Indian Paper Industry
Pre-Budget Memorandum
2017-18

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A. Preamble

Indian Paper Manufacturers Association (IPMA), apex body of the Indian Pulp & Paper Industry, appreciates the pragmatic measures being taken by the Government to revitalise the health of the Indian industry and place it back on a high growth trajectory.

The Indian Pulp & Paper Industry provides direct employment to 5 lakh persons, and indirectly to around 15 lakhs, and has an annual turnover of about INR 50,000 crores.

The domestic market / consumption of paper is over 16 million tonnes per annum (TPA), with over 2 million TPA being imported. By 2024-25, under the baseline scenario, domestic consumption is projected to rise to 23.50 million TPA (in the optimistic scenario, consumption is expected to rise to 36.90 million TPA by 2024-25).

About 1 million TPA of integrated pulp, paper and paperboard capacity has to be created in India on an annual basis over the current capacity to meet the growing demand. Such investments would create a multiplier effect on the economy through gross capital formation of INR 8,500 crores every year, direct employment to 15,000 people every year and further giving additional livelihoods of 72 million man days per year (for people involved in farm forestry).

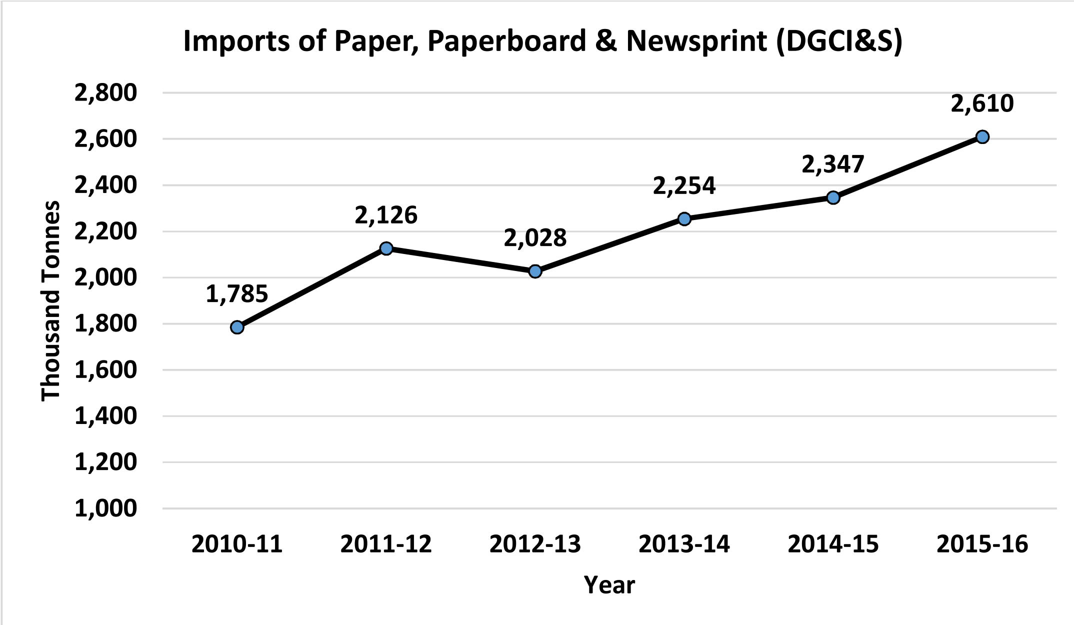
While the industry has already made significant capital investments to ramp-up capacities, the gestation period is long and the economic viability of the investments are impacted significantly by availability and cost of raw materials and other inputs, and escalating imports.

The Indian Pulp & Paper Industry has agro forestry roots and strong backward linkages with the farming community, from whom wood is sourced, which is a key raw material. Of the total demand for wood, around 90% is sourced from industry driven agro / farm forestry, with the rest from Government sources and imports. This has generated significant employment opportunities for the local community, especially in rural areas.

India is a wood fibre deficient country and inadequate raw material availability domestically is a major constraint for the Indian Pulp & Paper Industry as there is no dedicated enabling policy for industrial plantation. Current demand for wood by Paper industry is about 11 million TPA, against domestic availability of 9 million TPA, and is projected to rise to 15 million TPA by 2024-25. Wood prices have gone up steeply, more than doubling in the last three-four years, making the Indian Pulp & Paper Industry non-competitive.

Growing cost of raw material coupled with significant increase in fuel cost has resulted in a substantial increase in the cost of domestic manufacture of paper and paperboard. Such input price pressures, coupled with huge differential costs of fuel and energy, including logistics costs, and the high cost of capital, have made the Indian market amenable to imports, leading to underutilisation of existing production capacity.

Imports of paper, paperboard and newsprint into India have been steadily increasing. In the last five years, imports have risen at a CAGR of 11.4% in value terms (from INR 7,152 crores in 2010-11 to INR 12,284 crores in 2015-16), and 7.9% in volume terms (from 1.8 million tonnes in 2010-11 to 2.6 million tonnes in 2015-16).



Even as the industry is grappling with the issue of producing paper and paperboard at competitive costs, the problem has been exacerbated by the Government's policy of extending preferential tariff treatment to paper and paperboard under the free trade agreements (FTAs) and other bilateral and multilateral trade agreements and pacts.

Thus, while domestic industry is operating under extremely challenging conditions, substantial quantities of paper and paperboard is imported into the country at significantly lower costs under the aegis of the FTAs.

Under the India-ASEAN FTA, import duties on paper and paperboard have being progressively reduced, and from a base rate of 10%, the basic customs duty came down to nil rate with effect from 01.01.2014. As per the FTA entered into with South Korea, there is progressive reduction in basic customs duty and it will be 0% in the year 2017.

The Pulp & Paper Industry has made substantial investments in the last 5 years and it is becoming very difficult to meet its financial obligation in view of significant drop in margins. 2/3 paper mills have already been closed and if no urgent steps are taken, it is feared that some more mills may face closure, impacting the employment of many.

As things stand today, there is a very serious threat of existing investments in capacities turning economically unviable. Given this state of affairs vis-à-vis existing investments, it is quite likely that industry will be discouraged from further investments in capacities – which are necessary to meet the expected growth in domestic demand for paper and paperboard. The inevitable consequence of a fall in investments will be a multiplier adverse impact on the Indian farmer community with whom the industry has strong linkages and a significant outflow of foreign exchange towards increased imports of paper and paperboard. This will be against the Hon'ble Prime Minister's initiative of "Make in India".

Domestic industry has invested huge amounts in the recent past to upgrade and implement clean technology, product quality, farm forestry, etc. and more investments are in the pipe line. Such large investments cannot and should not be jeopardized by allowing imports at concessional / nil rates.

The Government should support the industry that has strong backward linkages with the farming community and significantly contributes to the national objective of bringing 33% of land mass in India under tree cover, while also enhancing the revenue generation sources to the Government.

In order to provide a level playing field to the domestic industry, paper and paperboard should be kept in the Negative List (that is, no preferential treatment) while reviewing the existing FTAs and formulating new FTAs.

There is no denying of fact that the Indian Pulp & Paper industry has the potential to play an important role in meeting the national objectives of the Government – Education, Literacy, and Employment Generation – that too in the rural areas.

IPMA has, therefore, only highlighted a few critical issues below and trust that our submissions put forth for consideration in the Union Budget (2017-18) will merit serious consideration of the Government.

B. Policy Issues

B.1 Customs Duty

1. *Retention of Peak Rate of Customs Duty on Paper and Paperboard*

It is an acknowledged fact that as a result of the global economic scenario, the Indian Pulp & Paper Industry has become very vulnerable and endeavour of major global players in the international market is to push large quantities of paper and paperboard into the Indian market. Leading the pack are manufacturers in Indonesia and China who enjoy substantial amount of export incentives and other advantages.

The conventional markets for China have been the USA and EU. In both these markets, anti-dumping / anti-subsidy tariffs have been imposed on import of paper / paperboard from China and Indonesia to protect their domestic industries. Further, the economic slowdown in developed economies and export dependent economies like ASEAN countries has led to severe excess capacity of paper and paperboard in these countries. Taking advantage of the low import duty rates, these countries find India as an attractive outlet for diverting their excess inventory. Consequently, these export-led economies in Asia continue to target the fragile Indian market. The scenario has become grimmer with the basic customs duties on most of the paper and paperboard coming down to nil rate from 01.01.2014 under the India-ASEAN FTA.

Imports of paper and paperboard, excluding newsprint, into India have been steadily increasing. In the last five years, imports have risen at a CAGR of 15.5% in value terms (from INR 3,411 crores in 2010-11 to INR 7,014 crores in 2015-16), and 15.8% in volume terms (from 0.54 million tonnes in 2010-11 to 1.11 million tonnes in 2015-16). **Imports of paper and paperboard, excluding newsprint, into India from ASEAN in the last five years have risen at a CAGR of 37.5% in value terms and 38.5% in volume terms.**

Increased import of paper and paperboard is severely impacting the economic viability of many paper mills in India apart from revenue loss to the Government.

In light of the above, the case for retention of the current duty structure, with the basic customs duty at 10%, is fully justifiable and much needed under the present circumstances in order to save the domestic Pulp & Paper Industry from injury arising out of unbridled imports.

Customs duty on import of paper and paperboard from ASEAN countries should be brought back to the MFN rate with immediate effect, with a view to ensure that the capital already invested and proposed to be invested in further capacity creation by Pulp & Paper Industry in India is safeguarded, incentivized and grown further.

2. *Increase in Applicable Rate of Customs Duty on Newsprint*

Newsprint is subject to ‘nil’ rate of duty on imports. There is also no additional duty and special additional duty on import of newsprint. As a result, newsprint is being dumped into the country by the overseas suppliers which has very adversely impacted the domestic newsprint manufacturers. The registered newsprint manufacturers are not able to sell their product competitively and the large quantum of imports have resulted in large foreign exchange outgo and revenue loss to the Government.

In light of the above, the Government should increase the applicable rate of customs duty on newsprint to the WTO bound rates to save the Indian Newsprint Industry.

3. *Exemption of SAD on Import of Pulp and Other Inputs by the Paper Industry*

In the Union Budget for 2015-16, exemption of special additional duty (SAD) on inputs to be used by various industries was announced so as to provide relief on accumulation of CENVAT Credit. Paper Industry is a highly capital intensive industry where input credit on capital items is substantial and on top of it, SAD is levied on import of pulp which leads to further accumulation of CENVAT Credit, resulting into blockage of working capital. There will be no revenue impact on the Exchequer if the levy of SAD is exempted on import of pulp by the Paper Industry, as paper mills avail CENVAT Credit on the SAD paid.

Therefore, the Government should favourably consider the exemption of SAD on import of pulp (Chapter 47) and other inputs by the Paper Industry.

B.2 Central Excise Duty

1. *Reduction in Applicable Rate of Excise Duty on Toilet / Tissue Paper and Paper and Paperboard, coated, impregnated or covered with plastics, excluding adhesives*

While the applicable rate of excise duty on most items of paper and paperboard is 6%, the rate of excise duty on toilet / tissue paper and paper and paperboard, coated, impregnated or covered with plastics, excluding adhesives, has been kept at 12.5%.

Tissue / Toilet Paper (HS Code 48030010 and 48030090) actually help in improving the hygienic conditions. Tissue paper, which used to be earlier restricted to only the upper segment of the society, is being used in all health conscious institutions like hospitals, railways, airlines, offices, tourism industry, information technology and last but not the least by millions of hygiene conscious consumers at large. Still current consumption of tissue paper in India is relatively quite low. Considering its potential for growth and its importance of being a hygiene and convenience product, the excise duty on tissue paper should also be brought at par with rest of the paper segment at 6%. This will also be in sync with the laudable ***Swachh Bharat Abhiyaan*** of the Government.

1	Commodity Name / Description	Toilet / Tissue Paper
2	Eight Digit ITC HS Classification	48030010 and 48030090
3	Current Rate of Central Excise Duty (%)	12.5%
4	Proposed Rate of Central Excise Duty (%)	6%
5	Total Domestic Production (Quantity)	70,000 tonnes per annum (estimated)
6	Imports / Exports (Value) (2015-16)	Imports: INR 60 crores approx. Exports: INR 160 crores approx.
7	Imports / Exports (Volume) (2015-16)	Imports: 6,843 tonnes approx. Exports: 21,994 tonnes approx.
8	Revenue impact of reduction in excise duty would be approximately INR 20 crores per annum	

Paper and Paperboard, coated, impregnated or covered with plastics, excluding adhesives (HS Code 48114900) are coated with layer of plastics on either one or both sides. This coating to the paper / paperboard imparts barrier properties and make it suitable for packaging / containers for foods and beverages. This type of board is bio-degradable and a good substitute for plastics which do not match the hygiene and environmental standards of this type of boards / paper. Globally, the trend is to actively discourage the use of plastic and support its replacement with paper / paperboard material. One of the major consumers of this type of paper / paperboard are the MSME units engaged in the manufacture of paper cups for supply to institutional consumers including railways and meeting the growing demand from FMCG and household sectors who prefer such products.

1	Commodity Name / Description	Poly coated Paper and Paperboard (Paper and Paperboard, Coated, Impregnated or Covered with Plastics, excluding Adhesives)
2	Eight Digit ITC HS Classification	48114900
3	Current Rate of Central Excise Duty (%)	12.5%
4	Proposed Rate of Central Excise Duty (%)	6%
5	Total Domestic Production (Quantity)	Cannot be estimated
6	Imports / Exports (Value) (2015-16)	Imports: INR 129 crores approx. Exports: INR 32 crores approx.
7	Imports / Exports (Volume) (2015-16)	Imports: 22,714 tonnes approx. Exports: 2,658 tonnes approx.
8	Revenue impact of reduction in excise duty would be approximately INR 16 crores per annum	
9	There will not be any accumulation of CENVAT Credit as poly coating is done either by the base paper / paperboard manufacturers themselves or the converters who procure the base paper / paperboard from such manufacturers and carry out poly coating. If the excise duty on poly coated paper / paperboard is reduced from 12.5% to 6%, the CENVAT Credit position for these two classes of assessees would be as follows • ***If Poly Coating is done by Manufacturer of Paper & Paperboard:*** Manufacturer avails CENVAT Credit on inputs which attract 10% / 12.5% excise duty and the final product attracts 6%. The major inputs for the industry is domestic pulp wood and / or imported pulp which together account for more than 50% of the total inputs used for manufacturing paper. The domestic pulp wood does not attract excise duty and imported pulp is cleared under advance license without payment of duty. Hence there is no CENVAT Credit availed on inputs which account for more 50% of the total inputs. Further, as the paperboard industry is progressively moving towards value added products which involve higher value addition and commands a higher premium, the duty liability on final products would be higher even at the lower rate of duty and hence the accumulation of CENVAT Credit will not be an area of concern. • ***If Poly Coating is done by Converters:*** Converters buy base paper / paperboard from manufacturers and other inputs required for manufacturing of poly coated paper & paperboard. Converters avail CENVAT Credit of excise duty at 6% on base paper which accounts for about 92% of value of inputs and CENVAT Credit excise duty at 12.5% on other inputs such as low-density	

	polyethylene polymers (LDPE) which account for about 8% of total value of inputs used for manufacturing poly coated paper / paperboard. Further there is a considerable value addition done on these inputs. Further, most of these job workers are MSME units, who are not able to avail CENVAT Credit for the higher excise duty paid on the base paper / paper board used for manufacture of poly coated paper cups.

The Government should favourably consider to bring all grades of paper and paperboard on par with respect to the applicable rate of excise duty, and reduce it from 12.5% to 6% on the above mentioned products (HS Code 48030010, 48030090, and 48114900).

2. ***Make the Clean Energy Cess levied on Coal, if used for Power Generation, Cenvatable***

The doubling of the Clean Environment Cess on coal from INR 200 to INR 400 per tonne in the Union Budget for 2016-17 has impacted the Pulp & Paper Industry adversely. In case of Pulp & Paper Industry, coal is being used for power generation and the increase has had a significant impact on the cost structure of the industry, which the industry is finding it difficult to absorb.

India's Pulp & Paper Industry is struggling to survive under the current scenario of significantly increased raw material, other input and energy cost and very aggressive competition in the domestic market from imports of finished products allowed at concessional / nil import duty under the different FTAs signed by India. The hike in the Clean Environment Cess has added further to the overall manufacturing cost of the domestic Pulp & Paper Industry and further impact its competitiveness against ASEAN players.

Therefore, the Government should favourably consider making the Clean Environment Cess levied on coal, if used for power generation, Cenvatable, so that to at least this extent, the energy cost remains at a competitive level.

B.3 Goods & Services Tax (GST)

1. ***Concessional (Merit) Rate of GST on Paper & Paperboard Industry***

Whatever improvements on education front have been achieved so far in the country, it is mainly visible in the urban areas. But India is still only 30% urbanised. In most of the rural areas, education is still very low in the pecking order of household spending. Even in the urban areas, those belonging to the economically weaker sections, find it hard to sustain the spending on education / goods purchased for the purpose of education – books, journals, stationery, magazines, etc. It is, therefore, very crucial to keep these products affordable that cater to the needs of the section of people who are very responsive to any changes in the costs.

Paper & paperboard also provide a much more environment-friendly and better packaging material than alternate material like plastic.

Already the unbridled imports of paper from China and ASEAN (mainly Indonesia and Thailand) at such lower costs have created enough price pressure in the market. And if paper and paperboard are taxed at the Standard Rate, which is likely to be 18-20%, then domestic manufacturers will be double hit – there will be more imports – leading to further under-utilisation of production capacity, and cost to consumers would be much higher as the current effective tax is around 12% only.

Therefore, it is very important that post the implementation of GST, the prices of paper and paperboard remain affordable to the people and these goods are taxed at Concessional (Merit) Rate, which could be around 10%, rather than the Standard Rate.

2. *Local Body Tax, Entry Tax and Transit Fee should be subsumed under GST*

Local Body Tax (LBT) levied by Local Governments should also be subsumed under GST. Similarly, Entry Tax and Transit Fee levied by some State Governments should also be subsumed under GST. For example, the Entry Tax and Transit Fee being levied in the State of Uttar Pradesh under the Uttar Pradesh Krishi Utpadan Mandi Samiti Act and The U.P. Transit of Timber & Other Forest Produce Rules, 1978, respectively should also be subsumed in GST.

B.4 Direct Taxes

1. Surcharge @15% is levied where the total income exceeds INR 1 crore. This needs to be revisited and abolished.

2. Brought Forward Loss or Unabsorbed Depreciation - Section 115 JB: Clause (iii) of Explanation 1 of Section 115JB provides that brought forward losses or unabsorbed depreciation whichever is less as per books of accounts should be reduced from the net profit to arrive at the book profit. The clause needs to be revisited and total loss including depreciation should be allowed.

B.5 Service Tax

1. Swach Bharat Cess and Krishi Kalyan Cess being levied @0.50% of the total value of the service, should be reviewed and withdrawn.

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