May go under: PTA makers; a yarn: Users

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Japan's Mitsubishi Chemical Corporation's (MCC) India affiliate, which has attracted the largest foreign direct investment in the country's chemical sector, has sought the government's intervention to save it from shutting shop.

MCC PTA India, which manufactures purified terephthalic acid (PTA), has cited 'artificially cheap' imports — mainly from China — of the raw material for producing man-made fibre as the reason for the company's waning fortunes. The Japanese government has already told the Prime Minister's Office (PMO) that if MCC PTA India — in which the total foreign investment is around $800 million — survives, other Japanese companies will be encouraged to invest in the country and "participate actively in 'Make in India'", a source told FE.

In a letter to revenue secretary Shaktikanta Das on November 24, the Chemicals & Petrochemicals Manufacturers' Association (CPMA) — whose members include Reliance Industries (RIL), the country's largest PTA producer, and MCC PTA India — has demanded the basic customs duty on the raw material be raised from the current 5% to protect domestic manufacturers. The letter was also marked to the PMO and the ministry of chemicals as well as the department of industrial policy and promotion.

However, a decision on the issue by the government doesn't seem easy because the users of PTA are strongly opposed to any move to hike the duties as it would make their operations unviable, especially in view of the domestic shortage of the raw material. Industrial users of PTA like Indo Rama Synthetics contend that they are operating at just 60-65% of their capacity due to the high duty structure, which also includes an anti-dumping duty, and poor demand for finished products. In such a scenario any hike in import duty would cripple them.

Currently PTA attracts a provisional anti-dumping duty in the range of $19.05-117.09 per tonne (3-14%, effectively) for imports from China, South Korea, Thailand and the European Union up to April 2015, on top of the 5% import duty.

However, PTA manufacturers through their association CPMA have projected their woes, claiming that although domestic PTA shortage is now pegged at around 1 million tonnes a year, the country's production capacity is expected to rise to 6.1 million tonnes in 2015, compared with 3.8 million tonnes now, exceeding the expected demand for next year by 0.2 million tonnes. Industry sources said RIL is adding two plants and JBF is also expected to start production from the 2015-16 fiscal, accounting for the fresh capacities next year.

China, on the other hand, will have a surplus capacity of 14.2 million tonnes in 2015, while the additional capacity in Korea and Thailand will be to the tune of 3.2 million tonnes and 1.5 million tonnes, respectively, the association said. "Therefore, these additional capacities will threaten the very existence of public and private capital in India, as China and neighbouring countries will always aim at India due to potential growth of man-made fibre industry," the association said in the letter.

Sources said cheaper inflows from overseas have already started eating into MCC PTA India's margins. From a profit of roughly Rs 50 crore in as late as 2010, the company's accumulated losses have mounted to Rs 2,100 crore over the last four years and has been losing an average of Rs 2 crore a day since the last quarter of 2011. The company has an annual turnover of Rs 8,000 crore. It has already moved the Board for Industrial and Financial Reconstruction (BIFR).

However, PTA users counter CPMA's claims. "If producers are adding fresh capacities and operating at over 100% of their capacities, how does it corroborate their claim of injury to the domestic industry due to imports? Moreover, imports of finished products from PTA attract a basic customs duty of just 5%. Will the government promote the inverted duty structure, whereby raw materials are taxed higher than the finished goods, going against the principle of taxation?" said OP Lohia, chairman of Indo Rama Synthetics, a key PTA user.

To bring tax neutrality between cotton and man-made fibre, the CPMA has also sought a reduction of the excise duty on man-made fibres from 12% to 6%. It also demanded an increase in the excise duty on yarn forward from 0% to 2%. Such moves will result in extra revenue gain of Rs 6,000 crore to the exchequer. At present, cotton attracts zero excise duty, as it's a farm produce.

CPMA's stand

The problem: Imports due to surplus PTA capacities of 19 million tonnes in China, Korea and Thailand could flood India and harm domestic producers

The suggestion: Customs duty on PTA be raised from 5%; excise duty on man-made fibres be reduced to 6% from 12% and that on yarn to garments be raised to 2% from zero

The benefit: Higher customs duty will discourage imports and prevent distortion of domestic PTA prices; proposed excise duty changes to generate R6,000 crore for exchequer