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IBTEX No. 133 of 2021 — July 6, 2021

US 74.32| EUR 88.25| GBP 103.17| JPY 0.67

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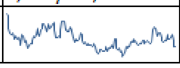
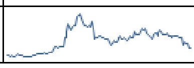
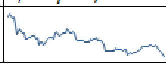
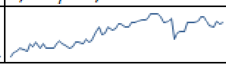
INTERNATIONAL NEWS

Changes and interpretation of 2021 China state cotton reserves sales

The state cotton reserves sales policy was announced on July 2. This round of reserves sales will start from July 5, and end on September 30, 2021, with a total planned selling volumes of 600kt.

We make a comparison of the detailed rules about the state cotton reserves sales in recent five years, and analyze the influences of reserves sales on the market combined with the base selling prices and the reserved cotton quality last year.

1. Comparison of state cotton reserves sales policy

Comparison of state cotton reserves sales policy in recent five years					
	2017	2018	2019	2020	2021
Time	Mar 6-Sep 29	Mar 12-Sep 30	May 5-Sep 30	Jul 1-Sep 30	Jul 5-Sep 30
Announcement time	2016/11/22	2017/11/9	2019/4/23	2020/6/30	2021/7/2
Planned selling volumes	Unlimited	Unlimited	1 million tons	0.5 million tons	0.6 million tons
Actual selling volumes	4.378 million tons	4.312 million tons	1.162 million tons	0.504 million tons	
Daily selling volumes	30kt	30kt	10kt	8kt	10kt
Total traded volumes	3.225 million tons	2.514 million tons	0.996 million tons	0.503 million tons	
Trading proportion	73.70%	58.30%	85.70%	99.90%	
Reserved cotton sold	2011/12-2013/14 season	2011/12-2013/14 season	2011/12-2013/14 season	2011/12-2013/14 season	2011/12-2013/14 season
Requirement	Only spinning mills are allowed to take part in after Sep 4	Only spinning mills are allowed to take part in after Jun 4	None	None	
Price calculation	Base selling price (cotton type 3128B)=average price of prior week's domestic cotton prices*50%+average price of prior				
Additional conditions	None	None	None	During the auction, if the domestic cotton price index is below 11,500yuan/mt, the auction will be suspended next working day, and when the domestic cotton price index is above 11,500yuan/mt for consecutive three days, the auction will restart the next working day.	During the auction, if the domestic cotton price index declines more than 500yuan/mt in total for three consecutive days, the auction will be suspended next working day, and when the domestic cotton price index does not decline for three consecutive days, the auction will restart the next working day.
Weighted average trading prices	14,731yuan/mt	14,70yuan/mt	12,633yuan/mt	11,789yuan/mt	
Average discount to base selling price	1,218yuan/mt	No data	1,293yuan/mt	1,319yuan/mt	
ZCE cotton futures during the auction					

First of all, from the perspective of the total selling volumes, the 600kt of reserved cotton is in line with the market expectations. The primary logic is the remaining reserved cotton stocks in state warehouses: 1.24 million tons of 2012/13 Chinese cotton + 0.37 million tons of 2019/20 Chinese cotton + unrevealed imported cotton quantity in 2018/19 season and afterwards. Looking from the stock status, the 2019/20 reserved cotton quantity is limited, and the 2012/13 reserved cotton is aging.

Therefore, it is necessary to sell the aging cotton and reserve into the new cotton. It can also infer the reserved cotton strategy later to a certain extent: if this round of 600kt of reserved cotton is all sold, it is very likely to continue to auction 600kt of reserved cotton next year.

Meanwhile, new cotton is also needed to be reserved this year. The announcement on July 2 has mentioned the opportunity to reserve Chinese cotton. Moreover, the Sino-US trade agreement continues, and it is also likely to reserve some imported cotton.

Viewed from the previous cotton auction, the state cotton auction is only to increase the supply in short, and it will have no big impact on market supply in medium to long run.

However, there is one notice in this announcement: during the state cotton reserves sales, if major changes occur in the domestic and foreign cotton markets, necessary adjustments to the reserves sales arrangements are required according to the regulatory opinions of the relevant departments.

If the cotton supply is very tight, to increase the supply of old reserved cotton is possible. Nevertheless, this notice has little impact on the market and is only considered as a potential risk.

The daily selling volumes of reserved cotton are supposed to be 9,000-10,000 tons, which will put certain pressure on the market.

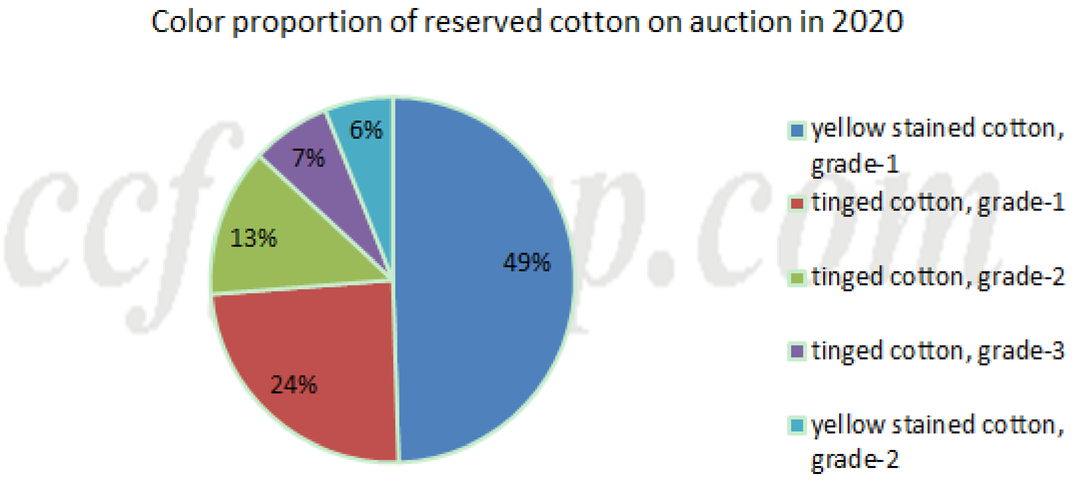
For the base selling price, the major change: during the auction, if the domestic cotton price index declines more than 500yuan/mt in total for three consecutive days, the auction will be suspended next working day, and when the domestic cotton price index does not decline for three consecutive days, the auction will restart the next working day. This will make the cotton prices hard to fall sharply.

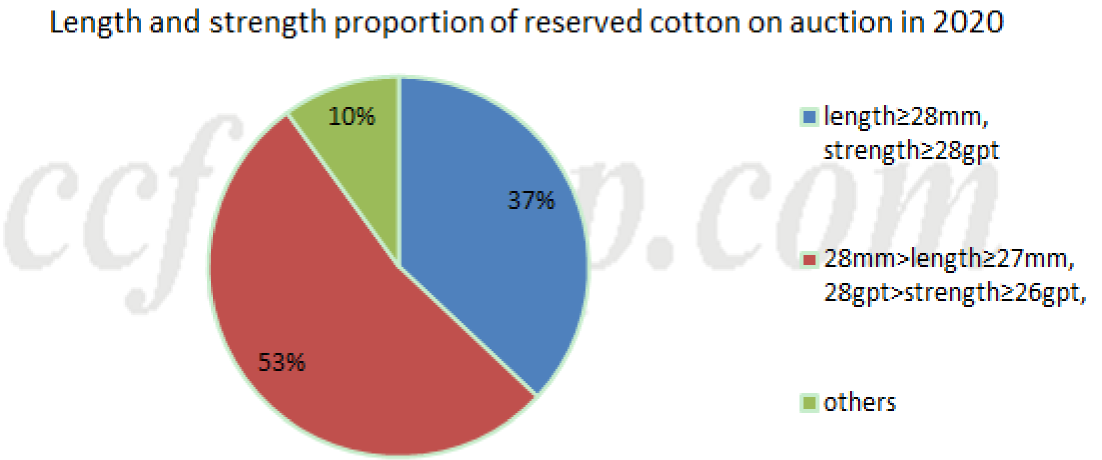
2. The base selling price

Selling price of standard type cotton (3128B)				
	CCIndex3128B	CncottonB	Cotlook A	Cotlook A under 1% tariff
Weekly average	16,105	16,006	96.35	15,026
28-Jun	16,108	16,003	96.6	15,065
29-Jun	16,097	16,002	96.7	15,080
30-Jun	16,091	15,949	94.3	14,666
1-Jul	16,264	16,106	95.2	14,806
2-Jul	16,133	16,013	95.83	14,929
Base selling price				15,501

According to relative regulation, the base selling price of the week during July 5 and July 9 is 15,501yuan/mt (standard type price). Compared with current grade-3128 cotton on spot market, the base selling price is lower nearly 1,000yuan/mt, and compared with the standard 3128 cotton price on auction, the actual reserved cotton sold will be lower above 1,000yuan/mt. Therefore, the state cotton auction is indeed favorable for spinners producing low-count cotton yarn and conventional cotton yarn, and the competition may be fierce.

3. Overview of the reserved cotton quality in 2020





In terms of the reserved cotton quality last year, the color index of 2012/13 cotton is mostly the yellow stained and tinged cotton, the length is mostly above 27mm and the strength is mainly above 26gpt, which can meet the production demand of low-count cotton yarn and conventional cotton yarn 32S and 40S.

In general, the market supply will increase somewhat in short and medium run and the spot cotton digestion will slow down, with the daily selling volumes of reserved cotton during 9,000 tons and 10,000 tons, the lower reserved cotton prices. Moreover, the 2012/13 reserved cotton could meet the production need of low-count cotton yarn and conventional cotton yarn 32S and 40S.

Besides, the state reserves sales will suspend when the domestic cotton prices decline more than 500yuan/mt for the three consecutive days, which makes the cotton prices not expect to fall sharply.

The market still has potential bullish factors, like the strong consumption in 2020/21 season, expected high seed cotton prices for 2021/22 season and expectations of lower global cotton production. In short, ZCE Sep cotton contract is likely to shiver around 15,800-16,500yuan/mt, and in the medium to long run, cotton prices may move upward.

Source: ccfgroup.com– July 05, 2021

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IMF raises US growth forecast to 7% for 2021

The International Monetary Fund (IMF) recently sharply raised its 2021 US growth projection to 7 per cent due to a strong recovery from the pandemic and a feeling that much of President Joe Biden's infrastructure and social spending plans will be implemented. The latest forecast, marking the fastest growth pace since 1984, compares with an April projection of 4.6 per cent growth in 2021.

The organisation raised its 2022 US gross domestic product (GDP) growth forecast to 4.9 per cent, up from its previous 3.5 per cent forecast in April.

The new forecasts, published in the IMF's annual assessment of US economic policies, assume that the Congress will pass the Biden administration's American Jobs Plan and American Families Plan infrastructure, social spending and tax reform plans this year at a size and composition similar to their original proposals.

The two packages would implement many recommendations that the IMF has made for the country for years, including investments to boost productivity, education and to allow more women to join the American workforce, IMF managing director Kristalina Georgieva said.
"They will add to near-term demand, raising GDP by a cumulative 5.25 per cent over 2022 to 2024," global newswires quoted Georgieva as telling a news conference. They will also produce a lasting improvement in income and living standards, with a 1 per cent rise in GDP output even after 10 years, she added.

"Indicators suggest significant labor market slack remains which should serve as a safety valve to dampen underlying wage and price pressures," IMF said in its review statement.

IMF expects US inflation expectations to remain well-anchored, but these "will be obscured in the coming months by significant, transitory movements in relative prices," which could cause personal consumption expenditure inflation to peak temporarily near to 4 per cent later this year.

The IMF said the United States should prioritize its spending toward programmes with the biggest impact on boosting productivity, increasing labour force participation, reducing poverty and aiding a transition from carbon.

It said the United States should use tax policy to further these goals, scaling back poorly targeted tax expenditures and raising federal fuel taxes and introducing other carbon taxes.

Source: fibre2fashion.com– July 06, 2021

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US secondhand clothing market to grow 11 times faster in next five years

New policies to curb production and disposal of fast fashion are likely to accelerate growth of the US secondhand clothing market. As per the 2021 Resale Report released by thredUP, the market is likely to double in the next five years to $77 billion.

A comprehensive study of the US secondhand clothing market, The 2021 Resale Report surveys 3,500 consumers to highlight growth drivers of the resale market during the pandemic. It also highlights the initiatives needed by the government to accelerate the adoption of circular fashion. The report's 'Impact Section' details a company's initiatives to 'shift to thrift' to extend its used garments' life. This helps the platform compensate the environmental and financial damages caused by fashion. Till date, the platform has reduced carbon emissions by £1 billion, selling over 125 million secondhand items.

Secondhand sales to surpass fast fashion by 2030

As per Sustainable Brands -- the premier global community of brand innovators-- US resale market is projected to grow 11 times faster than retail clothing over the next five years. It is expected to more than double the size of fast fashion market by 2030, with two in five consumers replacing fast fashion purchases with secondhand clothing.
The report shows, consumers' purchase of secondhand clothing items increased by seven times last year. In the last 10 years, consumers have saved around $390 billion by buying 6.65 billion secondhand clothing items. Post pandemic, one of three consumers aims to shop for sustainable apparels. Around 60 per cent consumers aim to save money through sustainable shopping while 51 per cent aim to cut environmental waste. Around 50 per cent to opt for value shopping.

Collaboration to tackle fashion's environmental impact

Consumers also aim to reduce their personal impact on the environment. However, for this, they need to collaborate with brands, says Chris Coulter, CEO, GlobeScan's 2020 Healthy and Sustainable Living Study. Brands like Patagonia have already made this shift launching a repairs, returns and resale platform 'Worn Wear' in 2013. Companies including Levi's, The North Face, Arc'teryx, REI, Eileen Fisher, and COS have also launched their

own repair and resell schemes in recent years. Additionally, resale platform Rent the Runway has joined thredUP as a fully-fledged resale site.
Increasing brand accountability

To reduce fashion's impact on the environment, around 44 per cent respondents urge the government to promote sustainable fashion. Around 47 per cent call for abolishment of sales tax or introduction of tax credit.

Respondents also urge the government to follow the UK's example and make fashion brands more responsible for the waste created by them. They urge the government to levy on a £1p extended producer responsibility (EPR) charge on each clothing item towards its future recycling. Consultations on this strategy are currently underway in the US.

Source: fashionatingworld.com– July 05, 2021

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Pakistan lines up $5 billion investment across textile value chain by 2025

A vital sector for economic growth, the Pakistan textile industry has embarked on an ambitious plan to double exports by 2025. The industry has earmarked a $5 billion investment across textile value by the end of target year. It has already noted a growth in new orders that would help sustain for next few years. As per Global Village Space report, Pakistan expects this growth drive to continue for the next few years and consolidate its position in the global textile market.

A significant contributor to industrial exports, the textiles is one of Pakistan's most dynamic sectors. However, since the last few years, the sector has been on a decline due to rising production costs, power shortages, faulty strategies, and lack of government support. The sector is also threatened by a worldwide recession and quality competence. Its contribution to global textile exports is negligible compared to other South Asian regional competitors due to low production base. On the other hand, rapid industrialization and evolving technologies are helping other nations install latest machines to produce new fabrics more efficiently.

Low profitability, technology raises cotton import bill

Over the years, the textile industry has suffered on several fronts. Current global economic crisis, increasing production, energy and raw material costs, obsolete technology, and lack of investment are slowing growth with consistent decline in cotton production adding to woes.

In 2020-21, Pakistan's cotton production declined to 6.5 million bales compelling the sector to import raw cotton from the US, Brazil and Egypt. This year, low profitability, poor seed quality, and lack of technology and innovations is compelling the industry to import around 10 million cotton bales. It has already imported 331,560 tons of cotton worth $ 532.1 million compared to last year's imports of 49,573 tons valued at $ 86.9 million.

Most of Pakistan's current textile industry growth is being achieved through cotton and MMF imports. The country is utilizing full textile production capacity to cater to increasing orders. Many players are expanding production capacities to accommodate new orders.

Opportunity to target double digit exports

The pandemic gave Pakistani exporters an opportunity to improve their product quality and competitiveness in global market. It also gave exporters, an opportunity to target double digit growth from July to May 2020-21 compared to the same period a year ago. From July-May 2020-21, Pakistan's textile exports increased by 18.85 percent to $13.74 billion compared to $ 11.56 billion in the same period of corresponding year. Home textile exports increased to $3.642 billion as against $2.879 billion over the last year while exports of men's garments increased 16 per cent to $3.505 billion against $3.019 billion last year.

Pakistan's exports of women's garments increased 33 per cent to $646.49 million during the period against $486.52 million in the corresponding period previous year. Leather apparel exports rose 11 per cent to $584.02 million against $528.02 million while the exports of jerseys, pullovers, and cardigans surged by 57 per cent to 530.14 million against $ 337.39 million in the same period in FY20. Exports of T-shirts increased 14 per cent to $453.4 million against $398.79 million last year while exports of made-up articles of textile materials increased 15 per cent to $432.47 million against $ 377.24 million of last year.

Amazon listing boosts market Pakistan's rising textile exports are also a result of its addition to Amazon's sellers' list. Pakistani entrepreneurs can now sell products through the platform which helps them promote their businesses and expand to newer markets. Its addition to the Amazon platform also provides online buyers easier access to Pakistani brands. Having recovered from the COVID-19, Pakistan's textile exports are growing at a robust pace. Exports are being further advanced by new energy package announced by the government for the export industry and market- friendly exchange rates.

Source: fashionatingworld.com– July 05, 2021

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Bangladesh: Merchandise export earnings increase by 15.10pc

Merchandise export earnings of the country increased by 15.10 per cent to US$38.75 billion in the 2020-21 fiscal year, compared to the previous fiscal year.

Bangladesh fetched US$33.67 billion in the 2019-20 fiscal year.

The increased figure of export earnings of the last fiscal year shows signs of recovery of the readymade garments (RMG) sector from the adverse effects of the COVID-19 pandemic.

However, overall earnings fell short of the target by 5.47 per cent set for the FY'21, according to Export Promotion Bureau (EPB) data released on Monday.

Out of the total $38.75 billion export income in FY 21, the RMG sector fetched $31.45 billion, recording a 12.55 per cent growth.

The export earnings also fell short of the target by 6.89 per cent in the last fiscal.

The country earned $16.96 billion from knitwear exports, registering a growth of 21.94 per cent. Bangladesh fetched $13.90 billion from knitwear exports in FY 20.

Earnings from the export of woven garments were $14.49 billion in the last fiscal, up by 3.24 per cent. The country earned $14.04 billion through export in FY 20.

The single month earnings in June 2021 grew by 31.77 per cent to $ 3.57 billion over that of June 2020.

The EPB said the export earnings also fell short of the target by 2.52 per cent in June.

Source: thefinancialexpress.com.bd– July 05, 2021

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Pakistan: KSA, UAE five others commit cooperation

Seven regional countries including Saudi Arabia, Kuwait, Oman, United Arab Emirates, Egypt, Kenya and Qatar on Monday expressed their commitment for cooperation on the development of Gwadar.

With their respective ambassadors present at a ceremony attended by Prime Minister Imran Khan, the regional countries showed their support for the development of Pakistan's port city.

Prime Minister Imran Khan on the occasion also witnessed the signing of two Memoranda of Understanding with the Government of China for carrying out development projects in Gwadar. The accords included the implementation agreement on setting up of 1.2 MGD desalination plant to resolve the shortage of drinking water for the residents of Gwadar.

Other agreement included China's grant for solar generators for South Balochistan, and the groundbreaking of North Gwadar Free Zone and Enterprises.

Also on the occasion, the Chinese investors, through video-link from Shanghai, showed the 'Expression of Commitment for Investment'. Those who pledged to invest in Balochistan's different sectors included Huang Weiguo (textile), Huang Daoyuan (prefabricated technology), Fang Hongyan (agriculture), Shen Jian (wool spinning), David Dia and Chen Yi (dairy processing) and Bao Dequan (textile).

The factories inaugurated on the occasion included chemical fertilizer factory, Gwadar Animal Vaccination factory and lubricant factory, besides the opening of Gwadar Tissue Plant Laboratory.

Chairman Senate Sadiq Sanjrani, Chief Minister Balochistan Jam Kamal, Foreign Minister Shah Mahmood Qureshi, Information Minister Chaudhry Fawad Hussain, Minister for Defence Production Zubaida Jalal, Minister for Maritime Affairs Ali Zaidi were present. Earlier, Chairman Gwadar Port Authority Naseer Khan Kashani briefed the ambassadors on the model of Gwadar Free Port Zone and the facilities being provided at the seaport.

Source: brecorder.com– July 06, 2021

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NATIONAL NEWS

India's cotton, jute positive export growth trend continues in June

Exports of cotton yarn/fabrics/made-ups, handloom products etc form India shot up 50.86 per cent in June 2021 over June 2019, according to the preliminary data on India's merchandise trade in June 2021 released by the country's ministry of commerce & industry. Jute exports, including floor covering, increased by 23.97 per cent in June 2021 over June 2019.

Among other textile categories, export of man-made yarn/fabrics/made-ups etc jumped by 23.66 per cent, while handicrafts, excluding hand-made carpet, exports rose 18.83 per cent during June 2021, when compared with June 2019. Exports in June 2020 were affected due to the COVID-19 pandemic, and hence that month's figures are not used for comparison.

However, leather and leather manufactures (-21.0 per cent), readymade garments (RMG) of all textiles (-18.76 per cent), were among the major commodity groups of export showing negative growth in June 2021 over June 2019, the data showed. Major commodity groups of import showing negative growth in June 2021 over June 2019 include cotton raw & waste (-51.03 per cent), leather & leather products (-18.43 per cent), and textile yarn fabric, made-up articles (-9.66 per cent), as per the government data.

In terms of overall trade, India was a net importer in June 2021 with a trade deficit of $9.4 billion, widened by 1,426.6 per cent over trade surplus of $0.71 billion in June 2020 (India was net exporter in June 2020) and narrowed down by 41.26 per cent over trade deficit of $16.0 billion in June 2019.

In April-June 2021, India's merchandise exports stood at $95.36 billion, an increase of 85.36 per cent over $51.44 billion in April-June 2020 and an increase of 17.85 per cent over $80.91 billion in April-June 2019. Merchandise imports, on the other hand, were $126.14 billion, an increase of 107.99 per cent over $60.65 billion in April-June 2020 and a decrease of 3.05 per cent over $130.1 billion in April-June 2019.

Source: fibre2fashion.com– July 06, 2021

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Mixed bag: on Indian merchandise exports

India's merchandise exports reached an all-time quarterly high of $95 billion in the three months ended June, providing welcome cheer on the economic front. That the record was notched up during a quarter when the second wave of the pandemic hit its peak, and amid varying degrees of lockdowns, is all the more noteworthy.

Exports last month surged 47% from June 2020 to $32.5 billion. Even discounting the fact that the year-earlier period provided an anomalous base as the economy had just begun reopening from a protracted nationwide lockdown, growth in shipments was still a robust 30% when compared with the pre-pandemic June of 2019.

Propelling the surge from the 2019 levels were non-rice cereals, which quadrupled; iron ore, which more than doubled; and organic and inorganic chemicals that rose 62%. Engineering goods exports had the biggest jump in dollar terms, adding $2.73 billion in value, or 42% over June 2019, as the rising vaccination coverage and economic recovery in key developed markets including the EU and the U.S. bolstered demand.

Commerce and Industry Minister Piyush Goyal was enthused enough by the export performance to posit that shipments of goods to overseas markets could touch the $400 billion mark this fiscal, a figure which, if achieved, would represent an annual record.

Trade data, however, reveals that a significant driver of the export growth has been the runaway rally in commodity prices that have benefited from the accelerated reopening of major economies, as well as an increased appetite for raw materials and grains in China.

On the other hand, the crucial job-generating export sectors including readymade garments, leather and leather products and tea all posted double-digit declines from June 2019 levels, reflecting the deeper structural problems that dog each one of them.

If the tea industry has been facing a long-term downtrend exacerbated by inadequate product variety, lack of marketing-savvy and sharp competition from rivals including Sri Lanka and Kenya, the leather goods segment has been put on the ropes by a combination of short-sighted policy measures, WTO-mandated withdrawal of export incentives and a pandemic-induced slowdown in orders.

For a segment that provides large-scale employment, the recent imposition of an import duty on a key raw material has thrown the sector's very viability into question. With the Government dragging its feet on notifying the rates applicable under the Remission of Duties and Taxes on Export Products (RoDTEP) scheme, exporters are still unsure of how to price their products while bidding for orders.

A container shortage and heightened congestion have also sent freight rates out of Indian ports soaring. Policymakers need to look beyond headline numbers and expedite action to restore the health of every constituent sector if economically enduring long-term growth in exports is to be ensured.

Source: thehindu.com– July 05, 2021

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Indian exporters to explore opportunities for increased trade with South Africa

Indian Consulate to help industry strategise in high potential areas

Opportunities to increase and diversify Indian exports to South Africa, an export market which has grown four times in the last one and a half decades, will be discussed in detail by senior officials from the Indian Consulate in Johannesburg this week in an online interaction with Indian businesses wanting to explore fresh possibilities in the post-Covid scenario.

"Exports from India to South Africa, especially automobiles and pharmaceuticals, got a big push during the Pandemic. Similar opportunities exist for other items too. The Consul General of India to Johannesburg will interact with Indian companies this week on such opportunities at a virtual meet organised by exporters' body FIEO," a source told BusinessLine.

This is part of the Ministry of External Affairs' initiative started last year to facilitate and promote Indian exports through its Missions and Posts in various countries.

Exports to South Africa

Indian exports to South Africa, which was at $984 million in 2004-05, touched $4 billion in 2019-20, although it dipped marginally to $3.93 billion in 2020-21 due to the Covid-19 pandemic at the beginning of the fiscal. Imports, on the other hand, increased 8.6 per cent to $7.5 billion during the fiscal.

Despite the slight decline in Indian exports to South Africa in 2020-21, items such as motor vehicles posted a sharp 10.97 per cent growth to $557 million. India, in fact, was the top country of origin for vehicle imports into South Africa despite the lengthy Covid-19 lockdowns and overall declines in vehicle sales in 2020, according to the recent Automotive Export Manual report of the Automotive Industry Export Council.

"Automobiles and parts exports to South Africa have a great potential for growth as Indian exporters could also use the country as a hub for export to other African countries," the official said.

Pharmaceuticals

Pharmaceuticals is another area where there are opportunities for accelerated growth in the post-Covid period. India's exports of pharmaceutical products to South Africa grew 33 per cent to $745 million in 2020-21 and with a focus on demand is likely to rise further, the official added.

Apart from pharmaceuticals and vehicles & components, exports from India to South Africa include transport equipment, engineering goods, footwear, dyes and intermediates, chemicals, textiles, rice and gems and jewellery.

"The key objective of the interactive session is to understand the present economic status of South Africa in view of Covid-19, discuss the commercial opportunities available in the prevailing economic environment and evaluate the future opportunities of various sectors," according to FIEO.

With ties between India and South Africa intensifying not just economically but also strategically, as witnessed in the two countries' recent collaboration at the WTO on intellectual property flexibilities for Covid-19 medical products, the atmosphere is conducive for more business, the source added. India's overall goods exports in 2020-21 declined 7.26 per cent to $ 290.63 billion but in the first quarter of the current fiscal the country recorded the highest-ever exports of $95 billion, posting a 85 per cent growth over the first quarter of the previous fiscal.

Source: thehindubusinessline.com– July 05, 2021

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A call to preserve the 'value' of MSMEs at any cost

A 12-point agenda that could form the basis for a genuine and whole-hearted approach to support such units

Swaminathan Gurumurthy, member of the Board of the Reserve Bank of India, is an original thinker who follows the 'Third Way' propounded bythe likes of Deendayal Upadhyaya and the labour movement leader Dattopant Thengdi when it comes to questions of finance and economics.

Recently, he wrote about how lenders should prevent illiquidity from leading to insolvency for enterprises, particularly in the MSME sector.

From a banker's perspective, there is no better way to encapsulate what lenders should do under the current conditions for borrowers.

The primary focus

Even though fresh investments and new units ought to be supported, the primary focus now should be on protecting the units already working because the negative demonstration effect of MSMEs collapsing will be disastrous.

Gurmurthy's construct assumes relevance here. If bankers can internalise this spirit and implement the government's and RBI's schemes for MSMEs – tailoring /customising them appropriately – MSMEs can weather the Covid impact.

As one of the world's few full-service regulators, RBI Governor Shaktikanta has been admirably proactive right from January 2019 in supporting all MSME units facing financial stress through a restructuringscheme(without it resulting in downgradation of the asset as is the norm).

After board-level discussions on November 18, 2018, the first of these instructions were issue on January 1, 2019, valid up to March, 2020.

Restructuring

The special provision encouraging banks to offer restructuring to all eligible unitswas extended soon after the Covid-induced lockdown in April 2020, and now in the wake of the second wave impact, again up to September 30, under the Covid2.0 resolution framework.

Coupled with the Modi government's Emergency Credit Line Guarantee Scheme, increased from ₹3- lakh crore to ₹4.5-lakh crore last week, the attempt is to ensure that money is available to all eligible units.

The RBI has also been supporting the liquidity requirements of banks by giving three-year money under its Long Term Repo Operations. Consequently, the average daily liquidity in the system is of ₹4 lakh crore.

Enough cheap money to go around, the government stepping in to guarantee loans, the regulator permitting a liberal restructuring of debt – banks cannot ask for more to support MSMEs and negotiate their cash flow problems.

What needs to be done?

So what are the practical steps to be taken up by banks? The following could be a 10-point template for this process. 1) Considering that the only condition stipulated by RBI is that the maximum moratorium as part of the restructuring should not exceed 2 years, a liberal restructuring scheme should be implemented forthwith.

2) The primary skill needed will be the ability to take a call on the intrinsic viability of the business and whether with support, the business will survive.

3) While all efforts are worth taking to keep the business afloat, in the very rare cases where the borrower is seen as unable to carry on activities even with additional support, it is better to take a decision early not to support. One of the fundamental principles of credit is that a 'no' today is often better than a 'yes' five/six months later.

4) The RBI has advised that the process of restructuring should be implemented and completed within 90 days of application by the borrower.

5) The usual tool kit of restructuring like conversion of erosion of working capital loan into a Working Capital Term Loan, conversion of unpaid interest into a Funded Interest Term Loan, rephasement of unpaid Term Loan instalment, additional need-based working capital loans, a term loan for meeting further cash losses for one year, and reduction in interest rates, along with moratorium on all repayments, should be extended to all requiring this assistance.

6) There may be need to conduct crash courses for loan officers as the average ticket size of the loans requiring recasting will be low and there will be knowledge/skill gaps at those levels. Terms like WCTL/FITL/Dimunition in Fair Value (a key factor in restructuring) and the Right of Recompense may be alien to many officials.

7) There is need to advertise and publicise this restructuring facility. Many borrowers and, sometimes branch officials, may not be aware of the scheme, its import and intent.

8) There will be requirement for hand holding by Chartered Accountants in preparing reasonable projections so that these units do not end up in another cul de sac again. Most often, banks do not receive the detailed workings required to put up restructuring proposals.

9) Often, it is found that date-keeping of the process is not proper. Borrowers need to be aware of their rights too as per RBI directions.

10) The RBI has instructed that “a register/ electronic record should be maintained by the bank wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc. should be recorded. Banks should provide acknowledgement for loan applications received under priority sector loans”. This will apply to all restructuring requests, too.

11) It may be a good idea to build in the provision for sanction of a ‘Standby Cashflow Mismatch Credit Facility’ (with suitable margin stipulations) as part of all fresh loans both for working capital and term loans initially itself – akin to a proxy Debt Service Reserve – as most often, after a loan account has started exhibiting signs of stress, no officer wants to recommend/sanction additional finance for fear of being pulled up in accountability studies later on.

12) Declining of any credit facility, whether fresh or for rephasement, should be only with the approval of the next higher authority in banks.

These 10 points could form the basis for a genuine and whole-hearted approach to support MSMEs.
MSMEs represent entrepreneurship at its best and are our Swadeshi Start-ups. Indeed, the Union government has done well in now including retail and wholesale trade as part of MSMEs for priority sector lending. An

executive order of the government of India in 2017 had excluded trade from MSMEs.

Clearly, a liquidity problem is bugging most MSME units now. We owe it to our next generation to tune our collective approach to value-preservation and not value-negation of these entrepreneurs. It is worth remembering that today's MRF started as a toy-balloon manufacturing unit in 1946. That is the promise and the prospect MSMEs hold.

Source: thehindubusinessline.com– July 05, 2021

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Industry bodies raise concerns over draft e-commerce rules

Industry bodies such as the Indo-American Chamber of Commerce (IACC) have raised concerns regarding the proposed amendments in the Consumer Protection E-commerce Rules 2020. In a letter written to the Consumer Affairs Ministry, the IACC has said that the proposed amendments will lead to multiplicity of regulations, increase compliance liabilities and can risk severely impairing the growth of the e-commerce sector.

Industry bodies such as CII, FICCI and Assocham, in a virtual meeting on Saturday, had sought more time to give their recommendations on the proposed amendments on the Consumer Protection E-Commerce Rules 2020. Sources said that the industry chambers will also be making written submissions in this regard to the Ministry.

According to sources, in a letter sent to the Ministry giving its feedback on the draft e-commerce rules, IACC has urged the Ministry to reconsider several provisions including those related to “fallback liabilities” and “flash sales”.

Stating that e-commerce firms are already registered with the Ministry of Corporate Affairs, the industry body believes that the proposed provision of mandatory registration by e-commerce firms with the Department of Promotion of Industry and Internal Trade (DPIIT) will lead to a dual registration process leading to additional burden for e-commerce firms.

“Lack of categorisation regarding what constitutes an e-commerce entity poses the same burden to a small retailer with an online presence to that of a very large platform. In its present form even logistics players ...may be considered as e-commerce entities,” it said. Stating that the categorisation needs to be defined better, it added that instead of stringent definitions, light touch regulations is a better approach to take.

The Ministry has proposed to prohibit certain kinds of online flash sales. It also said that “ambiguous” definitions of flash sales may lead to inconsistent application of the rules “opening the door for discretionary action” and defeats the premise of a level playing field between online and offline retail. “If the intent of these provisions is to dispel allegedly predatory or discriminatory market activities, this is already covered in the Companies Act 2002,” the IACC pointed out in its letter sent late last week.

On the issue of fallback liabilities on e-commerce entities, the industry body said the liability should be placed on the seller considering that in a marketplace model, e-commerce entities do not hold any control over inventory.

IACC also said that any regulatory action should not stifle the growth of the e-commerce sector as it could not only hurt the interest of consumers but also of small sellers, retailers, logistics providers and other stakeholders reliant on the sector for the livelihood.

Source: thehindubusinessline.com – July 05, 2021

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Regulating e-commerce

The e-commerce industry has played a critical role in the pandemic, not only in reaching essential goods and services to consumers, but also in helping businesses distribute their output. Besides providing consumers with convenience, better choice and price, the sector is also a big employer, expected to record employment growth of over 20 per cent over the next few years.

The proposal to amend the Consumer Protection (e-commerce) Rules, 2020 is therefore welcome, as it shows that the Centre is paying close attention to the activities in this segment. But, while some of the suggested proposals will help improve supervision in the segment, others could hamper the e-commerce players with unnecessarily high compliance burden. Given the prominent part that these entities play in the economy by improving the reach of sellers and giving consumers choice and best prices, there is need for stable and equitable regulations.

The proposed amendments are ostensibly due to complaints from consumers and trader associations of cheating and unfair trade practices by market place e-commerce entities. The draft states that these entities "manipulate search results to promote certain sellers, give preferential treatment to some sellers, impinging on free choice on consumers." But such marketing strategies that nudge customers to behave in a certain way, are employed by both off-line and online retail businesses; singling out online retail alone for imposing restrictions does not appear fair.

Similarly imposing ban on flash sales wherein the seller does not carry an inventory and sources it from another seller is also not a good idea as these sales help the producers offload their products quickly and helps consumers get the product of their choice at a good price.

The proposal to prevent e-commerce platforms from selling products of other manufacturers under their label is likely to hurt a number of small manufacturers who are able to derive the benefit of the e-commerce market place's brand name. Some of the proposals such as asking e-commerce market places offering imported goods to suggest alternatives from domestic manufacturers will increase the cost of operations of these players.

A few proposals however, appear sound as they will make regulations of these entities easier. For instance, appointment of Chief Compliance Officer to coordinate with regulators and a resident grievance officer to address consumer complaints will improve coordination between these platforms and the regulators and consumers.

But such positions can be limited to larger e-commerce market places, with turnover above a specified threshold, which account for bulk of the transactions in the country. This will ensure that smaller players do not face undue compliance burden. Similarly asking all e-commerce entities to register with the Department for Promotion of Industry and Internal Trade will help in bringing better accountability; monitoring of these entities can also improve.

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Cotton, paddy, redgram gain in Telangana

Encouraged by copious monsoon rains and comfortable water levels in various irrigation projects, farmers have kicked off the kharif sowings on a promising note. Cotton seems to be the biggest gainer, followed by paddy, redgram and soyabean.

According to the latest figures available, farmers have sown cotton in 26 lakh acres as against the as-on-date area of 18 lakh acres last year, showing an additional interest in farmers to grow the crop that is projected to have good demand in the domestic and international markets.

While redgram is sown in 3.18 lakh acres so far, which is one lakh acres more than the area sown the same day last year, soya is sown in 1.95 lakh acres so far (1.66 lakh acres last year). Maize is sown in 1.04 lakh acres so far as against 1.26 lakh acres sown the same day last year.

Telangana Chief Minister K Chandrashekar Rao recently asked the farmers to increase the area of cotton to at least 70 lakh acres (from over 60 lakh acres last year) as the commodity had good demand in the market. He also wanted them to reduce the excessive focus on paddy, while increase the acreage of crops like redgram that have good demand.

"It is likely that cotton will cross the 70-lakh acre mark this kharif. Soya too is likely to gain," S Malla Reddy, Vice-President of All-India Kisan Sabha (AIKS), told BusinessLine.

Challenges

He said the farmers are beset with several challenges. "With the loan-waiver payouts to the banks are getting delayed, the farmers are not able to get access to bank loans. Moreover, only 40 lakh farmers out of the total 60 lakh farmers in the State are able to get loans from banks," he said.

The remaining farmers are being forced to depend on private lenders at exorbitant interest rates. He alleged that the banks are not following a Reserve Bank of India directive that mandated them to give loans to at least 100 near customers every year.

The problem of spurious seeds also poses a serious challenge. “The Government have booked over 250 cases against those who are selling spurious seeds. But no action has been taken,” he alleged.

Additional acreage

With the State augmenting irrigation sources, the total cropped area in the State has reached 1.35 crore acres, prompting the farmers to grow water-intensive paddy in vast stretches. The fact the Telangana’s paddy production topped 3 crore tonnes last year, which is nearly five times more than the State’s paddy output five years ago.

In the just concluded Rabi season, the Civil Supplies Department had procured a record 91 lakh tonnes. Seeing a glut in the market and poor demand in neighbouring States, the Chief Minister asked the farmers to cut the paddy acreage and increase the focus on cotton and pulses.

Going by the initial reports, cotton is going to gain significantly. “But it is unlikely that the farmers will cut down on paddy area. Assured irrigation facilities and income through procurement process will continue to encourage farmers to grow paddy,” a farmer’s leader said.

The cotton area, which used to be around 42 lakh acres three years ago, continues to grow in the State. The area went up to 54 lakh acres in 2019 and 60 lakh acres in 20120.

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