crore under TUFSS.
- ◆ 1317 applications with a project cost of Rs.9745 crore have been disbursed an amount of Rs.4017 crore.
- ◆ Physical progress in terms of number of units is considerably higher in respect of SIDBI and its co-opted PLIs. However, in financial terms, IDBI and its co-opted PLIs have sanctioned and disbursed about 88% and 90% of the total amount sanctioned and disbursed under TUFSS respectively;
- ◆ During 1999-2000, i.e., the first year of launching the scheme, on an average 34 applications were received monthly with a project cost of Rs.480.88 crore and a loan requirement of Rs.245.76 crore. 26 applications were sanctioned an amount of Rs.201.76 crore per month and 15 applications were disbursed an amount of Rs.62.13 crore.
- ◆ The tempo of progress gained momentum during the 2nd year, i.e, 2000-2001 when, on an average, 60 applications were received with a project cost of Rs.524.67 crore and a loan requirement of Rs.338.80 crore per month. Sanction and disbursal per month were also quit high with 51 units (Rs.174.18 crore) sanctioned and 41 units (Rs.155.28 crore) disbursed.
- ◆ During the 3rd year, i.e, 2001-2002 when, on an average, 39 applications were received with a project

cost of Rs.159 crore and a loan requirement of Rs.85 crore per month. Sanction and disbursal per month were 37 units (Rs.52 crore) sanctioned and 34 units (Rs.67 crore) disbursed.

- ◆ However, during the first 6 months of current financial year, the progress was some what higher with monthly average receipt of applications going up to 49. The project cost as well as loan requirement also increased to Rs.193 crore & Rs.123 crore per month respectively during this year. Regarding sanction and disbursal of loan, 47 applications were sanctioned a loan amount of Rs.108 crore and 41 applications were disbursed per month with an amount of Rs.101 crore.

Segmentwise Progress

- ◆ Among the segments, composite upgradation is the largest segment in terms of amount sanctioned and disbursed,i.e, Rs. 1761 crore (30%) and Rs. 1162 crore (29%) respectively.
- ◆ Spinning segment is the second highest beneficiary of the scheme, the sanctioned and disbursed amount being Rs. 1629 crore (28%) and Rs. 1235 crore (31%) respectively.
- ◆ Processing of fibers, yarn, fabrics made ups, garment etc. with a sanction of Rs. 943 crore (16%) and a disbursal of Rs. 665 crore (17%) is in third place.
- ◆ In respect of weaving segment, the amount sanctioned and disbursed is Rs. 420 crore (7%) and Rs. 280 crore (7%) respectively.
- ◆ As for powerloom sector, 164 applications have been received with a project cost of Rs. 165 crore. Out of this, 156 units have been sanctioned an amount of Rs. 98 crore. An amount of Rs. 39 crore have been disbursed in respect of 109 units.

Statewise Progress

- ◆ Among the states, Tamilnadu state is the largest beneficiary of the scheme with a sanction of Rs. 1369 crore (476 units) and the disbursement of Rs. 965 crore (382 units).
- ◆ Punjab is the second highest beneficiary of the scheme having sanctioned Rs.946 crore in respect of 216 units and disbursed Rs. 597 crore in respect of 152 units.
- ◆ Maharashtra is in the third place with a sanction of Rs. 731 crore and a disbursal of Rs.476 crore in respect of 136 and 95 units respectively.
- ◆ Gujarat, Rajasthan and Uttar Pradesh are the other states having recorded substantial progress in implementation of the scheme in terms of loan sanctioned and disbursed.

RESERVE BANK OF INDIA
(EXCHANGE CONTROL DEPARTMENT)
CENTRAL OFFICE
MUMBAI- 400 001

Notification No. FEMA 3 /2000-RB dated 3rd May 2000

In exercise of the powers conferred by clause (d) of sub-section (3) of section 6, sub-section (2) of section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999) the Reserve Bank makes the following regulations for borrowing or lending in foreign exchange by a person resident in India, namely:

1. Short Title & commencement:-

- i) These regulations may be called the Foreign Exchange Management (borrowing or lending in foreign exchange) Regulations, 2000.
- ii) They shall come into force on 1st day of June, 2000

2. Definitions: -

In these regulations, unless the context otherwise requires -

- a) 'Act' means the Foreign Exchange Management Act, 1999 (42 of 1999);
- b) 'authorised dealer' means a person authorised as an authorised dealer under sub-section (1) of section 10 of the Act;
- c) 'EEFC account', 'RFC account' mean the accounts referred to in the Foreign Exchange Management

(Foreign currency accounts by a person resident in India) Regulations, 2000;

- d) 'FCNR (B) account', 'NRE account' mean the accounts referred to in the Foreign Exchange Management (Deposit) Regulations, 2000;
- e) 'Indian entity' means a company or a body corporate or a firm in India;
- f) 'Joint Venture abroad' means a foreign concern formed, registered or incorporated in a foreign country in accordance with the laws and regulations of that country and in which investment has been made by an Indian entity;
- g) 'Schedule' means the Schedule to these Regulations;
- h) 'Wholly owned subsidiary abroad' means a foreign concern formed, registered or incorporated in a foreign country in accordance with the laws and regulations of that country and whose entire capital is owned by an Indian entity;
- i) the words and expressions used but not defined in these Regulations shall have the same meaning respectively assigned to them in the Act.

3. Prohibition to Borrow or Lend in Foreign Exchange: -

Save as otherwise provided in the Act, Rules or regulations made thereunder, no person resident in India shall borrow or lend in foreign exchange from or to a person resident in or outside India;

Provided that the Reserve Bank may, for sufficient reasons, permit a person to borrow or lend in foreign exchange from or to a person resident outside India.

4. Borrowing and Lending in Foreign Exchange by an Authorised dealer:-

(1) An authorized dealer in India or his branch outside India may lend in foreign currency in the circumstances and subject to the conditions mentioned below, namely:

- i) A branch outside India of an authorized dealer being a bank incorporated or constituted in India may extend foreign currency loans in the normal course of its banking business outside India;
- ii) An authorized dealer may grant loans to his constituents in India for meeting their foreign exchange requirements or for their rupee working capital requirements or capital expenditure subject to compliance with prudential norms, interest rate directives and guidelines, if any, issued by Reserve Bank in this regard;
- iii) An authorized dealer may extend credit facilities to a wholly owned subsidiary abroad or a joint venture abroad or a joint venture abroad of an Indian entity;

Provided that not less than 51 per cent of equity in such subsidiary or joint venture is held by the Indian entity subject to compliance with the Foreign Exchange Management (Transfer and Issue of Foreign Security) Regulations, 2000;

- iv) An authorised dealer may, in his commercial judgment and in compliance with the prudential norms, grant loans in foreign exchange to his constituent maintaining EEFC Account or RFC Account, against the security of funds held in such account.

- v) A branch outside India of an authorised dealer may extend foreign currency loans against the security of funds held in NRE/FCNR deposit accounts maintained in accordance with the Foreign Exchange Management (Deposit) Regulations, 2000
 - vi) Subject to the directions or guidelines issued by the Reserve Bank from time to time, an authorised dealer in India may extend foreign currency loans to another authorized dealer in India.
- (2) An authorised dealer in India may borrow in foreign currency in circumstances and subject to the conditions mentioned below, namely:-

- i) An authorised dealer may borrow from his Head Office or Branch or correspondent outside India upto fifteen per cent of his unimpaired Tier I capital or US\$ 10 million, whichever is more, subject to such conditions as the Reserve Bank may Direct.

Explanation:

For the purpose of clause (i), the aggregate loans availed of by all branches in India of the authorised dealer from his Head office, all branches and correspondents outside India, shall be reckoned.

- ii) An authorised dealer may borrow in foreign currency without limit from his head Office or branch or correspondent outside India for the purpose of replenishing his rupee resources, provided that-
 - a) The funds borrowed are utilized for his own business operations and are not invested in call money or similar other markets;

- b) No repayment of the loan is made without the prior approval of Reserve Bank, which may be granted only if the authorised dealer has no borrowings outstanding either from Reserve Bank or other bank or financial institution in India and is clear of all money market borrowings for a period of at least four weeks prior to the week in which the repayment is made.
- iii) A branch outside India of an authorised dealer being a bank incorporated or constituted in India, may borrow in foreign currency in the normal course of its banking business outside India, subject to the directions or guidelines issued by the Reserve bank from time to time, and the Regulatory Authority of the country where the branch is located.
- iv) An authorised dealer may borrow in foreign currency from a bank or a financial institution outside India, for the purpose of granting pre-shipment or post-shipment credit in foreign currency to his exporter constituent, subject to compliance with the guidelines issued by the Reserve Bank in this regard.

(5) Borrowing and Lending in Foreign Exchange by persons other than authorised dealer:-

- (1) An Indian entity may lend in foreign exchange to its wholly owned subsidiary or joint venture abroad constituted in accordance with the provision of Foreign Exchange Management (Transfer or issue of foreign security) Regulations, 2000.
- (2) A person resident in India may borrow, whether by way of loan or overdraft or any other credit facility, from a bank situated outside India, for execution outside India of a turnkey project or civil construction contract or in connection with

exports on deferred payment terms provided the terms and conditions stipulated by the authority which has granted the approval to the project or contract or export in accordance with the Foreign Exchange Management (Export of goods and services) regulations, 2000.

- (3) An importer in India may, for import of goods into India, avail of foreign currency credit for a period not exceeding six months extended by the overseas supplier of goods, provided the import is in compliance with the Export Import Policy of the Government of India in force.
- (4) A person resident in India may lend in foreign currency out of funds held in his EEFC account, for trade related purposes to his overseas importer customer:

Provided that-

- a) the aggregate amount of such loans outstanding at any point of time does not exceed US\$ 3 Million; and.
 - b) Where the amount of loan exceeds US\$ 25,000. a guarantee of a bank of international repute situated outside India is provided by the overseas borrower in favour of the lender.
- (5) Foreign currency loans may be extended by Export Import Bank of India, Industrial Development Bank of India, Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India Limited, Small Industries Development Bank of India Limited or any other institution in India to their constituents in India out of foreign currency borrowings raised by them with the approval of the Central Government for the purpose of onward lending.

6. Other borrowings in foreign exchange with prior approval of Reserve Bank or Government of India:-

(1) A person resident in India who desires to raise foreign currency loans of the nature or for the purposes specified in the Schedule and who satisfies the eligibility and other conditions specified in that Schedule, may apply to the Reserve Bank for approval to raise such loans.

(2) The Reserve Bank may grant its approval subject to such terms and conditions as it may consider necessary;

Provided that while considering the grant of approval, the Reserve Bank shall take into account the overall limit stipulated by it, in consultation with the Central Government for availment of such loans by the persons resident in India.

(3) Any other foreign currency loan proposed to be raised by a person resident in India, which falls outside the scope of the Schedule, shall require the prior approval of the Central Government.

(P.R. GOPALA RAO)
Executive Director

SCHEDULE

[See Regulation 6]

1. The borrowing in foreign exchange by a person resident in India may be under any of the Schemes set out in this Schedule.

2. The application for the approval of the Reserve Bank under Regulation 6 for borrowing under any of the Schemes shall be made in Form ECB annexed to these Regulations.

3. The borrowing in foreign exchange may be from an overseas bank/export credit agency/supplier of equipment or foreign collaborator, foreign equity holder, NRI, OCB, corporate/institution with a good credit rating from internationally recognized credit rating agency, or from international capital market by way of issue of bonds, floating rate notes or any other debt instrument by whatever name called.

4. The borrower shall not utilize the funds borrowed under any of these Schemes for investment in stock market or in real estate business.

(i) Short term loan scheme

- a) Foreign currency credit extended by the overseas supplier of goods to an importer of goods for financing import of goods into India, provided the period of maturity of credit is more than six months but less than three years.
- b) Foreign currency loan/credit extended to an importer in India for financing imports into India, by any bank or financial institutions outside India, provided the period of maturity of loan/credit is less than three years.

(ii) Borrowing under US dollar Five Million Scheme

Borrowing in foreign exchange upto US \$ Five Million or its equivalent by an Indian entity for general corporate purposes at a simple minimum maturity of three years.

(iii) Borrowing under US dollar Ten Million Scheme

Borrowing in foreign exchange not exceeding US \$ Ten Million or its equivalent by an Indian entity for the following purposes:

a) Borrowing for Financing of Infrastructure Projects

- i) Borrowing in order to finance equity investment in a subsidiary/joint venture company promoted by the Indian entity for implementing infrastructure projects, provided that the minimum average maturity of loan is three years. In case the loan is to be raised by more than one promoter entity for a single project, the aggregate of loan by all promoters should not exceed US \$ 10 million.
- ii) Foreign currency loan raised by an Indian entity for financing infrastructure project, provided that the minimum average maturity of loan is not less than three years.

b) Borrowings by Exporter/Foreign Exchange Earner

Borrowing in foreign exchange by an exporter/foreign exchange earner upto three times of the average amount of his annual foreign exchange earnings during the previous three years subject to a maximum of US \$ Ten million or its equivalent, with a minimum average maturity of three years.

c) Long term Borrowings

Borrowing for general corporate purposes at the minimum average maturity of eight years.

(iv) Scheme for raising loans from NRIs on repatriation basis

Borrowings not exceeding US \$ 2,50,000 or its equivalent in foreign exchange by an individual resident in India from his close relatives resident outside India, subject to the conditions that

- a) the loan is free of interest;
- b) the minimum maturity period of the loan is seven years;
- c) The amount of loan is received by inward remittance in free foreign exchange through normal banking channels or by debit to the NRE/FCNR account of the non-resident lender;
- d) The loan is utilized for the borrower's personal purposes or for carrying on his normal business activity but not for carrying on agricultural/plantation activities, purchase of immovable property or shares/debentures/bonds issued by companies in India or for re-lending.

Explanation:

“Close relative” means relatives I defined in Section 6 of the Companies Act, 1956.”

FORM ECB

Application for permission to raise External Commercial Borrowings under Short Term Loan/Credit/USD 5/10 million Scheme

Instructions:

The application complete in all respects should be submitted in duplicate by the applicant through the authorized dealer designated by him to handle the matters relating to the foreign currency borrowings/credit to the Chief General Manager, Exchange Control Department, Central Office, ECB Division, Reserve Bank of India, Mumbai 400 001. In respect of short term loan/credit for imports, it should be submitted through the authorized dealer through whom the import documents have been received/will be received.

Documentation:

Following documents, (as relevant) duly certified by authorized dealer, should be forwarded with the application:

- (i) A copy of offer letter from the overseas lender/supplier furnishing complete details of

the terms and conditions of proposed loan/credit arrangement.

- (ii) Copies of FIPB/SIA/CCEA approvals wherever applicable.
- (iii) In case the application is being made under Exporters'/Foreign Exchange Earners' Scheme, bank certificates in respect of export realization for past 3 years.
- (iv) If the applicant is NBFC, a copy of credit rating awarded by a recognized credit rating agency and copy of RBI registration certificate
- (v) A copy of the import contract, proforma/commercial invoice/Bill of Lading.
- (vi) A report from an international credit rating agency of repute, if the lender is other than the recognized category as per ECB Guidelines issued by the Government, from time to time.
- (vii) In case the payment for import is through Letter of Credit, a copy of L/C with amendments, if any.

A.P.(DIR Series) Circular No. 10 (September 5, 2000)

RESERVE BANK OF INDIA
EXCHANGE CONTROL DEPARTMENT
CENTRAL OFFICE
MUMBAI-400 001

A.P. (DIR Series) Circular No. 10
September 5, 2000

To

All Authorised Dealers in Foreign Exchange

Dear Sirs

External Commercial Borrowings (ECB)

Attention of authorized dealer is invited to the Reserve Bank Notification No. FEMA 3/2000-RB dated May 3, 2000.

2. With a view to liberalizing further ECB approvals, the I have vide Press Release F.No. 4(32)-2000 ECB dated September 1, 2000, decided to operationalise the automatic route for fresh ECB approvals upto USD 50 million and all refinancing of existing ECBs with immediate effect.

3. Accordingly, under the automatic route arrangement, any legal entity, registered under the Companies Act, Societies Registration Act, Co-operative Societies Act, including proprietorship/partnership concerns, will

henceforth be eligible to enter into loan agreements with overseas lender(s) for raising fresh ECB with average maturity of not less than 3 years for an amount upto USD 50 million and for refinancing an existing ECB provided it is in compliance with both the ECB guidelines framed by the Ministry of Finance, Government of India, and the regulations/directions/circulars issued by Reserve Bank in this regard. Corporates would not be required to obtain prior approval for raising ECB upto USD 50 million and for refinancing of an existing ECB from the Ministry of Finance/Reserve Bank.

The corporate shall ensure that they raise ECB from an internationally acceptable and/or recognized lender, such as export credit agencies, suppliers of equipments, foreign collaborators, foreign equity holders, international capital markets, reputed international banks and financial institutions, etc. Further, the loan should be organized through a reputed merchant banker registered with the regulatory authorities of the host country, viz., USA, Japan, EU countries, Singapore and such other countries as may be notified from time to time by the Government of India. The lenders should be recognized and registered in the host countries for the purpose of extending international finance.

The corporate shall submit through an authorized dealer of its choice, three copies of the loan agreement to

the concerned Regional Office of the Reserve Bank after signing the same with the lender. The Regional Office of the Reserve Bank would acknowledge receipt of the copies of the agreement and will allot a loan identification number to such an agreement. The primary responsibility to ensure that ECBs raised are in conformity with the ECB guidelines and the Reserve Bank regulations/directors/circulars will be that of the concerned corporate. If, however, at a later stage, any violation is found, appropriate action will be taken by Reserve Bank under the Foreign Exchange Management Act, 1999.

Corporate will also be permitted to make necessary draw-downs under the automatic route without prior permission from the Reserve Bank. It will, however, be required to file quarterly returns in a prescribed format through the authorized dealer. The withholding tax exemption would continue to be granted by the Ministry of Finance (Department of Revenue/Department of Economic Affairs), Government of India.

4. Authorised dealers, as hitherto, shall be required to forward all applications to the Chief General Manager, ECB Division, Exchange Control Department, Reserve Bank of India, Central Office, Mumbai 400 001, to obtain prior permission for prepayment of outstanding ECBs (viz., 10

per cent of the outstanding amount once during the life of the loan or ECBs with residual maturity upto one year).

5. Opening of foreign currency account for parking ECB proceeds temporarily, pending utilization, will require prior approval of the concerned Regional Office of Reserve Bank.

6. Amendments to the FEMA Notification referred to above are being issued separately.

7. Authorised dealers may bring the contents of this circular to the notice of their concerned constituents.

8. The directions contained in this circular have been issued under Section 10 (4) and Section 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and any contravention or non-observance thereof is subject to the penalties prescribed under the Act.

Yours faithfully,

B.MAHESHWARAN

Chief General Manager

RESERVE BANK OF INDIA
(EXCHANGE CONTROL DEPARTMENT)
CENTRAL OFFICE
MUMBAI- 400 001

Notification No. FEMA 8 /2000-RB dated 3rd May 2000

In exercise of the powers conferred by clause (i) of sub-section (3) of section 6, sub-section (2) of section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999) the Reserve Bank makes the following regulations, namely:

1. Short title & commencement:-

- a. These regulations may be called the Foreign Exchange Management (Guarantees) Regulations, 2000.
- b. They shall come into force on 1st day of June, 2000

2. Definitions: -

In these regulations, unless the context requires otherwise,

- i) 'Act' means the Foreign Exchange Management Act, 1999 (42 of 1999);
- ii) 'Authorised dealer' means a person authorised as a authorised dealer under sub-section (1) of section 10 of the Act;
- iii) The words and expressions used but not defined in these regulations shall have the same meaning respectively assigned to them in the Act.

3. Prohibition: -

Save as otherwise provided in these regulations, or with the general or special permission of the Reserve Bank, no person resident in India shall give a guarantee or surety in respect of, or undertake a transaction, by whatever name called, which has the effect of guaranteeing, a debt, obligation or other liability owed by a person resident in India to, or incurred by, a person resident outside India.

4. Guarantees which may be given by an authorised dealer:-

- (1) An authorized dealer may give a guarantee in respect of any debt, obligation or other liability incurred by a person resident in India and owed to a person resident outside India, in the following cases, namely:-

Where the debt, obligation or other liability is incurred by the person resident in India, -

- i) As an exporter, on account of exports from India;
- ii) As an importer, in respect of import on deferred payment terms in accordance with the approval granted by the Reserve Bank for import on such terms.

- (2) An authorised dealer may give a guarantee in respect of any debt, obligation or other liability incurred by a person resident outside India, in the following cases, namely:-

- i) Where such debt, obligation or liability is owed to a person resident in India in connection with a bonafide trade transaction:

Provided that the guarantee given under this clause is covered by a counter-guarantee of a bank of international repute resident abroad;

- ii) As a counter-guarantee to cover guarantee issued by his branch or correspondent outside India, on behalf

of Indian exporter in cases where guarantees of only resident banks are acceptable to overseas buyers.

- (3) An authorised dealer may, in the ordinary course of his business, give a guarantee in the following other cases, namely:-
- (i) On behalf of his customer or branch or correspondent outside India in respect of missing or defective documents, or authenticity of signatures;
 - ii) In favour of organizations outside India issuing travelers cheques stocked for sale in India by the authorised dealer or by his constituents who are authorized persons.

5. Guarantees which may be given by persons other than an authorized dealer:-

A person other than an authorised dealer may give a guarantee in the following cases, namely:-

- (a) a person resident in India being an exporting company may give a guarantee for performance of a project outside India, or for availing of credit facilities, whether fund-based or non-fund based, from a bank or a financial institution outside India in connection with the execution of such project:

Provided that the previous approval for undertaking the project has been duly obtained from the approving authority in India;

Explanation:

For the purpose of this regulation, the “approving authority” means the authority referred to in Regulation 18 of Foreign Exchange Management (Export of goods and services) Regulations, 2000.

- (b) a company in India promoting or setting up outside India, a joint venture company or a wholly-owned subsidiary, may give a guarantee to or on behalf of the latter in connection with its business:

Provided that the terms and conditions stipulated in Foreign Exchange Management (Transfer and Issue of Foreign Security) Regulations, 2000 for promoting or setting up such company or subsidiary are continued to be complied with;

Provided further that the guarantee under this clause may also be given by an authorised dealer in India;

- (c) An agent in India of a shipping or airline company incorporated outside India may give a guarantee on behalf of such company in connection with its obligations or liability owed to any statutory or Government authority in India.

(P.R. GOPALA RAO)
Executive Director

Revenue implications of suggested cenvat rates
(ROUGH ESTIMATES)

Existing (2001-02)						
S. No	Item	Estimated Production (in million kg)	Advalorem Duty Rate	CENVAT collection as per Budget estimates	Estimated Production (in million kg)	Advalorem Rate
	1	2	3	4	5	6
<u>COTTON</u>						
1	Cotton yarn (in plain/ cross reel hank and cone form)	1100	CENVAT - 8%	950	1700 (including hank yarn)	CENVA
<u>MAN-MADE FIBRES</u>						
2	VSF	162	CENVAT - 16%	----- 491 -----	162	CENVA
3	PSF	575	CENVAT - 16%		575	CENVA
4	ASF	99	CENVAT - 16%		99	CENVA
<u>FILAMENT YARNS AND BLENDED / 100% NON-COTTON SPUN YARNS</u>						
5	VFY	52	CENVAT - 16%	----- 1364 -----	52	CENVA
6	NFY	26	CENVAT - 16%		26	CENVA
7	POY/PFY/Texturised Yarn	860	CENVAT-32% (BED-16%+SED-16%) Specific duty for independent texturiser Rs.2.50/kg		860	CENVA (BED-8% 8%) Specific independent texturiser Rs.1.2
8	Blended yarn / 100% Non cotton yarn	770	CENVAT - 16%		500	770
9	Withdrawal of SSI excise exemption on woollen yarn	-	-	-	-	CENVA

FABRICS					
1	(i) Unprocessed woven/knit fabric of cotton, man-made, blended, synthetic and woollen**	-	-	-	13873 M
0	(a) Knit 7 - Appendix-IV.doc	2440	Exempt	Nil	244
	(b) Woven	22826	Exempt	Nil	228
	(ii) Withdrawal of CENVAT exemption on 12 and 7 processes with the aid of power***	-	-	-	770 M
	(iii) Power processed fabric	-	-	731****	21360 M
1	Readymade garments and knitwears	Not estimated	16% for woven garments	Not estimated	Not esti
1	Total			4036	

Source of production data: Office of Textile Commissioner

Note :

- (i) CENVAT collections for garment has not been estimated for want of previous year's data.
- (ii) Buoyancy of atleast 8% in production of man-made/synthetic fibre/yarns is expected. The impact of such buoyancy on man-made fibres / yarns alongwith corresponding buoyancy on the further value addition chain has not been estimated.
- (iii) Calculation of revenue implications are based on revisions in CENVAT rates and withdrawal of exemptions.
- (iv) Projections are made on present trend in production as well as prices.
- (v) AT&T @ 15% of the basic CENVAT rate is also levied for man-made fibre, filament yarns and blended/100% Non-cotton spun yarns and reflected in the figures in column Nos. 4 & 9.

* Subsidy towards reimbursement of CENVAT charged on hank yarn.

** Revenue implications worked out are based on the following assumptions:

- 35% of the total knit fabric production taken into account for calculation of duty and remaining 65% for captive consumption by garment exporters and direct export of fabric.
- Mill production of exclusive weaving mills taken into account (i.e., 12% of the total mill production) as grey woven fabric.
- 50% of the powerlooms units would opt for CENVAT.
- In knit sector, introduction of CENVAT on compulsory basis (i.e., no option).

*** Revenue implication worked out based on the following assumptions:

- Out of the total handloom fabric production, 20% is taken as processed fabric since 80% handloom fabric is manufactured from dyed yarn and does not require further processing.
- Out of the 20% processed fabric, 50% is assumed as the fabric which undergoes 12 and 7 exempted processes.

**** Excludes collection under Additional Duties of Excise in lieu of Sales Tax.