INSPIRING LUXURY

from farm to fashion

Speech

by

Shri Ujwal Lahoti

Chairman

at the

63rd
Annual General Meeting

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Mumbai

TEXPROCIL

THE COTTON TEXTILES EXPORT PROMOTION COUNCIL

Speech by Shri Ujwal Lahoti, Chairman

at the 63rd Annual General Meeting

Friends,

It gives me a great pleasure to extend a warm welcome to all of you to the 63rd Annual General Meeting of our Council.

The 63rd Annual Report and Audited Accounts along with the Auditor's Report for the year ended 31st March 2017, setting out the financial results and major activities undertaken by the Council during the year under review are already with you.

With your permission, I take them as read.

Economic Outlook

As we look back to the second quarter of this year, there are new found hopes of a brighter future in the near term for the global economy compared to the expectations at the beginning of 2017. On account of a pickup in financial markets and a long–awaited cyclical recovery in manufacturing and trade, world growth is projected to rise from 3.1 percent in 2016 to 3.5 percent in 2017 and subsequently to 3.6 percent in 2018.

However, risks for a stronger recovery continue to be seen, arising out of persistent structural problems such as low productivity growth, high income inequality in emerging markets and increasing inward–looking policies in advanced economies. These pose unforeseen challenges to global economic integration and the cooperative global economic order that has served the world economy so well, thus far.

Despite efforts taken to liberalise world trade, the fiscal year 2016–17 saw the Indian textile industry reel under the pressure of sluggish global demand further compounded by the twin problems of preferential access given to competing countries by developed countries and the constant search for lower prices on the back of shrinking margins.

While Pakistan and Bangladesh have been accorded "zero–duty" access by the EU and other developed economies, many of the Asian countries like Cambodia, Indonesia, Thailand, Sri Lanka, and Vietnam have succeeded in establishing themselves as low–cost suppliers of all types of textile goods including garments and made–ups.

In the coming months, only a boost in manufacturing and trade, rising market confidence, and stabilizing commodity prices will allow growth to resume in emerging markets and developing economies.

State of the Indian Economy

India's economic growth slowed down considerably in the second quarter of this fiscal year to below 6 per cent for the first time since 2014.

Dragging growth down were the continued slump in investment, excess production capacity, problem of "twin balance sheets" leading to inhibited bank lending on account of too many stressed assets.

Despite the slowdown, this period also saw India implement the land mark legislation in indirect taxation viz. “Goods and Service Tax” (GST) and score improvements in the external ratings of its business environment (ease of doing business).

However issues relating to high raw material and utility costs, high interest rates and transaction costs continue to be major challenges in achieving higher levels of competitiveness and growth.

Friends, as the Indian Economy gets over the impact of demonetisation, adjusts to GST provisions and government initiatives boost public / private investment, we can look forward to a higher growth rate in the remaining quarters of the current fiscal year.

Foreign Trade

The WTO's trade forecast (April 2017) estimates that world merchandise trade would grow by around 2.4 per cent in 2017 up from 1.3 per cent growth in 2016. In 2018, growth in world merchandise trade is expected to be between 2.1 per cent and 4 per cent. Attaining these rates of growth depends to a large degree on the global GDP expansion in line with forecasts of 2.7 per cent in 2017 and 2.8 per cent in 2018, representing a significant improvement on the 2.3 per cent GDP growth in 2016.

World Trade in Textiles & Clothing

The share of textile and clothing in overall merchandise trade in 2016 increased marginally to 4.55 per cent from 4.51 per cent in 2015. The world trade in textile and clothing is estimated at USD 726 billion in the year 2016 and is expected to grow at a CAGR of 5.53 per cent in the coming years, increasing to USD 900 billion by 2020 with clothing occupying the major share followed by madeups, fabrics and yarn.

India's total exports (all commodities) stood at US $ 274.6 billion in 2016–17, recording a rise of 4.7 per cent higher than US $ 262.2 billion in 2015–16, leaving a trade deficit of US $ 105.7 billion in the last fiscal year.

Exports of Cotton Textiles

In 2016–17, exports of cotton textiles from India declined by (–) 2.37 per cent to a level of USD 10.70 billion from USD 10.96 billion in the previous year.

Cotton yarns declined by (–) 7.20 per cent in value terms during the period 2016–17. Cotton made–ups showed a positive growth of 1.92 per cent in value terms while cotton fabrics declined by about (–) 4.65 per cent during the fiscal year 2016–17.

The Commodity wise details of our exports are analysed in the TEXPROCIL Annual Report.

Emerging Challenges

Friends, as we look around us today, the economic disruptions brought about by technology advancement, sluggish global demand, market failures and changing geopolitics are creating significant challenges for the country's business leadership.

The momentum of free trade and multilateral institutions is facing resistance from the growing neo–nationalism in the US, the EU and many other countries. The world's second largest economy, China also faces significant risks in the form of rising debt levels and major overcapacity issues.

New opportunities and challenges have also appeared on the scene because of India’s economic reforms such as GST, demonetization and digitization. Simultaneously, the infrastructure, logistics and skills sectors have failed to keep pace with the need of the time in order to make India more productive and globally competitive.

The rise in global protectionism places India in a difficult position at multiple levels. For one, India has a significant trade with the rest of the world as a percentage of gross domestic product. Second, the importance of international trade in general to the economy took off after the economic reforms of 1991 and has accelerated over the past decade. Hence, we cannot afford to remain indifferent to the internal and international challenges confronting our industry and trade.

INTERNAL CHALLENGES

India’s textile industry has been a key component of the country’s diverse cultural history. The country is regarded as “a bright spot” in the global economy and has become an attractive investment destination, thereby calling for more innovation and research in the textile sector and a plan that would boost exports.

India needs to build on its macroeconomic stability and achieve all round growth by focusing on increasing private investments, kick-starting stalled projects and promoting export growth. These steps are expected to stimulate quality job creation across sectors.

In this context, we welcome, the "Special Package" of Rs 6000 Crores announced by the Government in August 2016 and March 2107 to boost employment generation and exports in the garmenting and the madeups Sector respectively.

Raw Materials Availability

Cotton remains the major textile base in our country even though there has been a shift in consumer preferences in recent years towards man–made fibres. There is a shortage of raw materials especially of good quality cotton to meet growing demand. Fluctuating prices and uncertainties in the availability of raw materials leads to low production and sickness of mills.

India has the distinction of having the largest area under cotton cultivation in the world. The yield per hectare is, however, much lower against the world average. High yielding cotton variants need to be introduced, so as to increase production.

Some of the steps that have been suggested to ensure raw material availability include – branding and marketing of Indian Cotton; keeping alive the interest of cotton growers by devising special package to sustain long duration crops like ELS cotton; Contract Farming; stabilising raw material prices by balancing the demand and supply position from time to time.

These steps can help ensure abundant availability of fibres for textiles industry as a whole, thereby contributing to higher revenues, along with an increase in employment generation, and higher foreign exchange earnings.

In this connection we are happy to note that the Ministry of Textiles is reviving the "Technology Mission on Cotton" with a renewed mandate to develop the cotton economy as a whole.

Realignment of export incentives

A paradigm shift in export incentives is taking place both under the impact of GST and India's commitments under the WTO. India has already reached the threshold of 3.25 per cent of global market share in Textiles and Clothing in 2010 which requires it to phase out it's subsidies in this sector by 2018 i.e. 8 years after the breaching of the said limit. Further the present Export

Promotion schemes like EPCG, Advance Authorisation Scheme, MEIS, are undergoing changes due to GST as they attract payment of IGST. Trade is now witnessing a shift from an ‘exemption regime’ to a ‘refund regime’ in claiming export benefits, thereby leading to working capital / liquidity crunch.

A re–jig in export incentives is bound to increase pressure on the profitability of T&C exporters.

Strengthening Indian Rupees vis–à–vis other currencies

Recently there have been reports of a rise in the Real Effective Exchange Rate (REER) – the exchange rate adjusted for inflation. The REER index rose from 100 in the year 2004–05 to 103.3 in 2013–14, a period when exports did well. Since then REER has shot up to 119.9 and exports have stagnated.

Export of T&C grew from US$ 14.19 Bn in the year 2004–05 to US$ 37.52 Bn in the year 2013–14. In subsequent years, export has stagnated around this level.

A rising REER hurts India’s exports. This is making it extremely difficult to be competitive at a time when some of the currencies of our competing countries are depreciating vis–a–vis dollar.

The Reserve Bank of India should intervene suitably in this regard.

Inter – State competition

Another challenge is the inter–se competition amongst State Governments to offer a slew of benefits to attract investments. While State Governments have every right to announce imaginative Textile Policies offering incentives and concessions, the "race to the bottom" to grant incentives is resulting in imbalances in manufacturing cost amongst States. Like "ONE NATION, ONE TAX", the time has come for us to rationalize our textile policies in order to avoid undue regional disparities / advantages.

Other Internal Challenges

The exporting community has been badly affected by a range of other measures such as the erroneous caution listing of exporters under the Export Data Processing and Monitoring System (EDPMS) of RBI due to non–updation of the shipping bills by banks, frequent break down of the Electronic Data Interchange (EDI) system between the Customs and DGFT, and non-refund of taxes under the Duty Drawback Scheme (DDS) compounding the liquidity issues, amongst others.

Earlier this year, the Council raised concerns regarding the 'erroneous caution–listing of exporters' by RBI, as the problem lay with individual banks which had failed to upload relevant data in RBI's Export Data Processing and Monitoring System (EDPMS), even though exporters had realised the proceeds of all their transactions. We are happy to point out that all the cases that the Council took up with RBI were resolved promptly.

We thank the RBI for their prompt attention in the matter.

Friends, all these issues in combination with the appreciation of the rupee are making it very difficult for the small and medium scale exporters to sustain their exports.

EXTERNAL CHALLENGES – World Trade Eco–System

The world economy is entering a crucial stage where the external challenges are significantly impacting the pattern of global trade leading to a prolonged episode of slow growth.

Global Headwinds

Global headwinds have also been affecting export growth worldwide and India is no exception. The world merchandise trade has declined from 19 trillion dollars in 2014 to around 16 trillion dollars in 2016 i.e. by almost 16 per cent. During this period Textile & Clothing trade also declined from US$ 799 billion to US$ 726 billion in 2016 i.e. by 9 per cent, reflecting the strong headwinds at play in global trade.

Structural changes in supply chain across the globe

The ongoing structural changes in supply chain across the globe are clearly evident in three developing trends – *one*, the end of "hyper–globalisation" era that in past led to emergence of China as a manufacturing powerhouse; *two*, the diminishing relevance of China's "assembly focused approach" to manufacturing in the subsequent years due to increase in wage costs and utilities; and *three*, the rising trends of "re–shoring" or "near–shoring", to increase cost efficiencies. All these changes are having a significant impact on the trade flows.

Changing demand pattern in fibre mix

Globally, there has been a significant rise in demand for blends. India remains a cotton focused country inspite of the availability of a rich mix of synthetic & natural fibres.

India's exports are predominantly cotton based (70 per cent) while the world trade ratio is opposite. Data analysed at the Council shows that 4 out of top 10 T&C products traded in the world are made of MMF textiles; 6 out of top 10 products exported from China are made of MMF; whereas, 2 out of the top 10 products of T&C exported from India are made of MMF textiles.

Demand for Fabric with Spandex is growing sharply worldwide. Women's wear, kids wear, sportswear continue to be drivers of growth and men's wear is catching up with the momentum.

India needs to live upto the challenge to offer a unique value proposition and differentiate its products from the rest by offering a range of products of varied fibre mix.

STRATEGIES FOR A BRIGHTER FUTURE

Manufactured products worldwide, today, have a much lower cost of actual fabrication than previously and the cost of labour is declining per unit of output owing to higher productivity levels & automation. Most of the cost is infact incurred on manufacture embedded services relating to design, advertising, marketing, transportation, logistics, distribution and storage.

Countries that have liberalised services trade, reduced tariff rates, facilitated cross border trade, movement of skilled and expert manpower, softened customs regulations have also benefitted from global supply chain.

To be successful, India needs to seriously reflect on these aspects and put in place policy frameworks which will enable it to withstand competition.

In this context, the following suggestion for leveraging the advantage and benefitting from T&C trade can be considered.

Attract more investment into the value added textile manufacturing

The need of the hour is infusion of higher investment in processed fabric manufacturing and high end value added textile products so as to achieve faster growth rate in export. For example, Clothing industries in Italy & USA are investing in expansion, mainly owing to focus on high end products, in particular workwear and technical textiles.

Promote greater innovation and R&D

Higher level of importance for R&D at individual company level is required for new product / design development to meet with ever changing market demands. For instance, success of Turkish textile companies is being mainly attributed to a focus on R&D and Design even in a small company having 10 looms.

Rebate embedded Taxes

Embedded taxes and unrebated levies outside GST, like electricity duty, duty on petroleum products should be rebated. In fact the MEIS can be transformed into an embedded duty neutralisation scheme.

Review & speed–up FTA with EU

EU as a combined trade block is the single largest market for export of T&C from India. EU accounts for 24 per cent (US$ 8.63 bn) of India's export of T&C. Therefore, in the interest of India's export performance, it is important to conclude INDIA–EU FTA without further delay.

Countries like Pakistan, Bangladesh, Turkey and Vietnam have leveraged the advantage of preferential access (PTA / FTA).

Implementation of GST

India's biggest tax reform is now a reality. A comprehensive dual Goods and Services Tax (GST) has replaced the complex multiple indirect tax structure from 1 July 2017. Leaving behind the fragmented structure of supply chain, the GST is expected to consolidate this structure and present a better supply chain management to the industry.

The GST Council has classified yarn and cotton fabrics under 5 per cent category of GST, which is a very progressive step and will lead to growth and development of the entire value chain. At the same time, the rates of GST have been reduced from 18 percent to 5 percent on job work of all textiles and related products manufactured. This is a step in the right direction as a uniform rate on all job works would enable the Companies to take full input credit and also avoid any inverted duty structure, thereby encouraging employment generation.

We thank the Government for accepting the Council's suggestion for keeping the rates low for cotton textiles in order to ensure greater compliance and also encourage the farmers to grow more cotton.

The GST rate for textiles are expected to eliminate the cascading effect of duty/taxes and reduce the costs across the value chain and improving the competitiveness of textile exports.

However, there are some critical issues which need to be addressed by the government on a priority basis in order to facilitate a smoother transition.

Three such issues being highlighted are: (i) Inordinate delay in the refund of GST on exports; (ii) Refund of Unutilized Input Tax Credit; and (iii) Bond / LUT for Merchant Exporters under GST.

(i) Inordinate delay in the refund of GST on exports

Exporters are currently going through difficult situation due to inordinate delay in the refund of GST on exports and the consequent blockade of working capital. One of the reason for the delay is that the refunds are linked to the filing of the monthly returns. Since the filing of GST Returns – GSTR-1, 2 and 3 for July has been extended till October 10, October 31 and November 10 respectively, exporters will not be able to get the refund till December 2017. The Council has sent representations to the Government to allow refund of 90 per cent of input tax credit within 7 days from the date of acknowledgement of filing the application, as originally envisaged under the GST law, without insisting upon the filing of monthly returns as a pre-condition for refund of GST on exports.

(ii) Refund of Unutilized Input Tax Credit

The GST Laws allow for refund of unutilized Input Tax Credit in the case of (a) zero rated supplies made without payment of tax and (b) where the Credit has accumulated on account of rate of tax on Inputs being higher than the rate of tax on output supplies. However, refund of accumulated Input Tax Credits are not allowed in the case of Cotton and Manmade textiles fabrics and Knitted Fabrics. The Council has made the necessary representation to the Government to allow refund of accumulated Input Tax Credit in the case of fabrics also.

(iii) Bond / LUT for Merchant Exporters under GST

Supplies of goods and services for exports under the GST regime have been categorized as "Zero Rated Supply" implying that goods can be exported under Bond or LUT (Letter of Undertaking) without payment of IGST (Integrated GST) followed by claim of refund of unutilized input tax credit or on payment of IGST with provision for refund of the tax paid.

At present the merchant exporters cannot get goods from the manufacturers without payment of GST for exports under Bond/LUT. This is due to the fact that there is no enabling document prescribed so far by the Government under which goods can be cleared by a manufacturer without charging IGST meant for exports by a merchant exporter against Bond/LUT.

In the absence of such a provision, the manufacturers charge GST on the goods supplied by them to the merchant exporter for exports under Bond/LUT. While merchant exporters are eligible to take ITC of the GST paid to the manufacturers and claim refund after exports, the requirement of paying the GST first and claiming refund subsequently leads to blockade of funds.

Taking into account the fact that merchant exporters contribute significantly towards exports of textiles, the Council has sent representations to the Government to introduce a mechanism under which the merchant exporters exporting under Bond/LUT can get GST free goods from the manufacturers for exports.

GST RELATED ISSUES UNDER FTP 2015-20

With regard to the Foreign Trade Policy, under GST, the Duty Credit Scrips (issued under Chapter 3 of the FTP) cannot be used for payment of IGST on imports, and CGST, SGST, IGST for domestic procurements. Likewise, imports under Advance Authorization, DFIA (Duty free Import Authorization) and EPCG (Export Promotion Capital Goods) Schemes are subject to payment of IGST. Although, Input Tax Credits of IGST paid under these schemes are allowed, it leads to blockade of funds for the exporters.

The Council has sent representations to the Government to allow utilization of Duty Credit Scrips (issued under Chapter 3 of the FTP) for payment of IGST on imports, and CGST, SGST, IGST for domestic procurements. The Council has also sent representations to exempt imports against Advance Authorization, DFIA (Duty free Import Authorization) and EPCG (Export Promotion Capital Goods) Schemes from the payment of IGST.

Transitional Scheme of Duty Drawback

I am happy to point out that pursuant to the Council's efforts, the Department of Revenue has simplified the procedure for availing composite rates of Duty Drawback by doing away with the requirement of obtaining a certificate from the Customs Commissionerate that the exporter has not availed either the input tax credit or taken a refund of IGST on exported goods or carried forward the amount of the Cenvat Credit on the export products or on the inputs or input services. Instead the higher rate of Duty Drawback can now be claimed up to end September on the basis of a self – declaration to be provided by the exporter. This measure has come as a huge relief to the exporting community, as it saves a lot of time and money of the exporters.

We have also requested the government to announce drawback rates to take into account the unrebated duties under GST and continue the ROSL scheme for madeups and also extend it to the fabrics and the yarn segment.

Apart from this, the Council has continued to brief the concerned authorities on the various issues being faced by the exporters on account of implementation of GST. The Council has urged the Government to ensure speedy refund of Input Tax Credits on exports so that the exporter's funds do not get blocked.

TEXPROCIL – The Facilitator

Friends, as we all know exports of textiles are passing through challenging times. Since the time I assumed the charge as Chairman, TEXPROCIL, we are seeing the 'ebbs and flows' in export markets.

On the domestic front, internal factors like raw material prices, cost of finances, demonetization challenges, adjusting to the GST regime etc. have taken their toll on higher export performance.

Notwithstanding these pressures, TEXPROCIL continued to sensitize the Government by making several representations on various issues affecting the exporters based on the feedback received from our members.

I am happy to note that most of the recommendations made by the Council were accepted and implemented by the Government. Many procedural issues were also resolved on account of the Council's recommendations.

In order to access new markets through focused trade promotion activities such as B2B meetings, exhibitions, roadshows, etc., and to meaningfully project "Brand India" in the textiles and clothing sector, the Council actively implemented the Ministry of Textiles approved 'Annual Marketing Plan for 2016-17'.

Under the Marketing Plan, participation in international events/fairs were scheduled in important markets that are major global importers of T&C. To obtain wider coverage and to avoid duplication of efforts, multi-product representation was undertaken wherever possible.

A common umbrella brand and space was created under the approved campaign titled 'Incredible Textiles of India' which incorporated activities like – showcasing fibre to fashion products in the India Pavilion; organizing road shows in tandem with the ongoing event; and organizing "India Meets" (B2B meetings) after business hours.

As a part of the focused effort, the Council undertook a lot of pre and post-fair activities including – developing media tools like AV film, pamphlets, brochures, promotion and roadshows etc.; planning B2B and G2G meetings;

ensuring industry participation during road shows and business meets; and mapping the events/activities at the fair and submit a detailed outcome report to Ministry of Textiles.

Government officers in the rank of Joint Secretary and above joined the Council at various events / fairs with a mandate to make presentations and participate in roadshows; participate in bilateral meetings with Government officials; promote “Make in India”; hold interactions with potential investors, associations, etc. showcasing the India advantage.

Towards this end, the Council organised participation of its members in new markets like Myanmar, Turkey and Iran apart from intensifying its efforts in markets like China, Colombia, France, Germany, Korea, Egypt and Bangladesh.

The intensive marketing efforts overseas culminated in the country's first ever mega trade event for the textile sector, “Textile India 2017”, organised in Gandhinagar, Gujarat from June 30th to July 02nd, 2017.

“Textiles India 2017” was inaugurated by Hon’ble Prime Minister of India Textile, Shri Narendra Modi. The show brought Senior Cabinet Ministers of the Union Government, Chief Ministers and Senior Ministers of the State Government, Global and National Leaders of Industry and Technical Experts

– with participation from multiple countries around the world, on the same platform to unlock opportunities in the Textiles Industry.

The exhibition showcased the strength of the value chain in India and offered the perfect environment for B2B & G2G engagements to explore new partnerships, business relationships, investment opportunities and technological tie-ups across various segments.

Apart from organising and participating in Trade Show, the Council also commissioned a number of studies in F.Y. 2016–17 through leading consulting firms like Ernst & Young LLP (EY), Wazir Advisors, Boston Consulting Group (BCG), Technopak Advisors Pvt. Ltd. – on major commodities like yarn / fabrics / madeups with a view to enhancing India's competitiveness in these products and increasing employment prospects. The studies highlighted the support needed by the exporting community to achieve higher performance goals, while bringing out the immense potential offered by the Indian textile and clothing industry for generating employment and inclusive growth in the country.

I am also happy to inform you that the Council has renewed its present Quality Management System (QMS) certification and is taking all the necessary steps to make a transition from ISO 9001:2008 to a new version of the standard – ISO 9001:2015.

Acknowledgements

Before I conclude, on behalf of the Council and members of the Committee of Administration, I would like to take this opportunity to place on record my sincere thanks to Smt Smriti Zubin Irani, Hon'ble Union Minister of Textiles and Information & Broadcasting – I&B (additional charge) for her unstinted support and guidance to make the sector vibrant.

We are immensely grateful to Smt Nirmala Sitaraman, the erstwhile Minister for Commerce and Industry for her encouraging support and benign counsel in increasing exports. We also welcome Shri Suresh Prabhu, the new Minister for Commerce and Industry and are hopeful that given the present era of challenges, the new Minister will take urgent steps in line with the expectation of the trade and industry.

I also wish to convey our deep gratitude to Shri Anant Kumar Singh, Secretary (Textiles), for his positive approach in providing pragmatic solutions to the various issues confronting the textile sector. Our special thanks are also due to Smt Pushpa Subrahmanyam, Additional Secretary in the Ministry of Textiles for her active support to the various promotional programmes of the Council.

We are thankful to Shri A. Madhukumar Reddy, Dr. Subrata Gupta and Shri Puneet Agarwal, Joint Secretaries in the Ministry of Textiles for their active support to the various promotional programmes of the Council. We are also thankful to Dr. Kavita Gupta, Textile Commissioner for her continued support to the growth of the sector.

We are also grateful to Smt Rita Teotia, the present Secretary (Commerce), and Shri. Alok Vardhan Chaturvedi, the present DGFT for their constructive approach and positive response to the various issues relating to the Foreign Trade Policy.

The Duty Drawback Committee headed by Shri G K Pillai has been extremely positive to the suggestions made by the Council and we are indebted to them for having given due recognition to the new product lines.

I would like to convey my sincere thanks to Dr. K V Srinivasan, Vice Chairman for sharing my responsibilities and making my task lighter and easier.

I thank all my colleagues in the Committee of Administration and other Sub–Committees for their active cooperation and support.

Finally, I would like to thank the TEXPROCIL team headed by the Executive Director, Dr. Siddhartha Rajagopal, for carrying out their duties with diligence, determination and dedication.

Thank you.

NOTES

Indian Cottons,

Global Reach!

For free sourcing assistance, contact:

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