Speech

by

Shri Ujwal Lahoti

Chairman

at the

64th
Annual General Meeting

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TEXPROCIL
THE COTTON TEXTILES EXPORT PROMOTION COUNCIL

Speech by Shri Ujwal Lahoti, Chairman at the 64th Annual General Meeting

Friends,

It gives me a great pleasure to extend a warm welcome to all of you at the 64th Annual General Meeting of our Council.

The 64th Annual Report and Audited Accounts along with the Auditor's Report for the year ended 31st March 2018, 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

World Economic Outlook (IMF July, 2018) has projected the global growth to reach 3.9 percent in 2018 and 2019. Against this background, India has transitioned into one of the fastest-growing economies in the world in recent years. This growth can be attributed to market liberalisation, the implementation of structural reforms like the GST and a move towards a rule based framework like Insolvency & Bankruptcy Code (IBC). The International Monetary Fund, in its annual outlook on India's economic indicators, has predicted a growth rate of 7.3% for the current fiscal year and 7.5% for F.Y. 2020.

However, this expansion is expected to be uneven on account of escalating trade tensions and market pressure on some currencies in economies with weaker fundamentals. The biggest risk facing the global economy right now is the trade war between the US and China.

As of date, most of the threatened tariffs have not yet been introduced, and the US President has recently announced that he may not impose more tariffs on China. This reaction was issued recently in response to a list Beijing sent to the United States outlining 142 measures showing a willingness to resolve trade tensions between the two countries.

To this may be added the uncertainty on account of BREXIT, as the UK tries to balance the claims between the "Remainers and Leavers". The post BREXIT crunch in relationship between the UK and the EU will impact global trade as new rules will come into force after UK exits the EU on 29 March, 2019.

Given this situation a developing country like India should be quick and flexible enough to spot the opportunities in the transforming landscape of global trade. India needs to gear up for this phase and must use it to enhance the efficacy of its economic architecture.

Indian Economy– Rekindled Optimism

The Economic Survey 2017-18 recognizes the tremendous potential for growth in the textile and clothing sector particularly women's employment. India is well placed to make the most of the available opportunities, as it has a robust raw material base, availability of skilled workforce and competitive factor costs.

The Survey recognises the potential of the garment sector in generating employment, especially amongst women and the contribution of the special package viz. Rebate on State Levies (ROSL) in increasing employment in the sector.

The Survey also acknowledges the various challenges facing Indian textile exporters in their efforts to take advantage of China's declining share in the global market for exports on account of rising costs of production. Amongst the challenges mentioned are duty free access to exports from competing countries like Bangladesh and Vietnam into European Union (EU), Japan; stringent labour regulations; and high logistics costs.

Friends, the Council has been taking up the challenges mentioned in the Economic Survey at regular intervals with the Government. Discussions with the Government officials show that they are fully aware of the issues and are trying their best to resolve them.

Foreign Trade

A WTO Report in 2018, observes that growth in merchandise trade volume was strongest in developing economies for the whole of 2017. The value of world merchandise exports increased to US $ 17.73 trillion in 2017 from US $ 16.02 trillion in 2016 i.e. a growth of 10.61%, thereby recording its highest growth rate in six years, both in value and volume terms. This was mainly on the back of a 28% increase in exports of fuels and mining products. However, the share of textile and clothing in overall merchandise trade in 2017 has decreased marginally to 4.36% from 4.58% in 2016.

World Trade in Textiles & Clothing

The world trade in textile and clothing grew in 2017 by 3.96% over the previous year, reaching a level of USD 756 billion. Out of this, while clothing accounts for 57% share of the world trade, textile accounts for 43% share. The aggregate trade is expected to reach USD 786 billion in the year 2018 at a growth rate of around 3.9%.

India registered a growth of 5.37% in 2017, reaching a level of USD 37.44 billion. It's share in world trade in textile and clothing during this year is estimated to be 4.95%. With exports of USD 37.44 billion, India is ranked 2nd amongst the suppliers in the world. However, its exports are 1/7th of the level of exports from China.

On the other hand, China's textile and clothing exports amounted to USD 258.46 billion at a growth of 0.44% in 2017. China is still leading in textile and clothing exports with a share of 34.20% in global trade. During 2017, exports from Bangladesh, Vietnam and Turkey also registered growths of 2.45%, 10.66% and 2.44% respectively.

Exports of Cotton Textiles

World trade in cotton textiles (Yarns, Fabrics and Made-up) reported a growth of 4.07%, reaching a level of USD 117.29 billion during January–December 2017. Out of this, trade in cotton made-ups (USD 47.03 billion) accounted for a share of 40.10% in the global trade of cotton textiles; while cotton fabrics (USD 56.53 billion) and cotton yarn (USD 13.73 billion) accounted for 48.19% and 11.71%, respectively.

During this period (January-December 2017), India exported cotton textile products worth USD 10.82 billion reporting a growth of 3.54% over the previous year. Cotton made-ups (USD 5.26 billion) dominated the Indian cotton textiles basket with a share of 48.61%, followed by cotton yarns (USD 3.45 billion) achieving a share of 31.88% and cotton fabrics (USD 2.11 billion) recording a share of 19.51%.

During the current year period April–September 2018, the exports of cotton textiles (Yarns, Fabrics, Made-up and Raw cotton) from India reported a growth of 26.81% reaching a level of USD 6.23 billion.

The growth trajectory has improved in the current fiscal year which augurs well for exports.

Emerging Challenges

Friends, as we are all aware, governments and companies around the world are now facing new uncertainties concerning the future growth of trade. While the volume of goods and services trade has continued to grow, the value of these flows has declined over the last few years. As a share of GDP, trade has also fallen from about 25 percent in 2013 to about 19 percent in 2017 (World Bank data).

Looking specifically at labour intensive sectors like textiles and clothing, leather, etc. companies and governments are striving to increase overall employment and real wages. The idea is to ensure that the benefits of economic progress reach everybody. However, two clear challenges are emerging with regard to international trade—(i) ongoing technological shifts and (ii) changing climate of international-trade-policy.

Many economists are pointing out the need for upskilling the labour force as trade supports the spread of new technologies and different production practices. A mismatch has emerged between the new skills demanded by an increasingly information-driven global economy and the older skill set of many workers. This has led to a void in the job market with a decline in the number of manufacturing jobs. While a number of factors could be behind this, there is no question that technology is a dominant force.

The advances in technology are leading to the second challenge of export diversification—as a country needs to diversify it's exports into more sophisticated, higher value added products. Despite conscious efforts by India to diversify it's export base, these have often led to negligible results. As of recent times, our exports are still concentrated in a limited number of products supplied to a limited number of destinations.

The industry needs to work hard to diversify its portfolio of items and broaden the product base in order to enhance its share in global markets. At the same time the efforts of the industry should be adequately supported throughout the entire textile value chain by the Government, as a part of a well thought out strategy.

Further, we also need to work towards eliminating trade barriers, and take measures to expand market access. For instance, the biggest challenge that our industry is facing today is the cost disadvantage across major markets. Many of our competing countries have zero duty access in these markets, while India is denied the same.

Structural Constraints

Friends, the fiscal year gone by was filled with internal challenges on many fronts. Experts have noted that the export growth in labour intensive sectors like Textiles & Garments has been slower than the other sectors. The reasons for this slow down are seen in structural constraints in terms of rising costs, infrastructural disabilities, high interest rates, delays in receiving refunds etc. All these factors are making the labour intensive sectors like ours, less competitive.

Export-led growth strategy has been one of the major reasons for growth amongst countries like South Korea, China, Malaysia and developed economies like Germany. While India has the advantage of a large domestic market, exports need to be accelerated so that they can play a prominent role in scripting India's growth story.

India has a large textile manufacturing value chain, from fiber to finished product (garments, home textiles and technical textiles). Each of these segments should be nurtured and encouraged to realise their full potential.

Government Support

The Government on it's part has been taking some pro- active steps like extending the facility of fixed-period employment to all sectors by recently amending the Industrial Establishment (Standing Order) 1946. This should build the confidence of the entrepreneurs and encourage them to employ more people.

The Government has also initiated several measures to boost employment generation in the sector by providing an additional production-linked incentive of 10% under the Amended Technology Upgradation Fund Scheme (ATUFS). Another scheme named Pradhan Mantri Paridhan Rojgar Protsahan Yojana (PMPRPY) has been designed to provide incentives to employers in the textile sector.

The Ministry of Textiles has also approved the continuation of the Scheme of Integrated Textile Parks with some modifications for a period of three years i.e. from 1.4.2017 to 31.3.2020.

As all of you are aware, a special package was announced by the Government for Garments and Made ups in 2016 which has given the necessary boost to these sectors. The ROSL rates for cotton made ups has been increased which has helped our exporters to overcome to some extent the disadvantages faced by them in leading export markets in the form of high import duties as against zero duty granted on similar products imported from competing nations. The MEIS rates for made ups have also been increased from 2% to 4% in November 2017 thereby having a positive impact on exports of these products.

Friends, all the above steps are very encouraging and should result in increasing investments, generating additional employment and giving a fillip to export growth.

In this context, the recent package for the MSMEs announced by the Hon’ble Prime Minister, Shri Narendra Modi on November 5, 2018 is a very welcome step. It is a major initiative as increase in the interest subvention on pre-shipment and post–shipment finance for exports by MSMEs from 3% to 5% will give the much needed boost to the sector. Further, GST-registered MSMEs will get 2% interest rebate on incremental loan upto Rs. One Crore.

The facility of quick “in-principle” approval of loans up to Rs 1 crore is a step in the right direction to address the liquidity concerns of the MSMEs, as this sector generally finds it difficult to raise bank finance.

GST

As regards GST, we are thankful to the Government for addressing the issues faced by the exporters under this new tax regime especially on refunds of IGST and Un-utilized Input Tax Credit on exports. The Government has allowed the refund of accumulated Input Tax Credit on fabrics and to independent processors which will reduce the cost for the weavers and the independent processors.

You may also be aware that the collection from GST crossed ₹1 lakh crore for the second time in October, which is a good sign indicating a revival of business activities.

However, there are some areas that need the urgent attention of the policymakers. These are as follows -

- Refund of IGST on exports should be delinked from monthly returns (GSTR-1 & GSTR-3B).
- IGST refund should be given to exporters availing deemed exports benefit on domestic purchase under Advance Authorization and 100% EOU.
- Refund of unutilized Input Tax Credit (Transitional Credits) should be allowed when goods are exported under LUT.
- Merchant exporters availing of benefit of concessional GST rate on purchase of export goods should be allowed IGST refund on exports.
- GST Commissionerates should strictly follow the guidelines issued by CBIC for refund of Un-utilized Input Tax Credit on exports under LUT / Bond.

- During the period July 1, 2017 to September 31, 2018 higher Drawback rates were allowed as a transitional measure subject to non-availment of ITC. However, many exporters erroneously availed of ITC and also higher rate of Drawback. As a result, they have not received IGST refund. Exporters subsequently, surrendered the difference between higher Drawback and lower Drawback. However, they are still awaiting for IGST refund. IGST refund should be granted to such exporters.

We sincerely hope that the Government will take remedial steps to address these issues, as it will go a long way in mitigating the hardships in adapting to the new indirect taxation system.

Scheme of Duty Drawback

With regard to post GST scenario, we may also note that the exports got affected mainly due to the steep reduction in duty drawback rates and RoSL benefits. Though the MEIS benefit has been increased from 2% to 4%, the overall drop is 5% to 7%. The Government has now mandated the duty draw back committee to make recommendations. We urge the Government to expedite the same.

Devising Alternate Export Promotion Schemes

Friends, the existing export promotion schemes in operation have been extremely useful in increasing exports, especially on account of the various disabilities suffered by the exporters namely preferential tariffs given to competing countries, high logistic and transaction costs incurred on account of infrastructural deficiencies, etc.

In this context, exporters have been expressing concern on the likely alternative schemes that may replace the existing ones. As you are aware, the Government is in the process of putting in place alternate schemes to promote exports which will improve the competitiveness of the products. These alternate schemes are expected to be WTO compatible. The alternate schemes will replace earlier schemes like MEIS, EPCG, 100% EOUs, SEZ, etc. We have been given to understand that the level of support will not in any way be lowered.

In order to offer suggestions on WTO compatible Alternate Schemes, the Council has engaged the services of a consulting firm M/s. Ikdhvaj Advisers LLP to undertake a 'Study on Alternate Export Promotion Schemes' which can be recommended to the Government. Dr. Veena Jha, a renowned economist along with Dr. Harsha Vardhana Singh (former Deputy Director General, WTO) and Shri Jayant Dasgupta (former Ambassador to WTO), who are experts on WTO matters are undertaking this study. The study will cover the entire value chain in the Cotton Textile Sector such as Yarn, Fabrics and Made ups and also independent processing units.

The idea is to devise schemes that cannot be challenged due to multiple interpretations by countries on the possible benefits ensuing to exporters. The Study is in the final stages of preparation and will be released shortly. We will be presenting the findings to the Ministry of Textiles, Ministry of Commerce, DGFT and other concerned officials.

I am sure the findings of this study will help the Government formulate new schemes in order to ensure continuity in business and foster trust between the exporters and importers in the long term interest of all round export growth.

AGENDA FOR ACTION

While the Government has been proactively addressing the issues raised by the Council, there are some matters that need to be resolved at an early date.

Firstly, the Council has proposed the inclusion of cotton yarn under the MEIS. Cotton yarn is a value added product with a lot of value addition taking place within the country. Further it is the only product that has been deprived of export incentives. This anomaly needs to be addressed and cotton yarn should be included under the MEIS.

Secondly, the MEIS for fabrics also need to be increased from 2% to 4%.

Thirdly, cotton yarn and fabrics should be included under the ROSL scheme as these products also face the incidence of state levies as in the case of Made ups and Garments.

Fourthly, interest subvention should also be extended to merchant exporters as they contribute substantially to our exports.

Fifthly, the central levies should also be factored under the ROSL as these levies are not being considered in the All Industry rates of duty drawback.

Apart from the policy support, there is an urgent need for expediting the conclusion of FTAs with countries like EU, Australia, Canada, etc.

Global Headwinds

Friends, while challenges are huge, opportunities also abound. The ongoing trade relations between the US and China continue to be uncertain with reports emerging of its adverse impact on the export orders across Asia. Manufacturing surveys show a marginal growth in China but a slowdown in Korea and Indonesia with contraction of activity in Malaysia and Taiwan. However there is a possibility of the present trade dispute between the US and China opening up new opportunities for cotton textile exports from India and we should be ready to explore them.

Discriminatory duties on Indian textiles

The Council has been pointing out at various fora, that Indian textile products face discriminatory duties in key markets like EU, China and South Korea. These duties range from 3.5% to 8% for fabrics and 9.6% for madeups in the EU. On the other hand imports from competing nations like Bangladesh, Cambodia, Vietnam, Pakistan and Turkey are considered duty free in these markets.

These duty differentials are putting Indian exporters of cotton textiles at a distinct dis-advantage vis-á-vis the competing textile manufacturing nations. The matter needs to be addressed by the Government on a priority basis.

External challenges

We should also look towards creating opportunities on the external front. The Council has been reiterating that proactive steps need to be undertaken to address tariff issues in some of the markets with potential for high growth of Indian exports. Some of these are - (a) Reducing import duty from 10% to 5% on fabrics and 5% to zero on Cotton Yarn imported by China; (b) Removal of Additional duty of 20% on fabrics imported from India into Turkey which are in violation of WTO Rules; (c) Reduction of customs duty on imports of cotton yarn by South Korea on par with Fabrics and Made ups under the INDO-KOREA CEPA.

Internal Challenges

Besides the external challenges, the exporters of cotton textiles also face internal challenges. These are in the form of high interest rates, volatility of cotton prices and high logistics costs. The steep reduction in export benefits is another issue faced by the exporter. The margins in the textile industry which are already very low has made this reduction commercially unviable in many cases. This has resulted in the Indian cotton textiles products becoming much costlier than the competing nations.

While many of the areas faced by the exporters have been resolved there are some issues that remain to be addressed.

TUF Scheme

Textile industry is continuously under severe stress since April 2014 due to the non disbursal of committed liabilities under TUFS scheme. Several hundreds of mills especially spinning mills are facing closure as they are likely to become NPAs.

An estimated Rs 3,000-crore dues towards committed liabilities arising out of 'blackout and left out' period cases remain under technology upgradation scheme for the textile industry.

We, therefore, need to urgently disburse the committed liabilities under TUFS scheme.

Hank Yarn Obligation

To ease the burden on the spinning industry, the Hank Yarn Obligation should also be revisited in line with the changing profile of the textile industry.

Ease of doing business in India

Friends, it is a proud moment for all of us as India's rank in the World Bank's Ease of Doing Business 2019 survey climbed 23 places to 77 among 190 countries surveyed, making it the only country to rank among the top 10 improvers for the second consecutive year. The World Bank has confirmed that starting a business in India has been made easier through consolidation of multiple application forms and introduction of a goods and services tax (GST).

Our Hon'ble Prime Minister Shri Narendra Modi has recently envisioned an ambitious target of India breaking into top 50 nations on the World Bank's ease of doing business ranking. We are already witnessing all-round improvement in the trading ecosystem and are confident that the situation will only improve in the coming months.

While there is a lot of zeal and enthusiasm seen on the part of the Government, the industry must also rise to the occasion to support these efforts being undertaken to take the country to a new trajectory of success.

TEXPROCIL – The Facilitator

Friends, during my tenure in office as Chairman of TEXPROCIL, apart from the wide ambit of export promotion activities, the Council has been able to further enhance its credibility and gain appreciation for its understanding of issues impacting the export competitiveness through its contributions to the various policy issues on the diverse needs of industry and stakeholders.

Consistent redressal of exporters' grievances, articulated delivery of arguments supported by data, thanks to the work put in by the excellent team at TEXPROCIL comprising of Executive Director, Director and Joint Directors; who are all knowledgeable, dedicated, focused, and capable of rising up to any challenge; TEXPROCIL has been able to achieve a lot more.

Today, as I demit office, and hand over the charge to my successor, I am happy to note that the industry has become well aware about the need to produce value added items encouraging many of our entrepreneurs to make innovative products.

Based on the marketing plan drawn up by the Ministry of Textiles and our own analysis, the Council carried out intensive and wide ranging export promotional activities in developed as well as emerging markets for all products under the Council's purview. Special efforts were undertaken to target markets like Bangladesh, China, Colombia, Iran, South Korea, Sri Lanka, Turkey and Vietnam.

Towards this end, we have been instrumental in establishing the Council's image as a global promoter of "Incredible Textiles of India" which has served as the Council's campaign at all the events and has also been well received across the world.

Committed to Quality

I am happy to inform you that the Council has upgraded its present Quality Management System (QMS) certification and has successfully made a transition from ISO 9001:2008 to a new version of the standard – ISO 9001:2015. This shows our abiding commitment to provide quality service to all our members.

Acknowledgements

Before I conclude, I would like to take this opportunity to place on record my sincere thanks on behalf of the Council and members of the Committee of Administration to Smt Smriti Zubin Irani, Hon'ble Union Minister of Textiles for her unstinted support and guidance to make the sector vibrant. The Hon'ble Minister has been very supportive of the efforts put in by the textile industry and her dynamism has resulted in resolution of many pending issues. We also remain grateful to HMOT for personally leading two delegations of stakeholders for meetings with the Hon'ble Finance Minister and the Commerce Minister to resolve various issues concerning textile exports.

I also wish to convey our deep sense of gratitude to Shri Ajay Tamta, Minister of State for Textiles, for his continued support to the trade and the industry. The positive growth in the exports of cotton textiles that we are witnessing today has been achieved with the timely support received from the Government and the constant encouragement provided by the Ministry of Textiles.

We also welcome Shri Raghavendra Singh, the new Secretary (Textiles) and are hopeful that given the present era of challenges, his benign counsel will be available for the trade and industry. We are also thankful to Shri Anant Kumar Singh, the erstwhile Secretary (Textiles) for guiding the trade and industry on various policy awareness during his tenure.

We are immensely grateful to Shri Suresh Prabhu, Minister for Commerce & Industry and Civil Aviation for his encouraging support in increasing exports and providing pragmatic solutions to the various issues confronting the textile sector.

We are also grateful to Shri Anup Wadhwan, 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.

Our special thanks are also due to Ms Aditi Das Rout, Trade Advisor in the Ministry of Textiles for her active support to the various promotional programmes of the Council.

We are also thankful to Dr. Kavita Gupta, the erstwhile Textile Commissioner for her valuable support to the growth of the sector.

The Duty Drawback Committee headed by Shri G K Pillai has been extremely receptive 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

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Global Reach!

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