



Bangalore Chamber of Industry and Commerce

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K.R. GIRISH
President

13th July, 2009

Mr. P.C. Jha
Chairman
Central Board of Excise & Customs
Ministry of Finance
Government of India
Department of Revenue
North Block
New Delhi – 110001

Dear Sir,

Subject : Inverted Excise Duty Structure for Cigarette Filter Rods (Tariff : 56012200)

ITC Filtrona Ltd., a part of ITC Group of Companies, is an esteemed member of the Bangalore Chamber of Industry and Commerce (BCIC). They are the leading manufacturers of Cigarette Filter Rods in the country.

We would like to submit this request for the correction of the Inverted duty structure on Cigarette Filter Rods brought about through **Notification No 15/2009** dated 6th July 2009 for your kind consideration :

With this notification, excise duty on the main raw material (**artificial filament tow, tariff item No 5502 00 10**) has been increased from 4% to 8%. This item is a 100% imported item and along with Special Additional duty of 4% and education and secondary and higher education cess works out to 13.35% of the CIF value of imports. The final product of cigarette filter rods is at an excise duty rate of 8.24% including cess (**cigarette filter rods, tariff item No. 5601 22 00**)

The "Cigarette Filter Rods" are classified under Chapter 56 (Tariff heading 5601 22 00) of the Central Excise Tariff Act. The principal raw material for manufacture of the Cigarette Filter Rods is filament Tow, which accounts for around 85% of the cost and is 100% imported. This is classified under Chapter 55 (Tariff heading 5502 00 10) .The value addition in the Cigarette Filter Rod industry is relatively low and the cost of the final product is effectively the cost of the inputs plus normal trade profit.

: 2 :

Domestic manufacture (as demonstrated in the annexure), will become uncompetitive, with the differential between domestic manufacture and imported filter rods being reduced to less than 2% on account of the inverted duty structure and very low value addition (Raw Material component is 85% of the cost) as 25 – 30% of the Input Cenvat credit remains unrecovered. In case the above position is not rectified, they envisage, that with duty rates progressively moving towards Asean levels, the domestic cigarette filter rod industry will become totally unviable.

Here they would also like to point out that in 2004, an inverted duty structure was created by **notification 29/2004** dtd 9th July 2004 wherein ED on filter rods was reduced to 8% while CVD on raw materials continued at 16%.

This position was subsequently corrected vide notification 5/2006 dtd 1st March 2006 reducing ED on raw materials to 8% and **notification 14/2006** increasing the ED on filter rods to 16%. In the aforementioned notification rectifying the position, **a specific reference was made to cigarette filter rods as the only exclusion as the same has no relation to the textile industry.**

BCIC Recommendation

BCIC earnestly requests that artificial filament tow covered by tariff heading 5502 0010 and used in the manufacture of Cigarette Filter Rods only (Tariff item No. 5601 22 00) be excluded from the applicability of Notification 15/2009 dtd 6th July 2009 thereby restoring the applicable Excise duty to 4% and correcting the inversion of duty.

Thanking you,

Yours faithfully,



K.R. GIRISH

Encl: As above

Annexure

(All Figures indexed to Input Cost)

Details	Line	Calculation	Per '000 filter rods	
	Serial	Logic	Domestic	Import
	2	3		
Input costs	a		100.00	100.00
Less: Duty on raw materials	b	5.45% x (a)		-5.45
Net input cost for imports	c			94.55
Value Addition	d	(a+b+c)	15.30	13.00
Input Cenvat Foregone	e		2.60	
AV	f	2% x (d+e)	117.90	
CED	g	(d+e+f)	9.71	
CST	h		2.55	
Total Price	i	(g-h)	130.17	
Cenvat to Customer			-9.71	
Domestic Freight			3.00	
Net Cost to Customer			123.45	
Ocean Freight	j			6.00
CIF	k	(a+b+j)		113.55
AV	l	101% x (k)		114.69
Customs Duty	m	10.7% x (l)		12.27
Net Cost to Customer	n	(k+m)		125.82
Differential against domestic	o	(n-i)		2.37
Differential as % of domestic	p	(o÷i x 100)		1.92%
If Inversion corrected :				
Differential against domestic	q	Row c is nullified		5.02
Differential as % of domestic	r			4.16%

Note A : Input costs (Row a) under the Domestic and Imported scenarios vary on account of custom duty waiver on imported raw material (similar to the Duty Exemption schemes available in India) received by the manufacturer in the country of export.
