Textiles & Garments Industry– Indian Regulatory & Policy Environment

Government Policies

While the Indian textile industry still remains highly fragmented and unorganized, policy reforms post liberalization in 1991 have eased restrictions to a great extent. The regulatory scenario in the Indian textile industry at present is far more liberal compared to a decade ago. There has been a gradual shift in the policy approach of the government with a view to attract more investments for modernization of textile industry and strengthen its competitiveness. In this regard, the **National Textile Policy 2000** was one of the most significant & comprehensive policies, which suggested reforms spanning the entire textile value chain and addressed the important issues of productivity, price competitiveness vis-a-vis global manufacturers, technology up-gradation and investments.

Major features of National Textile Policy 2000	
Meaures introduced	**Objective**
Derservation of garment and knitting units from SSI	To increase output and competitiveness
Implementation of Technology Upgradation Fund Scheme	To provide captial to all textile segments for modernisation
	of technology and expansion at subsidised interest rate
Implementaiton of Technology Mission on Cotton	To achieve increase in cotton productivity
	To set up world-class,environment friendly,
Infrastrucuture Development	integrated textile companies and textile processing units
	by the private sector

Many of the schemes have been extended since inception to ensure global competitiveness of the textile industry in the quota free regime. However, the progress of some schemes has not achieved desired results. For instance, under the scheme for integrated textile parks (SITP) launched for infrastructure development in 2005, 40 projects with a total project cost of Rs41. 83 billion had been proposed. As per the MoT website, the progress of the scheme appears slow with only 14 parks being operational as per data available till August 2010. This could be attributed to a difficulty in land acquisition and financing problems.

Even the government's flagship scheme of TUFS has benefited limited segments in the textile industry. While the spinning segment garnered a major 33 per cent share of the total loans disbursed under TUFS, the low end weaving and processing units have had limited access to funds under this scheme.

Investment Measures: Compared to the situation in the 1990s when many large textile mills shut down their operations, the investment scenario at present is far more encouraging. Government policies have encouraged investments for expansion and infrastructure development in the textile industry. A general pick-up in the economy since 2003-04 and phasing of the quota regime in the succeeding year also encouraged many large and medium sized textile mills in the organised space to invest aggressively and expand their capacities.

Foreign investments too have steadily flowed into the textile industry particularly since 2004-05. 100 per cent FDI is allowed in the textile sector under the automatic route.

However, the domestic textile industry has not realised its full investment potential as yet. On a relative basis, cumulative FDI which has flowed into the textile industry from August 1991 till March 2010 constitute a meagre 0.8 per cent of the total foreign investments.

The industry requires large-scale investments to build infrastructure and provide high-end technology particularly in the weaving and the processing segments. As mentioned earlier, these segments which mainly comprise of SSIs have not been able to reap the maximum benefit of TUFS. Due to lack of investments, these downstream segments have thus not been able to modernise and purchase high-end machinery.

Also, delay in statutory clearance of land is slowing down the overall process of building world-class infrastructure in the form of integrated textile parks. Sluggish government measures are not only affecting the growth of SSIs but also large –sized companies. Although proposed investments have been on the rise according to DIPP data, the implementation of projects has been slow in the textile industry. As observed in the table below, the amount of IEM projects completed has steadily declined.

Schedule of Investments in the Textile Industry		
Period	**IEM's filed (Rs billion)**	**IEMs implemented (Rs billion)**
2008-09	92	22.23
2009-10	265.66	16.44
2010-11	261.74	7.56

Source: DIPP ,IEM – Industrial Entrepreneur Memorandum

Trade Measures:

The fiscal tax structure which had been traditionally high was gradually rationalised since 2004-05. Payment of excise duty has been made optional for the value-added yarn & fabric manufacturing segments. They can either pay low excise duty and take cenvat credit or pay no excise tax without availing cenvat benefit.

However, excise payment has been mandatory for man-made filament and yarn segments as well as for the intermediate items used in manufacturing synthetic yarn. This has resulted in high cost of production for man-made fibre companies.

The duty structure however still favours cotton, both as input and in the value-addition segments. Cotton which is the dominant raw material enjoys excise exemption. The optional excise duty for cotton yarn is lower compared to blended and woollen yarn. Similarly, cotton fabric enjoys a lower excise duty compared to blended and woollen fabrics.

Excise duty payment which was optional earlier for ready-made garments and made-ups has become mandatory since 2011-12. However, this only applies to companies which sell branded garment. The SSIs who mostly sell unbranded goods will continue to enjoy the optional duty regime. In the recent Union Budget 2012-13, the excise duty on branded garment has been increased to 12 per cent from 10 per cent imposed last year. However, the rate of abatement on such ready-made garments has been increased from 55 per cent last year to 70 per cent. This has brought down the effective excise duty rate from 4.5 per cent to 3.6 per cent.

Over the last decade, customs duty has been considerably reduced across all textile items. The peak customs duty has at least halved in the case of most textile items including intermediates. This particularly benefited the man-made fibre industry. Customs duty on synthetic fibre/yarn and intermediates has observed a substantial reduction. Also, the anomaly of inverted duty structure has been corrected to a large extent to bring greater uniformity across different varieties of man-made fibres.

On the export front, there are various promotional schemes implemented by the government which offer incentives to exporters. These include Market Linked Focus Product Scheme, Duty Free Import Authorisation Scheme, Duty Drawback Scheme, etc.