



ALKALI MANUFACTURERS' ASSOCIATION OF INDIA

RECOMMENDATIONS FOR UNION BUDGET 2016-2017

Caustic soda, soda ash, chlorine and PVC are basic inorganic products that find applications in products of everyday use. Though India's share of global manufacturing capacity is very small, these are important segments that will grow, driven by mass consumptions and growing aspirations of our people. The "Make in India" programme of the government could provide the much needed impetus to make India self-sufficient in producing these products and reducing dependency on imports.

Global production and India's share

The present global capacity of Caustic Soda is estimated at 102 million MTPA while India's capacity is only 3.4 million tonnes i.e. a mere 3.3% of the world capacity, while China has a capacity of 44 million tonnes i.e. 47% of the world capacity. Similarly the global Soda Ash capacity is 60 million MTPA. China has the largest capacity at 25 million MTPA or 41.5% of total global capacity, while India's capacity is only 3.1 million tonnes i.e. 5.2%.

Global PVC Capacity is estimated at 55 Mn MTPA and India's capacity is stagnant at 1.4 Mn MTPA (2.5%). In comparison, China's capacity is 23.89 Mn MTPA (42% of global capacity).

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S. No.	HS Code	Description of the Product	Quantum of Imports (Metric Tonnes)		CIF Value of Imports (Rs. Crores)		Quantum of domestic production (in Metric Tonnes)		Value of domestic production (Rs. crores)		Unit Price CIF (Rs. per MT)	Existing Duty	Proposed Duty	Revenue implication of the proposal (Rs. Crores)	Implications of the Proposal for the Domestic Industry (Details given in annexure)
			2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15					
1	2815 11 2815 12 2815 90	Sodium Hydroxide (Caustic Soda)	3,79,355	5,07,705	830	1,128	26,18,300	27,61,100	6,983	7,093	22,227	7.5%	10.0%	28.20	<ol style="list-style-type: none"> 1. Improved competitiveness of industry as this is a Power-intensive industry with power cost contributing over 60% of total production cost. 2. Reduced imports and low outgo of foreign exchange 3. Adequate domestic capacity to meet demand in full. 4. Capacity utilisation, currently at 81%, will improve.
2	2836 20	Disodium Carbonate (Soda Ash)	5,29,306	6,88,433	808	1,068	23,75,390	25,05,850	5,808	7,051	15,534	7.5%	10.0%	26.70	<ol style="list-style-type: none"> 1. Improved competitiveness and level playing field for domestic industry 2. Adequate domestic capacity to meet demand in full. 3. Capacity utilisation, currently at 81%, will improve.

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3	3904 10	Poly Vinyl Chlorine resin	11,20,365	12,46,172	7,104	7,950	13,66,199	13,30,195	8,604	8,494	63,795	7.5%	10.0%	198.75	Will give required margin for PVC capacity addition. It is a pass through for downstream users. Increase in duty impact is only 2.5%, far lower than price fluctuation faced by downstream users
	3904 21														
	3904 22														
4	2903 1500	Ethylene dichloride	5,26,838	5,67,055	1,240	1,506	3,18,085	3,25,153	1,091	993	26,556	2.0%	0.0%	-30.12	Will give required margin for investment in PVC capacity addition. No impact on domestic EDC manufacturers as there is no merchant sale of EDC.
5	2903 2100	Vinyl Chlorine Monomer	4,28,309	4,07,299	2,375	2,234	9,45,010	9,27,813	4,976	4,875	54,837	2.0%	0.0%	-44.67	Will give required margin for investment in PVC capacity addition. No impact on domestic VCM manufacturers as there is no merchant sale of VCM.

Note: The Rationale for each of the above recommendations is given in the annexure along with other recommendations.

SYNOPSIS AND RATIONALE OF RECOMMENDATIONS FOR UNION BUDGET 2016-17**Challenges faced by the Indian Industry:**

The Indian industry is facing challenges due to high power cost, cheaper imports and impact of cascading duties and taxes. These challenges affect the capacity utilization which is sub-optimal at about 80% for caustic soda and soda ash and about 90% for PVC.

No.	Recommendation	Justification
1	<p>Increase customs duties on imports of caustic soda and soda ash: Increase BCD from 7.5% to 10% 2815 11 & 12 Sodium Hydroxide (Caustic Soda) 2836 20 Disodium Carbonate (Soda Ash)</p>	<p>a) India is facing challenges due to cheap imports from low power cost countries in South, SE Asia & Middle East Power tariff in India is among the highest in the world <i>(please refer Table 1 : Comparative Power Rates)</i></p> <p>b) In terms of technology, India is second only to Japan in adoption of latest technology by investing substantially. However, the high cost of power renders Indian manufacturing at a comparative disadvantage.</p> <p>c) Indian industry has adequate capacity to meet domestic demand for both caustic soda and soda ash. However, huge imports are affecting plant capacity utilization in Indian industry <i>(please refer Table 2 : Details of Share of Imports in Total Demand and Plant Capacity Utilization)</i></p>

Benefits/ Implications:

1. Higher plant capacity utilization and a level playing field for domestic manufacturers
2. Higher customs duties will earn more revenue for the government.
3. Higher domestic production will reduce dependency on imports and save precious foreign exchange

TABLE 1 : COMPARATIVE POWER RATES IN SELECT COUNTRIES

COUNTRY / REGION	POWER COST	
	Cent/KWH	INR/KWH
Middle East	3.2	1.9
China	5.5-8.8	3.3-5.3
USA	4.8	2.9
West Europe	10.0	6.0
North East Asia (Excl. China & Japan)	5.3	3.18
Japan	10.0	6.5
India	5.0-12.5	3.0-7.5

TABLE 2 : DETAILS OF SHARE OF IMPORTS IN TOTAL DEMAND AND PLANT CAPACITY UTILIZATION**TABLE 2A (i): Share of Imports in total demand – CAUSTIC SODA***(Quantities in Thousand MT)*

Year	Imports	Domestic Demand	Imports as a share of domestic demand
2010-2011	186.6	2579.7	7.23%
2011-2012	219.5	2691.1	8.16%
2012-2013	363.3	2813.6	12.91%
2013-2014	379.4	2952.2	12.85%
2014-2015	507.7	3230.7	15.71%

TABLE 2A (ii): Plant Capacity utilization – CAUSTIC SODA*(Quantities in Thousand MT)*

Year	Installed Capacity (As on 31 st March)	Production	% Capacity Utilisation
2010-2011	3,246.3	2,457.6	76.3
2011-2012	3,126.1	2,555.8	81.8
2012-2013	3,133.5	2,539.8	81.1
2013-2014	3,308.7	2,618.3	79.1
2014-2015	3,390.0	2,761.1	81.5

TABLE 2B (i): Share of Imports in total demand – SODA ASH*(Quantities in Thousand MT)*

Year	Imports	Domestic Demand	Imports as a share of domestic demand
2010-2011	560.9	2748.3	20.41%
2011-2012	501.6	2797.9	17.93%
2012-2013	657.3	2993.8	21.96%
2013-2014	551.2	2897.6	19.02%
2014-2015	705.6	3158.2	22.34%

TABLE 2B (ii): Plant Capacity utilization – SODA ASH*(Quantities in Thousand MT)*

Year	Installed Capacity (As on 31 st March)	Production	% Capacity Utilisation
2010-2011	3161.0	2424.6	77.7
2011-2012	3076.0	2518.0	81.9
2012-2013	3076.0	2491.9	81.0
2013-2014	3076.0	2375.4	77.2
2014-2015	3076.0	2506.3	81.5

2	Increase import duty on PVC from 7.5% to 10%	More than a million MT of PVC is flooding the country from abroad, mainly from China, South Korea and Taiwan. The demand for PVC in India is growing at over 10% every year, and domestic manufacture is disadvantaged due to non-availability of ethylene and the high cost of power. <i>(please refer Table 3 : Tariffs in comparable countries and Chart: PVC – Demand growth Versus Supply growth)</i>
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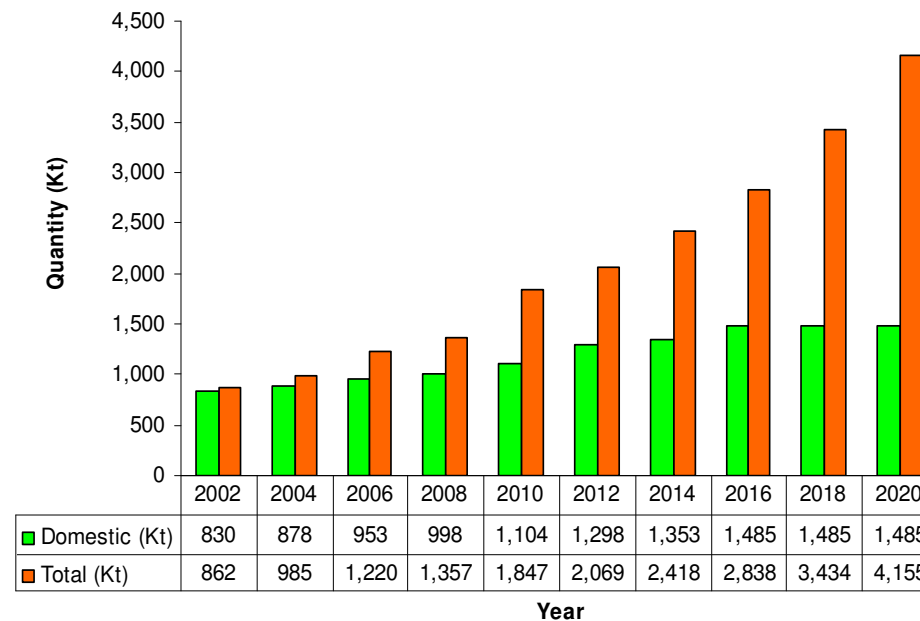
Benefits/ Implications:

Increasing the duty will give an impetus to the domestic PVC industry and provide the incentive for further expansions and investment within India.

Table 3: Tariffs in comparable countries

Product	India	Indonesia	Brazil	Philippines	Malaysia
PVC	7.5%	10%	14%	15%	20%

Chart: PVC – Demand growth Vs Supply growth



3	<p>Fully exempt customs duties on imports of Ethylene di-Chloride (EDC) and Vinyl Chloride Monomer (VCM) (From 2% to 0%)</p>	<p>EDC and VCM are key inputs in the manufacture of PVC. These are not manufactured on a merchant basis by any Indian company, and hence the drop in duties will not hurt any Indian manufacturer. Due to limited availability of ethylene and power, the industry is disadvantaged and would need support.</p>
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Benefits/ Implications:

The PVC industry needs support in terms of lower feedstock duties. EDC and VCM are critical inputs in PVC manufacturing. An impetus to manufacturing will result in much needed domestic capacity addition.

<p>4</p>	<p>Full Exemption from Customs duty on imports of membrane cell plant/ electrolysers, membranes & their parts for manufacturing caustic soda S. No. 417 of notification No.12/2012-Customs, dated 17th March, 2012 as amended by notification No.12/2014-Customs, dated 11th July, 2014</p> <p>(From 2.5% to NIL)</p>	<p>a) None of these are manufactured in India (as manufacturing is cost intensive and the low demand do not justify investments in manufacturing)</p> <p>b) The exemption will improve the cost competitiveness of the industry who have invested nearly Rs.5,000 crores in the past ten years to convert to energy-efficient and eco-friendly membrane cell technology for caustic soda production</p>
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Benefits/ Implications:

Revenue implication: Rs.1 – 1.2 crores per annum for spares & Rs.0.6 crores per annum for membranes

(The resulting higher production and duties paid thereon will offset this amount substantially)

Incentivising manufacturing by granting full exemption from customs duties on imports of electrolysers and their spares/parts will give recognition to the initiative shown by the domestic industry in adopting Green Technology and also improve their cost competitiveness.

5	Abolishment of 4% SAD (Special Additional Duty)	<p>The Cenvat credit rules allow the manufacturer to avail SAD credit against duty payment for the clearance of final products. In reality, it is not possible to fully utilize SAD levied on imported raw material in cases where the value addition in the conversion of raw material into finished goods is minimal. This results in accumulation of SAD credit year on year, adversely affecting the cash flow.</p> <p>Accumulated SAD which a manufacturer is unable to utilize is one of the major disability factors the Indian industry is facing.</p>
6	Full Exemption from customs duty on import of power equipment for captive power plants (from 5% to NIL)	<p>Caustic soda manufacturing is power intensive: Power constitutes 60% of cost of production. Erratic supply and non-availability of quality power has resulted in manufacturers setting up captive power plants at huge investment costs (per MW cost being about Rs.6 crores for coal-based power plants). Additionally state governments have imposed cess, electricity duty and various other taxes which add to the cost of power.</p>

Benefits/ Implications:

The Caustic-chlor and PVC industry is power intensive. The industry has invested substantially in setting up captive power plants as grid power is insufficient to meet the exacting requirements of the industry. However, the duties and cess imposed by State government largely offset the advantages of setting up captive power plants.

For a growing economy like ours, investment in infrastructure and power is essential to sustain the growth and add momentum to the “Make in India” campaign.

Exempting customs duty on import of power plant equipment for captive power generation will improve the cost competitiveness of the Indian alkali industry will result in more social benefits of higher employment.

7	All inputs entering the factory gate, including cement, steel, etc. used for factory construction, etc. should be vatable	This will improve the competitiveness of the industry and enable higher capacity utilization as well as result in improvements in productivity and efficiency.
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Benefits/ Implications:

The reduction in revenue will be largely offset by higher revenue due to higher production/output.

8	Imposition of Export Duty on Salt	The prices of salt have risen steeply by nearly 50% in the last nearly two years due to increasing domestic demand and declining production.
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Benefits/ Implications:

Export constitutes over 26% of production. This can earn revenue for the government.

New Delhi

22 October 2015
