Speech

by

Dr. K V Srinivasan

Chairman

at the

65th
Annual General Meeting

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TEXPROCIL

THE COTTON TEXTILES EXPORT PROMOTION COUNCIL

Speech by Dr. K V Srinivasan, Chairman at the 65th Annual General Meeting

Friends,

It gives me a great pleasure to extend a warm welcome to all of you at the 65th Annual General Meeting of our Council.

The 65th Annual Report and Audited Accounts along with the Auditor's Report for the year ended 31st March 2019, 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.

World Economic Outlook

World Trade in 2019 is facing strong headwinds mainly on account of a sluggish global demand exacerbated by rising uncertainties due to growing trade tensions. Going forward, much would depend on how the trade tensions are addressed especially in areas relating to tariff escalation, retaliatory tariffs and ensuring that WTO commitments are upheld in both their letter and spirit.

Friends, the economists have expressed deep concern as the signs of recessionary conditions are manifesting themselves across the globe. Germany, the trade powerhouse of Europe, has seen it's growth rate fall below zero. Britain is making its case for an exit from the European Union.

Trade hostilities have engrossed the top global suppliers including China, Japan and South Korea. The U.S. growth too has slowed — partly because of the damaging trade conflicts.

The uncertainty created by the trade challenges like protectionism, trade tensions and tightening of financial conditions are weighing on investment, hiring and consumption.

Coupled with the volatility in financial markets and tighter monetary policy conditions, the coming years present stiff challenges for global trade growth and output.

Renewed Hopes for India

Coming to India, the growth story has moderated as the economy is expected to grow around 6.2% in per cent in FY19 -20. The present day challenge is to steer the economy away from unfavourable headwinds to become the fifth largest in the world.

The pre-Budget Economic Survey 2019-20, authored by the new Chief Economic Advisor Krishnamoorthy Subramanian and the maiden Budget 2019 presented by the Hon'ble Finance Minister, Smt Nirmala Sitharaman both call for a huge boost in spending and reforms to accelerate higher rate of expansion to double the economy's size to USD 5 trillion by 2024-25.

The government has been taking steps to bring India back on the growth trajectory. To boost the country's infrastructure, a task force has been set up to identify viable projects along with an expenditure of about $1.4 trillion (Rs. 100 lakh crore) planned over these years.

Despite the slowdown India continues to be one of the important players in the global economic landscape. Its trade policies, government reforms and inherent economic strengths does inspire investors.

Foreign Trade

In 2018, the value of world merchandise exports increased to US $ 19.47 trillion from US $ 17.73 trillion in 2017 i.e. a growth of 9.83%. However, the share of textile and clothing in overall merchandise trade in 2018 decreased marginally to 4.11% from 4.28% in 2017 due to strong headwinds on account of a gloomy global economic outlook.

By all accounts, the fiscal year gone by can be termed as a challenging year characterised by uncertainty and a slowdown in the global economy. Tariffs which were meant to integrate global trade became a weapon for unilateral action thereby disrupting the trends in global trade.

World Trade in Textiles & Clothing

The world trade in textile and clothing grew by 5.45% in 2018 over the previous year, reaching a level of USD 801 billion. Out of this, clothing accounted for 56% share of the world trade, while textile accounted for a 44% share.

India ranked fifth as an exporter of textile and clothing during 2018 with a share of 4.63%. Export from India declined marginally by (-) 0.77% during the year 2018 from USD 37.44 billion in 2017 to USD 37.15 billion in 2018.

On the other hand, China's textile and clothing exports grew by 3.12% and amounted to USD 266.54 billion. China is still leading in textile and clothing exports with a share of 33.27%.

Exports from Bangladesh and Vietnam grew by 11.31% and 14% respectively during 2018.

Exports of Cotton Textiles

World trade in cotton textiles comprising Yarn, Fabrics and Made-up (all fibres) reported a growth of 5.73%, reaching a level of USD 314.10 billion during January-December 2018, with the trade in cotton textiles growing by 4.08% and reaching a level of USD 122.69 billion. Out of this trade in cotton made-ups (USD 48.45 billion) accounted for 39.49% share in global trade of cotton textiles while cotton fabrics (USD 59.67 billion) and cotton yarn (USD 14.57 billion) accounted for 48.63% and 11.88% of total world trade in these items, respectively.

An Era of Challenges

Friends, as we look ahead stepping into the third decade of the current millennium, many challenges are looming in the horizon. The waxing and waning trade and tariff conflict between USA & China has left all of us confronted with unprecedented situations.

The retaliatory moves by the USA and China's counter response by permitting its currency to depreciate are having far reaching consequences in reshaping supply chains.

On the other hand, the BREXIT process has reached a crucial phase causing a slide in the value of the UK Sterling. The ongoing tensions in the subcontinent also have implications for our trade. Adding to the uncertainties in the tense stand-off in the Middle East and the spectre of rising oil prices.

At the same time there is considerable worry regarding the future of WTO as some countries find greater virtues in bilateral arrangements rather than evolving a multilateral consensus. The dispute resolution process which was one of the pillars of the WTO system is also losing it's traction.

Friends, it looks as if all the prevailing beliefs underlying our vision of a world trading order are being questioned. In such a situation we need to discover new paradigms of growth and perhaps strategize our way to remain competitive as some of the issues like preferential tariffs, non-tariff barriers, and unpredictable regulatory arrangements are here to stay as part of the overall policy architecture.

Structural Strategies

In today's competitive landscape, structural strategies assume greater significance, given the challenges like a rapidly changing global trade landscape, shifting of global value chains and new free trade agreements, including mega trade agreements.

Similarly, the competitiveness of labour intensive sector like ours is seen to be severely constrained due to disabilities like lack of efficient manufacturing and logistic infrastructure, rise in cost of business finance due to high interest rates and delays in receiving refunds, and increase in cost of production inputs like wages, electricity, etc.

Government Support

The Government recognises the fact that ensuring a good performance in exports is important for the GDP to show robust growth. Further, a lot more needs to be done to encourage exports. On its part, the Government is looking at challenges facing the exporting sector and are trying to solve them by openly engaging with the stakeholders.

The Council has also made several representations to the Government on various other issues affecting the exporters based on the feedback received from its members. Most of the recommendations made by the Council were accepted and implemented by the Government. For instance, the Council recommended to the Government to extend the 3% Interest Equalization Scheme to the merchant exporters which has been accepted and implemented. Likewise, the Council represented on the need to extend the MEIS beyond June 30, 2018 which has been accepted and the necessary extension has been granted.

Introducing reforms in the MSME sector Hon'ble Prime Minister, Shri Narendra Modi launched MSME Support & Outreach Program in November 2018. This was followed by announcement of a package for the MSMEs to address their financial and other issues. Keeping in view the difficulties faced by MSMEs in accessing loan at competitive rates, on November 01, 2018 the Government approved enhancement of interest equalisation rate to the MSME exporters from 3% to 5% for exports under the ongoing Interest Equalization Scheme (IES) on Pre and post Shipment Rupee Export Credit.

Further in view of consistent demand by the exporting community, merchant exporters have also been included under the Interest Equalisation Scheme (IES) for Pre and Post Shipment Rupee Export Credit by allowing them interest equalisation rate of 3% on such credit for export of products covered under 416 tariff lines identified under the scheme.

In order to boost exports and boost industrial growth, the Government has intensified consultations on some of it's decisions, ranging from fast-tracking anti-dumping investigations into goods in the micro, small and medium (MSME) category to initiating research on reducing import dependence by initiating investigation to list of "non-essential" imports.

Towards expediting export financing, the Government has directed export credit agencies to shift focus from subsidies to facilitating cheaper availability of loan in foreign currencies to exporters. The Export Credit Guarantee Corporation (ECGC) and the Exim Bank have been asked to ensure fast disposal of claims and speedily raise their loan disbursals for exporters.

Director General of Foreign Trade (DGFT) has taken several measures to strengthen the technology platform and enhance the ease of doing business for exporters through its Electronic Data Interface (EDI) message exchange system for various documentation related activities including import and export.

GST

During the year the Council continued with its efforts in guiding the exporters to comply with the GST procedures, formalities and documentations. From time to time the Council sought feedback and suggestions from the members on the various provisions under the GST and took up the related issues with the Government based on representations received from the members. The Council also interacted extensively with the GST Policy Wing under the Ministry of Finance in addition to the Ministry of Textiles and Department of Commerce and provided all the required inputs asked.

The Council extended all possible help to its member exporters in obtaining pending claims of refund of GST, IGST, and unutilized Input Tax Credits (ITC) on exports under LUT by proactively taking up the matter with the concerned GST Commissionerates. The lists of pending claims of refunds on exports received from the members were sent to the concerned customs authorities and also to the GSTN (GST Network) wherever required.

In its interactions with the members, the Council observed that in many of the cases the refunds were denied or delayed on account of errors made in the applications for refunds / GST Returns. The Council provided the necessary guidance to its members on the refund procedures & the associated documentary requirements.

Some of the areas on which the Council made representations to the Government and has sought it's urgent attention are as follows:

- Allow domestic procurements by 100% EOUs without Payment of GST.
- Allow refund of IGST in those cases where exporters had taken composite Rates of Duty Drawbacks during the transitional period of three months from 1.7.2017 to 30.9.2017 along with Input Tax Credit and subsequently surrendered the differential Duty Drawback rates (difference between the composite rate and lower rate).
- De-link refund of IGST on exports from GSTR 1 and refund 90% of the IGST amount immediately after the EGM is filed.
- Issue a clarification on whether an exporter who has claimed Cenvat credit on capital goods and has exported under the Central Excise Rebate claims would also become eligible for higher rate of Duty Drawback (composite rates).
- Instruct the GST Commissionerates to follow the time frames laid down by CBIC in Circular No.17/17/2017-GST dated November 15, 2017, while processing applications for the refund of unutilized ITC on exports under LUT.
- Resolve RFD-01A related issues and to include ITC on services in the formula to calculate the refund amount of un-utilized Input Tax Credit on exports under LUT.

Various changes have been brought in the GST system, since it's introduction, both with regard to quantum of taxes and inclusion and exclusion of items. We sincerely hope that the Government will further analyse the hardships faced by our exporters in adapting to the GST regime and take remedial steps to address the issues.

Scheme of Duty Drawback

Friends, you may recall, post the introduction of the GST regime and its implementation, the exports were affected mainly due to steep reduction in duty drawback rates and ROSL benefits.

Implementation of the new tax regime saw a whole lot of duties being replaced by GST resulting in lower duty incidences. This mandated the reworking of duty drawback schedule as GST has an input tax credit system and mainly basic customs duty needed to be rebated for achieving zero rated exports. The Government mandated the duty drawback committee to make recommendations.

The Council made a presentation on Drawback Proposals for Cotton textile products before the Drawback Committee led by Shri G.K. Pillai (former Secretary, Government of India) on August 9, 2018 in Mumbai. I am glad to have commenced my journey, as the Chairman of this Council, on a positive note with the Government announcing an increase in the Drawback rates for cotton textile products such as Yarn, Fabrics and Made ups in the month of November 2018.

Scheme to Rebate State and Central Taxes and Levies (ROSCTL)

The Council proposed an increase in the ROSL (Rebate of State Levies) rate for Cotton Made ups and proposed that Central Taxes should also be included thereby expanding the scope & coverage of the erstwhile ROSL scheme.

Accepting the Council's proposal, the Government has notified a new scheme called as "Scheme for Rebate of State and Central taxes and Levies on Export of Garments and Made ups (RoSCTL) vide Notification dated March 7, 2019 for the Made-ups and Garments sectors. Effective from March 7, 2019, the scheme is valid till March 31, 2020 and will also be available in addition to the Duty Drawback Scheme. The Government has also notified the RoSCTL rates vide Ministry of Textiles Notification dated March 8, 2019.

Alternate Export Promotion Schemes

As you are all aware, India's exports have made rapid strides and have undergone structural transformation in the recent decade.

Being a part of a progressive global economy, the country needs to do even better in terms of trade and development. For this, export promotion schemes have become an imperative in a developing country like India.

The Government of India strives to actively partner with the trade by maintaining a continuous dialogue on measures to promote exports and provide an enabling environment for international trade.

With the objective of boosting exports from India, several export benefit schemes have been introduced to simplify the entire export process and make it easier.

However, Indian export promotion schemes are being challenged by the USA in the World Trade Organisation (WTO), on the grounds that these are not in compliance with global trade norms.

It has, therefore, become an absolute necessity to introduce new export promotion schemes which adhere to WTO compliance.

The Government, in order to finalise viable incentive schemes for exporters that are not linked to exports, invited suggestions from apex trade bodies like TEXPROCIL. The effort is to persistently work towards giving a specific direction to export growth by replacing the old Schemes to make them become WTO compatible.

In this connection, the Council prepared a report which covered suggestions on replacing some of the existing export benefits with WTO compatible schemes and submitted it to the Government. The Council had several meetings with the Government and highlighted that any abrupt withdrawal of existing benefits will have extremely serious and adverse impact on exports.

Friends, the existing export promotion schemes in operation have been extremely useful in enhancing exports with the overall objective of pushing economic growth and generating employment. These schemes have also contributed to improvements in ease of doing business in India, providing greater engagement and synergy amongst all stakeholders including the Government.

It is therefore in the best interest of country's economic prosperity that alternate schemes are put into place sooner than later so that all round improvements can be made in our export basket. In no way can we afford to divert attention from our priorities to improve competitiveness and increase share in global trade.

Renewed Agenda

There are still some areas which remain unresolved despite persistent representations to the Government by the Council. A decision is yet to be taken by the Government on the Council's repeated representations to cover exports of Cotton Yarn under the MEIS and the 3% Interest Equalization Scheme.

TEXPROCIL has been continuously requesting the Government to take immediate measures like faster refund of State and Central taxes and also make raw material available at international prices.

We have also been representing to the various offices of the Government for extension of the new Rebate of State and Central Taxes and Levies (RoSCTL) beyond garments and made-ups to the entire textile chain and to include Cotton Yarn, Fabrics and “Quilts” & “Shopping Bags” (covered under Chapter 94 and Chapter 42 of the ITC (HS) classification).

The Council has been continuously highlighting the difficulties faced by its member exporters in various fora. Especially the cotton yarn and fabric segment have experienced sharp fall in exports over the last few months. One of the key concerns has been the delay in refunds under GST, erstwhile ROSL and disbursement under the ATUFS.

TEXPROCIL has sought the Government’s urgent attention to address the fall in exports of Cotton Textiles in the first quarter of the current fiscal year 2019-20, mostly due to shrinking global demand.

The Council fervently hopes that the Government will proactively assist by ensuring that policy uncertainties relating to continuation of MEIS along with notification of ROSTCL Scheme and reduction in interest costs are addressed expeditiously.

Apart from the renewed policy agenda, we must also be mindful of the fact that FTA's have provided significant benefits to India through better access to major markets, enhancement of trade levels and reductions on tariffs. FTA's, therefore, should always form part of our overall business strategy and the pending ones especially with potential countries like EU, Australia, Canada, etc., need to be concluded in priority.

Evolving Trade Eco- System

India's transition to the new taxation and export incentive regime has posed liquidity challenges for the industry. Intense competitive pressures in the global market, particularly in light of impending trade agreements and foreign currency movements pose additional challenges. In addition, uncertainty in world trade looms, in light of inexplicable trends witnessed in the recent times with realignment of goods movement to new territories due to the prevalent protectionist measures adopted by many global players.

However, the prevalent challenges have also brought in plenty of newer opportunities to develop trade synergies, diversify products / markets and seek newer areas of cooperation. Therefore, despite the recessionary trends confronting the world, the agenda before us is huge in order to expand to newer horizons across the world.

External challenges

Turkey continues to impose additional customs duty of 20% on woven fabrics and apparel covered under Chapters 50 to 62 which amount to cumulative duties of 28% on Indian imports. This additional duty imposed by Turkey is not WTO compatible, hence, needs to be reviewed.

This apart, other challenges include the USA withdrawal of India's participation in the Generalized System of Preferences (GSP) along with China seeking duty free access for 80% of the Indian tariff lines. Also China's increasing engagement with Vietnam and Pakistan continue to pose headwinds for India's trade in textile and clothing. With increasing investments in Vietnam, China has built a strong edifice for supply of yarn and fabrics to the global markets.

We hope that the Government will overcome these challenges with some imaginative and astute negotiations.

Internal Challenges

In these challenging times, the key questions that continue to engage our attention on the domestic front include how to maintain the export momentum and increase our market share in overall global trade in textiles and clothing, apart from attracting investments, creating jobs in the manufacturing sector, scaling up production levels and identifying new markets and products to achieve the much needed quantum jump in our exports.

With India's domestic market holding great allure and promise for the outside world, gaining preferential access in overseas markets without accommodating requests for similar access to the home market will become increasingly difficult.

TUF Scheme

As per Public Notice dated 25.7.2019 issued by the office of the Textile Commissioner, a system has been put in place for the physical verification of machinery under the previous versions of the TUF Scheme (MTUFS/RTUFS/RRTUFS). This verification will be undertaken by the Joint Inspection Team (JIT) based on the system of First–In–First–Out (FIFO) verification process, in all those cases where the claims have been submitted by Banks / Lending agencies through online software to the office of the Textile Commissioner.

The Council would like to commend the Government’s effort being undertaken to resolve the issue of pending claims/ refunds under the TUFS Scheme and hopes that the issues related to disbursement of committed liabilities will be sorted out in the near future.

Diversification of Markets

The Government has embarked on a renewed strategy to boost exports focusing on diversification of markets, positioning India in value chain and promoting collaborative exports. Towards diversification of textiles exports, 12 markets viz. Vietnam, Indonesia, South Korea, Australia, Egypt, Turkey, Saudi Arabia, Russia, Brazil, Chile, Columbia and Peru have been identified. The Government also plans to pursue strategic engagement with Bangladesh and Sri Lanka on the Fabric-Forward Policy in close collaboration with our Council.

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 of TEXPROCIL, apart from the wide ambit of export promotion activities, the Council continued to sensitize the government through various representations on the diverse needs of industry and stakeholders.

Not being pressurized by the challenges that took toll on higher export performance, TEXPROCIL, continued to sensitize the Government on various issues affecting the exporters based on the feedback received from our members.

I am happy that most of the recommendations made by the Council were accepted and implemented by the Government. The Council through its understanding of issues impacting the export competitiveness has been able to gain appreciation for its contributions to the various policy recommendations.

Amongst its wide ambit of export promotional activities, the Council organized participation in international events/fairs in important markets like Bangladesh, China, Colombia, Iran, Japan, South Korea, Sri Lanka, Turkey and Vietnam that helped improve the reach of Indian textile products.

The intense marketing efforts overseas culminated in the Council's maiden B2B event "Ind-Texpo 2019" – a Reverse Buyer Seller Meet jointly organized by TEXPROCIL and PDEXCIL from 27th-29th January in Coimbatore, Tamil Nadu. Though the Council organized the RBSM event for the first time, it was successful in attracting quite a few quality buyers from over 26 countries and generated fruitful trade enquiries.

Friends, in fact there is a need to seriously consider scaling up this event and expanding it's reach and scope. It will be very useful, if all of us get together & lend our support to such an endeavor by strengthening our participation in the "Ind-Texpo 2020" event proposed to be organized during 17th to 19th March 2020 at CODISSIA Trade Fair complex, Coimbatore, Tamil Nadu State.

This apart, the Council also undertook organizing various seminars and workshops beneficial for Indian exporters to develop an understanding on "Export Promotion & Trade opportunities", "The New GST Regime" and many other topics useful for sustainable development of export trade.

Towards this end, the Council has been able to reinforce its identity as the international face of Indian cotton textiles and a global promoter of "Incredible Textiles of India" across the world.

Commitment to Quality

I am happy to inform you that the Council has successfully renewed its present Quality Management System (QMS) certification of the standard – ISO 9001:2015. This shows our commitment to providing 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 & Women and Child development for her benign counsel and leadership. The Hon'ble Minister has been very supportive of the efforts put in by the textile industry and her personal involvement in resolution of many pending issues has helped in the revival of the sector.

We also welcome Shri Ravi Capoor, the new Secretary (Textiles) and are hopeful that given the present era of challenges, his guidance on various policy awareness will be available for the trade and industry. We are also thankful to Shri Raghavendra Singh, the erstwhile Secretary (Textiles) for his active support to the various promotional programmes of the Council.

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

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 welcome the new Textile Commissioner Shri Moloy Chandan Chakrabortty.

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 positive consideration of recommendations made by the Council.

I would like to convey my sincere thanks to Shri Manoj Patodia, 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.

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