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# IBTEX No. 90 of 2018 May 03, 2018

USD 66.66| EUR 79.84 | GBP 90.63 | JPY 0.61

## Cotton Market

**Spot Price ( Ex. Gin), 28.50-29 mm**

| Rs./Bale | Rs./Candy | USD Cent/lb |
|---|---|---|
| 19601 | 41000 | **78.45** |

**Domestic Futures Price (Ex. Gin), May**

| Rs./Bale | Rs./Candy | USD Cent/lb |
|---|---|---|
| 20850 | 43613 | **83.45** |

**International Futures Price**

| | |
|---|---|
| NY ICE USD Cents/lb ( July 2018) | 84.68 |
| ZCE Cotton: Yuan/MT ( May 2018) | 14,995 |
| ZCE Cotton: USD Cents/lb | **91.24** |
| **Cotlook A Index – Physical** | **90.7** |

**Cotton guide:** The range of 81 to 85 has not been broken yet on a daily closing basis though it always tries to move out of it. On Wednesday the ICE July made an intraday high of 85.10 cents per pound but failed to hold onto the higher side and ended the session at 84.68 cents per pound.

The market is in the verge of breaking out of the range and possibly likely to make a new price band of 83 to 88 cents in the near term. In our previous day's report we had cited technical chart pattern formation which can either make or break the cotton price trend in the short term to become highly bullish or bearish. At this moment we are only eyeing on breaking cotton above 85 cents. A daily close above the same should convey a fresh upward movement.

As shown in the chart the trading volumes are fading on a daily basis that means no clarity and no major trigger in the market to carry out a clear trend on cotton.

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The price continues to trade in the same range for the past few weeks. In the case of aggregate open interests more or less it is steady while only a few thousands of additions are made in last few trading sessions. To be précised the aggregate OI has increased from 0.260 million contracts to 0.270 million contracts. However, we feel this is insufficient in the market. Unless any fresh trigger comes out market may continue to remain in the same range. --- The detailed report is available with Kotak Commodity Research desk. Please contact.

**Currency Guide:**

Indian rupee appreciated by 0.1% to trade near 66.6 levels against the US dollar. Rupee has benefitted from some correction in US dollar index post Fed decision. Fed kept interest rate unchanged but disappointed some market players by maintaining gradual rate hike stance. Also supporting rupee is RBI's move to ease rules for foreign investors. As per reports, RBI scrapped the three-year residual maturity requirement for purchases by global funds, and raised the cap for foreign ownership of any government security to 30% from 20%. Also supporting rupee is upbeat data. The Nikkei Manufacturing Purchasing Managers' Index rose to 51.6 last month from March's 51.0.

However, weighing on rupee are concerns about rising crude oil price and investor outflows. According to NSDL data, global funds cut rupee-debt holdings by 16.1 billion rupees on May 2. Also weighing on rupee is weakness in equity market as market players position for US-China trade talks. Rupee may witness choppy trade on mixed cues but overall bias remains weak in wake of higher crude price. USDINR may trade in a range of 66.4-66.75 and bias may be on the upside.

**Compiled By Kotak Commodities Research Desk , contact us : mailto:research@kotakcommodities.com, Source: Reuters, MCX, Market source**

## NEWS CLIPPINGS

| | INTERNATIONAL NEWS |
|---|---|
| **No** | **Topics** |
| 1 | Study Shows Tariffs Against China Would Destroy Thousands of American Jobs |
| 2 | USA: Textiles home decor market to cross $185,000 mn by 2027 |
| 3 | US slaps preliminary tariffs on PET from Brazil, Indonesia, S Korea, Pakistan, Taiwan |
| 4 | Sri Lanka: Apparel exports grow slow in 1Q18 |
| 5 | Pakistan wants to increase African trade via Kenya, says Pervaiz |
| 6 | Bangladesh tops China, India |
| 7 | Pakistan: Cotton price remains firm on demand for better grades |
| 8 | Brazil Agriculture minister vows new challenge to US cotton subsidies |
| 9 | Walmart to scale back in UK , Brazil, eyeing growth in India |
| 10 | Renegotiating NAFTAA new NAFTA may be agreed on soon |
| | **NATIONAL NEWS** |
| 1 | India must become globally competitive in manufacturing to boost merchandise exports |
| 2 | Centre hikes incentive rate for handicraft exports under MEIS |
| 3 | Subdued cotton prices may force farmers to move to soybean this kharif |
| 4 | With costs rising in China, Taiwanese firms eye India |
| 5 | Gujarat expo to connect local businesses with garment retail giants |
| 6 | PAT's path to energy efficiency |

# INTERNATIONAL NEWS

## Study Shows Tariffs Against China Would Destroy Thousands of American Jobs

The Trump administration's proposed tariffs on $50 billion of Chinese imports, coupled with retaliation promised by China, would reduce U.S. gross domestic product by nearly $3 billion and destroy 134,000 American jobs, according to a new study released today by the National Retail Federation and the Consumer Technology Association. The report finds that four jobs would be lost for every job gained.

"As administration officials prepare to head to China for trade talks, the livelihoods of American workers hang in the balance," NRF President and CEO Matthew Shay said.

"We hope this is the start of a serious negotiation process that leads to a more open Chinese market and protects U.S. jobs and economic growth. We must resolve this trade dispute without resorting to job-killing tariffs and retaliation."

The study warns that imposing tariffs on an additional $100 billion of Chinese imports would come at a significant cost to the U.S. economy, destroying 455,000 jobs and reducing GDP by $49 billion.

"Tariffs could wash away the benefits recent tax reform will have on the economy, bringing uncertainty to American businesses and devastation to some workers in key states – they might lose their jobs over a trade tax," CTA President and CEO Gary Shapiro said. "Rising costs on farmers, manufacturers and service providers isn't the answer; it shows protectionism will weaken America.

We are encouraged by Treasury Secretary Mnuchin and U.S. Trade Representative Robert Lighthizer's visit to China and wish them success addressing China's problematic trade barriers.

We believe it is best for the administration to seize on China's willingness to negotiate to achieve positive outcomes for U.S. workers, rather than via tariffs that ultimately harm us."

While the impact of the tariffs would be felt across various sectors of the U.S. economy, agriculture would be hit especially hard. The net income of farmers would decline by 6.7 percent, and 67,000 agriculture jobs would be lost. And the hit to farmers would more than double if the tariffs expanded to an additional $100 billion of products. Farmer income would drop by 15 percent, and jobs in the sector would decline by 181,000.

The study also details the employment impact of tariffs at the state level. The ten states that would suffer the highest job losses are California, Texas, Florida, Washington, New York, Georgia, Missouri, Pennsylvania, North Carolina and Ohio.

Another recent NRF and CTA study examined the consumer impact of proposed tariffs on television sets and other products from China. The study found that a TV made in China that costs American consumers $250 today would cost $308 after the tariffs are applied, an increase of 23 percent.

Source: businesswire.com- May 01, 2018

HOME

*****************

## USA: Textiles home decor market to cross $185,000 mn by 2027

The global market for home décor textiles is expected to record an impressive growth between 2018 and 2027. Growing consumer confidence, capacity expansions, social responsibility and sustainability trends, and a booming e-commerce sector will take revenues from worldwide sales of these textiles to over $ 185,000 million by 2027, according to a new report.

Asia-Pacific excluding Japan (APEJ) will continue to dominate the global textiles home décor market, says the report by market intelligence company Transparency Market Research (TMR). Countries in that category like China and India, have remained leading global exporters of home textiles.

Manufacturers and exporters of home textiles in India have recorded higher profit margins. The Chinese home textile industry is currently focusing more on garments business. Considering US home textile imports, China will continue to be dominant, with relatively larger number of shipments compared to other APEJ countries, says the report.

Bed linen is expected to be the most remunerative product in this market, with an estimated revenue share of over 33 per cent during 2018-2027. Demand for bed linen is likely to grow at a brisk pace, with a steady stream of opportunities expected to emerge in both developed and developing markets.

Sensing the lucrativeness of this segment, manufacturers are focusing on consolidating their position, the report says.

Prominent manufacturers are also focusing on increasing capacity and setting up new plants.

Welspun India opened a new plant in Anjar, Gujarat, recently and forayed into the flooring solutions segment.

Bombay Dyeing is focusing on a massive revamp of its home textile business by investing over $ 15 million.

However, a key challenge for stakeholders in this segment is the highly fragmented presence of unorganized players.

Indoor applications of home décor textiles are expected to account for bulk revenue share of the market. However, revenues from outdoor applications of home décor textiles will increase at a relatively higher compound annual growth rate till 2027, says the report.

The key companies underpinning expansion of the global home décor textiles market are Mannington Mills, Inc., Companhia de Tecidos Norte de Minas, Kurlon Enterprise Limited, American Textile Company, Inc., Leggett & Platt, Incorporated, Nitori Holdings Co., Ltd., Williams-Sonoma, Inc., Berkshire Hathaway Inc., Ashley Furniture Industries, Inc., Mohawk Industries, Inc., and Inter Ikea Systems B.V.

Source: fibre2fashion.com- May 02, 2018

HOME

*****************

# US slaps preliminary tariffs on PET from Brazil, Indonesia, S Korea, Pakistan, Taiwan

The US Department of Commerce will impose preliminary antidumping duties on polyethylene terephthalate imports from Brazil, Indonesia, South Korea, Pakistan and Taiwan, before making a final determination on the duties on September 17, it said Tuesday.

"As a result of today's [Tuesday's] decision, Commerce will instruct U.S. Customs and Border Protection (CBP) to collect cash deposits from importers of PET resin from Brazil, Indonesia, Korea, Pakistan, and Taiwan based on these preliminary rates," the department said in a statement.

For Brazil, M&G Polimeros Brasil faces 24.09% duty while Companhia Integrada Textil de Pernambuco has been hit with 226.91%. All other Brazilian producers and exporters face 93.60% duty.

For Indonesia, Indo-Rama Synthetics and other companies in the country face a duty of 13.16%.

For South Korea, the duties imposed are: SK Chemicals 8.81%, Lotte Chemical and TK Chemical 101.41% and all other companies there 8.81%.

For Pakistan, Novatex and all other domestic companies are hit with 7.75% duty.

For Taiwan, Far Eastern New Century, Far Eastern Textile and Worldwide Polychem (HK) face 11.89% duty while Shinkong Synthetic Fibers face 9.02%. All other Taiwanese companies would be hit by 10.99%.

In 2016, PET imports from Brazil totaled 58,397 mt, 35,420 mt from Indonesia, 26,133 mt from South Korea, 36,767 mt from Pakistan and 115,327 mt from Taiwan.

Source: platts.com- May 02, 2018

HOME

*****************

## Sri Lanka: Apparel exports grow slow in 1Q18

Sri Lanka's apparel exports grew at a slower pace than the industry expectation during the first quarter this year, recording a growth of 4.1 percent to reach US $ 1.269 billion, compared to the US $ 1.219 billion recorded in the first quarter of 2017, the latest apparel export data released by the Joint Apparel Association Forum (JAAF) indicated.

The apparel exports to the European Union (EU) grew by 5.2 percent year-on-year (YoY) to reach US $ 526 million, while the exports to the United States grew by 5.1 percent YoY to reach US $ 576 million in the first quarter of the year.

However, the exports to the EU slowed down during March, recording only a marginal growth of 0.5 percent YoY to reach US $ 191 million.

In contrast, the apparel exports to the United States grew significantly by 17.7 percent YoY to reach US $ 180 million as the Sri Lankan apparel exporters appear to be benefiting from the trade dispute between the US and China.

Speaking to Mirror Business, Sri Lanka Apparel Exporters' Association (SLAEA) Chairman Felix Fernando said: "The trade dispute between the U.S. and China is helping somewhat Sri Lankan apparel exports to the US. If we had a larger export capacity, it would have helped us in a bigger way."

The provisional custom data provided by the Export Development Board (EDB) showed that both apparel and textile exports during the first quarter of 2018 growing by four percent YoY to reach US $ 1,324 million from US $ 1,272 million recorded during the first quarter of 2017.

The apparel industry has targeted to achieve US $ 5.5 billion in apparel exports this year with a minimum 10 percent growth in exports to the EU countries.

However, Fernando noted that the export order quantities to the EU countries have drastically reduced this year and it will be more visible in export statistics in the coming months. Hence, he was doubtful in achieving the apparel exports target for 2018.

"There's a concern on the European markets due to the weather condition. Because of the long winter in Europe, the retail sector has slowed down as the long winters cause people to spend lesser time in shopping," he elaborated.

Fernando also pointed out that despite regaining the GSP Plus concession last year, most of the manufactures have not expanded their capacity and they have been unable to increase their capacity due to the lack of apparel workers in Sri Lanka.

Highlighting the main issues that hinder the apparel industry to reach its potential, Fernando said, "We have GSP Plus but on the other side, we also need to look whether we have increased the capacity.

That's another problem, which we need to look at. GSP Plus alone will not generate an automatic growth; the industry needs to work towards that, particularly in terms of automation and attracting more workers to the industry. A lot needs to be done."

He also emphasised that some manufactures are still engaged in manufacturing basic apparels despite the country gaining the GSP Plus concession last year.

"People who were making the basic T-shirts prior to GSP Plus are still manufacturing the same products. The industry is slowly progressing but a lot needs to be done," he added.

The competitive strengths of Sri Lanka's apparel industry are value addition, quality and on-time delivery. Therefore, Fernando insisted that Sri Lanka should market itself internationally basing on those strengths.

Source: dailymirror.lk- May 03, 2018

HOME

*****************

## Pakistan wants to increase African trade via Kenya, says Pervaiz

Federal Minister for Commerce and Textile Pervaiz Malik on Wednesday said that Pakistan wants to increase trade and economic cooperation with Kenya as it is the gateway to many African counties, where there is big demand for Pakistani goods.

In search of new potential markets, Pakistan had already launched ' Look to Africa' initiative in November 2017. Pakistan and Kenya Joint Ministerial Committee has been formed with this objective, he said while speaking at the first session of two-day 'Kenya Pakistan Trade and Investment Conference' here.

Led by Kenyan Cabinet Secretary, Foreign Affairs and International Trade, Dr Monica Jumma, the delegation included senior officers of trade related departments of Kenya and representatives of its private sector. The minister said it was common desire of both the countries to get socio-economic development through exchange of information and technologies, and sharing experiences in various fields.

He said that after detailed discussion at this conference, the both sides had agreed to form a Joint Trade Committee which would meet twice a year. First meeting would be held after two months in Narobi, the capital of Kenya.

The meeting would focus on products, tariff barriers and other issues relating to trade, he said. He said there was big potential for the bilateral trade and within next five years it would be increased to at least $1.25 billion. He said banking channel had been established. Habib Bank Limited had set up its branch in Nairobi.

Pakistan and Kenya had old cultural ties, which now required to be transformed into strong economic cooperation, he said adding that this two-day conference would provide opportunity for B2B meetings that would bring the two business communities closer. The bilateral trade and economic cooperation would increase in near future.

He said Pakistan was opening trade centers in Kenya and other African states.

Getting more access to new international markets for Pakistani goods through diversification and value-addition was essential to ensure better and sustained economic growth, he said.

To a question from media persons, the Federal Commerce Minister expressed his satisfaction that in the month of March 2018, the exports increased up to 24 percent and overall 14% increase was registered in last ten months.

The month of April would also show good export figures. More incentives were being given to exporters for boost to the exports.

Kenya's Cabinet Secretary for Foreign Affairs and International Trade Dr Monica Jumma, said Kenya was the first African country to engage in such a business-to-business and government-to-government contact through this two-day conference.

She asserted the important role of the private sectors in promoting bilateral trade and economic cooperation. The governments could only create environment and facilitate.

She told that before coming to Karachi, she had two-day stay in Islamabad. There, she had fruitful meetings with high authorities of different ministries including the Foreign Affairs.

He underlined the need for exchange of trainings and institutional research.

Pakistan could support Kenya in modernization of agriculture and in development of fishing sector. Food security was one the big challenges for her country, she said.

She praised Pakistan's role in peace-keeping efforts in the world and its frontline role in the war against terror.

Later, the minister visited Federation of Pakistan Chambers of Commerce and Industry and held a meeting with members of this apex trade body of the country.

United Businessmen Group chairman in FPCCI and former president FPCCI, SM Muneer, FPCCI Senior Vice President Syed Mazhar Ali Nasir welcomed the minister.

FPCCI Vice Presidents Tariq Haleem, Zahid Saeed and Saeeda Bano, former vice presidents Dr Mirza Ikhtiar Baig and Gulazar Feroz were also present.

The minister listened to the trade related issues raised by FPCCI members and assured full cooperation and support for their resolution.

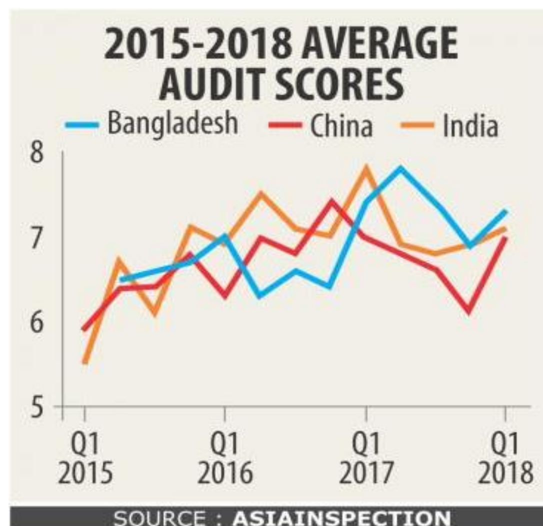
Source: nation.com.pk- May 03, 2018

HOME

*****************

## Bangladesh tops China, India

Bangladesh overtook China and India in ethical compliance in apparel segment on the back of improved workplace safety following pressure from international inspection and remediation agencies, according to a new survey.




"In particular, ethical scores in Bangladesh rose by an average of 15 percent during the past 12 months," said AsiaInspection in its first quarterly report of 2018 released last month.

This was likely reflecting the continuous pressure to improve put on Bangladesh's textile and apparel manufacturers by the industry groups formed after the Rana Plaza collapse in 2013, it added.

Hong Kong-based AsiaInspection is a global leading quality control and compliance service provider that partners with brands, retailers, and importers around the world to secure, manage and optimise their supply chain.

Particularly, after the collapse, there is no scope to run businesses without ensuring quality and ethics, said Mahmud Hasan Khan, vice president of Bangladesh Garment Manufacturers and Exporters Association, while commenting on the survey.

This is because all renowned retailers and brands such as H&M, C&A, Walmart, Marks & Spencer and JC Penney source from Bangladesh in bulk, he told The Daily Star.

More than 80 percent of the garment business is run through strategic partnerships with renowned brands, according to Khan.

He said if any kind of unethical and non-compliant things are found in the supply chain of global apparel business, retailers and brands have to explain it to their customers.

Every form of compliance related to social and environmental issues, production, workers' welfare, workhour and working conditions is maintained in the supply chain, the BGMEA leader said.

“It is not possible to do business unethically now,” he said.

After the Rana Plaza collapse, two platforms were formed: the Accord, the platform of about 200 European retailers, and the Alliance, an agency of 28 North American retailers.

About 90 percent of the inspection and remediation of about 2,200 active garment factories affiliated with the Accord and Alliance have been completed.

Besides, 1,500 small and medium-sized garment factories are being inspected and monitored by the government.

The survey report—Q2 2018 Barometer: China unfazed by global trade stand-off, supply chains face new ethical concerns—is a synopsis of outsourced manufacturing and the quality control services industry.

Overall ethical audit scores in the first quarter offer some hope for improvement after a disappointing performance last year when there was a lower number of critically noncompliant factories.

“Time will show whether this quarter's data represents a positive turnaround, with lasting improvement hinging on regular follow-up and timely corrective action,” said the report.

Ethical scores by industry remain disparate, with homeware in the lead with an average score of 8.3 out of 10, and compliance in body care and accessories sectors continuing last year's downward trend.

“Meanwhile, audit scores of textile and apparel manufacturers have been rising since mid-2017, indicating that long-term improvement efforts may be finally bearing fruit.”

Nevertheless, AsiaInspection data showed that factories are still plagued by health and safety issues, which were ranked the most pressing concerns in the first quarter, taking over working hours and wage compliance.

AsiaInspection is seeing strong demand for environmental audits, especially in China where brands and manufacturers struggle to comply with the new antipollution laws.

Pollution and waste management accounted for more than 80 percent of non-compliance found by AsiaInspection in the quarter, with more than two-thirds of them classified as major.

Source: thedailystar.net- May 03, 2018

HOME

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## Pakistan: Cotton price remains firm on demand for better grades

Buyers at leading stations in Sindh and Punjab stations during trading session bought better grades of lint on premium price besides buyers also made one-month forward deals for better grade of lint.

The Karachi Cotton Association (KCA) spot rate remained firm at Rs 7.400 per maund. The buyers also consolidated their long positions by making deals for better grade of lint.

Around 1,200 bales changed hands while fine quality cotton fetched higher price around at Rs 7,725 per maund.

The sellers withholding better lots of lint remained on front foot and buyers brought better stocks of old crop on higher price in the market. Price fixation of cottonseed stood higher by Rs 125 per maund to Rs 3,375 per maund on average.

They are looking at cottonseed price and shrinking better stocks coupled with growing demand that have provided them opportunity to ask higher price.

Demand for second grade of lint remained on higher side for blending purpose.

More than 100,000 bales of cottonseed is left, however the prices are firm and there seems no immediate selling panic in the market.

Garment and spinning export sector is in need of better input so it remained eager for better grade of lint on the back of growing demand of yarn and cloth.

The physical market prices would remain around at Rs 6,975 per maund to Rs 7,775 per maund. Some ready market deals also changed hands below KCA's prevailing spot rate during the trading session.

According to KCA, 200 bales of southern Punjab changed hands at Rs 7,275 per maund, 200 bales of Rahimyar Khan at Rs 7,200 per maund and 200 bales of upper Sindh changed hands at Rs 7,025 per maund.

Last night New York futures market May 2018 closed at 84.27 cents per pound while July futures 2018 closed at 84.36 cents per pound. Cotlook A Index closed at 91 cents per pound.

Source: dailytimes.com.pk- May 03, 2018

HOME

*****************

## Brazil Agriculture minister vows new challenge to US cotton subsidies

Brazil is preparing to challenge the U.S. again at the World Trade Organization over cotton subsidies, Agriculture Minister Blairo Maggi said in an interview.

“There’s going to be another (WTO challenge),” said Maggi, who sat down to talk with Agri-Pulse in his eighth-floor office at the Brazilian Agriculture Ministry in the country’s capital city of Brasilia.

That could be bad news for U.S. cotton farmers, who saw much of their government safety net torn down more than a decade ago after Brazil won a long and complicated WTO dispute. Brazil successfully argued then that the USDA-run programs gave U.S. farmers and exporters an unfair advantage on the international market.

Now Brazil is getting ready to make the same argument for the new support program for cotton farmers that was approved by Congress as part of fiscal year 2018 omnibus spending package.

But another success for the Brazilians is far from certain.

“We’ve reviewed this program and are confident it doesn’t violate WTO rules," a U.S. government official told Agri-Pulse.

A spokesman for the National Cotton Council declined to comment for this story.

Brazil first filed its complaint at the WTO against U.S. cotton support programs in 2002 and eventually won the suit. Brazil had claimed that the U.S. subsidies hurt Brazilian exports, and in 2006 the U.S. shut down its Step

2 cotton program and other support programs to comply with the WTO ruling. The USDA paid out hundreds of millions of dollars under Step 2 each year to mills and exporters when high U.S. prices threatened to keep U.S. exports out of foreign markets.

Congress created special marketing loans for cotton farmers in the 2008 farm bill, called "economic adjustment assistance," but the program was limited to payments that helped farmers improve or expand their existing operations.

Lawmakers created the stacked income protection plan (STAX) in the 2014 farm bill, but cotton farmers were disappointed in the results. STAX was essentially another form of crop insurance that complemented traditional policies.

The new "seed cotton" program, approved by Congress this year in the omnibus spending bill, was designed to help struggling U.S. cotton farmers by making seed cotton eligible for the Price Loss Coverage program at a reference price of 36.7 cents per pound. Seed cotton is unginned cotton that includes the seed, which is used for animal feed and cooking oil, as well as the fiber.

Industry representative and lawmakers say the support program, which the Congressional Budget Office says will pay out about $300 million per year, will be easier to defend because of the way the program is designed and because the economics of the global cotton market have changed significantly since 2002. China has a much larger impact on world cotton prices now than it did in 2002, industry officials say.

Maggi disagrees. The new support for U.S. farmers will put Brazilian farmers at a disadvantage and Brazil "won't have any alternative" but to file another complaint with the WTO, he said.

Dan Sumner, a University of California-Davis economist, told Agri-Pulse earlier this year that the new support program does make the U.S. vulnerable to another Brazilian challenge.

Source: agri-pulse.com- May 02, 2018

HOME

*****************

# Walmart to scale back in UK , Brazil, eyeing growth in India

The world's biggest retailer has concluded it can't take on the whole world by itself. Walmart is in discussions to give up control over hundreds of stores in the U.K. and Brazil, two big markets where it has struggled for years, according to people familiar with the talks.

At the same time, it is preparing to pour billions of dollars into an Indian e-commerce startup to crack a promising market that has long eluded the U.S. giant.

The moves underscore Walmart's renewed focus on catching up with competitors, ranging from grocer Aldi to Amazon, in key international markets. The retailer's underperforming international business contributed less than a quarter to its total revenue of $500.3 billion in fiscal 2018.

Walmart's international woes have been exacerbated by slow decision-making over the years and even initial talks with India's Flipkart began as far back as 2016.

Walmart initially entered the Indian market in 2007 through a joint venture with India's Bharti Enterprises, years before Amazon debuted there. That joint venture was called off in 2013 and its presence in India has remained largely static since then, at least in part due to restrictions around foreign investment in physical retail in India.

Meanwhile, Amazon jumped in with a less regulated online marketplace offering, retail consultants and investors. Amazon now holds about 27 per cent of India's burgeoning e-commerce market, according to Euromonitor, where Walmart remains a footnote and only operates 21 cash-and-carry wholesale stores in the country that sell to businesses.

Source: fashionatingworld.com- May 02, 2018

HOME

*****************

## Renegotiating NAFTAA new NAFTA may be agreed on soon

One year ago, a member of President Donald Trump's administration drafted a short executive order to withdraw America from the North American Free-Trade Agreement (NAFTA), a trade deal with Canada and Mexico. The obvious interpretation was that Mr Trump was irresponsibly bullying the Mexicans and Canadians into giving America better terms.

A kinder view held that he was aiming at a domestic audience. Congress was dragging its feet at the time over the confirmation of Robert Lighthizer, the president's chosen trade negotiator. Mr Trump's threats were a way to kick it into action.

One year on, with Mr Lighthizer long since in place, America's attitude to NAFTA seems no less hostile. Its threat of withdrawal still hangs over the talks, and in March Mr Trump waved the stick of tariffs on steel and aluminium in case a deal to revise NAFTA could not be reached by May 1st. This tough talk may yield an agreement within the next few weeks. Negotiators are working intensively in Washington, DC, with instructions to be available until May 4th. (Even after an agreement in principle is reached, it could take a little while longer to finalise all the details.)

The details of any deal would bear the scars of hard negotiations. Mr Lighthizer has demanded that a new NAFTA expire automatically after five years and wants to weaken a clause that allows members to dispute emergency tariffs imposed by their partners. If his team prevails, the revised pact would be a step away from the integrated North American economy that the original deal was supposed to foster.

Mr Lighthizer's team has also demanded that NAFTA be stripped of provisions that allow investors to sue governments if they are denied "fair and equitable treatment".

He reckons that claims against the American government should be tried in American courts, and that offering legal protection for American firms abroad underwrites the outsourcing of jobs. The Canadians and Mexicans, not to mention some senior Republicans, all disagree.

These proposals could yet be dropped. It seems more certain that a new deal will contain tighter "rules of origin" for cars, which specify how much North American content a car must have for it to qualify for zero tariffs. The Americans' latest proposal is to raise the requirement from 62.5% to 75%. Although this is lower than their original demand of 85%, it could still cause disruption as car companies either reconfigure their supply chains or suck up non-NAFTA tariffs.

A related idea, to give carmakers credit towards the content requirement if they use parts made by workers earning more than a specified wage, would find support among those who worry that free-trade deals typically encourage a race to the bottom. But it would find opponents too, mostly from Mexicans who might see it as a way of favouring American and Canadian workers at their expense, and from the car companies forced to comply.

Yet the true costs of the Trump administration's aggressive approach may show up as the three members try to move from a deal in principle to a deal in practice. Each member must have the agreement approved by its legislature. That will be more difficult if Mr Trump continues to treat NAFTA as a zero-sum pact (even if Mr Lighthizer recognises publicly that all three sides must gain).

That said, in Canada winning a vote should be fairly straightforward, given the governing party's parliamentary majority. And although some have worried that Andrés Manuel López Obrador, the left-leaning front-runner in Mexico's presidential race, will try to renegotiate if he wins, his pick for economy minister said on April 18th that Mr López Obrador would respect a deal struck before the election.

Oddly, America's Congress may prove trickier. There is precious little chance of putting a deal before legislators before the mid-term elections on November 6th, and none of forcing them to vote on a deal in their final session if they are reluctant to do so.

Securing votes in a lame-duck session after the election might require enticing members of Congress with special provisions to their liking, perhaps on intellectual property or agricultural markets. But those are precisely the sorts of provisions that could be ditched by negotiators in the interest of concluding a quick deal. Republicans will not like a deal that strips out the investor-state dispute-settlement rules, or has an expiry date.

Rather than courting centrist Democrats or Republicans of the sort who might have voted for the Trans-Pacific Partnership, a trade agreement from which Mr Trump withdrew as soon as he took office, Mr Lighthizer has been engaging more with left-wing Democrats and trade unions. This is a risky strategy, as these groups may still be unsatisfied by whatever labour standards Mr Lighthizer can negotiate and be wary of the political costs of associating with Mr Trump.

Mr Trump could revisit his threat of a year ago to withdraw from NAFTA, a step Mr Lighthizer reportedly favours. Presented with an alternative of no deal, that could force Congress to approve the new version. But Congress could also fight back, either by reversing any American tariff increases or by inserting "riders" in other bits of legislation to strip Mr Lighthizer's department of funding to implement the NAFTA withdrawal. Whatever happens, agreement in principle is only the first part of the fight.

Source: financialexpress.com- May 03, 2018

HOME

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## NATIONAL NEWS

# India must become globally competitive in manufacturing to boost merchandise exports

As the government never fails to point out, India is the fastest growing major economy, and expects to grow even faster in the coming years. It has liked talking about record FDI inflows, and how India is one of the most attractive investment destinations. What it doesn't like talking about is its dismal track record on merchandise exports.

In 2013/14, India's merchandise exports stood at $314.4 billion. In the next year, it fell to $310.3 billion. And the next year, 2015/16 saw a further fall to $262.3 billion before it improved marginally to $275.9 billion in 2016/17. This financial year, it has clocked $302 billion, which is still lower than what it was four years ago.

Some bit of the export drop can be blamed on falling crude prices. Petroleum products including high speed diesel forms a biggish chunk of Indian exports, and when crude prices fall, so do exports.

But beyond that, India's merchandise exports are still in gems and jewellery, agriculture & allied, textiles, chemicals and transport equipment and machinery and base metals. Of these, exports of gems & jewellery, transport equipment and textiles actually fell in the current year.

In the past two years, India has not been able to take advantage of rising world trade. The disruptions caused by demonetisation first, and later the hiccups during the roll out of GST, have been blamed for hitting small exporters in a number of sectors.

The bigger problem though, in my opinion, is India's failure to get become globally competitive in manufacturing. So far, most countries that have grown rapidly have depended on globally competitive manufacturing to power them to high growth.

In Asia, especially, Japan showed the way initially when its manufacturing techniques powered it to become a global manufacturing powerhouse in sectors ranging from autos, to consumer durables to imaging.

Later the Asian Tigers, especially Taiwan and South Korea grew rapidly because of their engineering and manufacturing competitiveness. Then came the rise of China, which became the production base for all sorts of products from steel to solar panels, and from mobile phones to computers.

India has never managed to get its manufacturing act right despite many tries. At different times, the reasons proffered have ranged from higher raw material and electricity costs, low productivity of labour, difficulties in setting up greenfield factories because of land acquisition and government clearances, and other sundry reasons.

The problem has always been that India has always been proud of its small and medium industries and the jobs it created. For a long time, a range of products were reserved for the SME sector.

Thankfully that reservation has gone now, but the natural inclination to look tilt on the side of SMEs and not large scale manufacturing has remained. Even this government continues that mindset probably because of the assumption that SMEs will continue to create more jobs than bigger manufacturers.

There are multiple problems with that assumption. SMEs are generally not globally competitive when it comes to production of high value products. Economies of scale and productivity problems plague them.

But merchandise exports will not go up unless the products are globally competitive and can take a bite out of the global market. And that is where the policy makers need to focus on when they unveil the new industrial policy, which has been in the works for some time.

Focusing on giving benefit packages for exporters in textiles, and other such sectors will not make India a big merchandise exporter. And that is something this government will have to keep in mind when it finalises the policy.

Source: businesstoday.in- May 02, 2018

HOME

*****************

# Centre hikes incentive rate for handicraft exports under MEIS

Spelling relief for handicraft exporters struggling to cope with competition in the global market, the government has enhanced support to the sector under the popular merchandise export from India scheme (MEIS).

The office of the Directorate General of Foreign Trade (DGFT) has increased the rate of incentive under MEIS to 7 per cent from 5 per cent for a number of handicraft items, according to an official release.

"The items include attars, candles, jewellery boxes, wooden frames, statues, handmade paper, handmade lace, shawls, scarves, Kohlapuri chappals, bangles, glass artware and articles of brass and aluminium," the release said.

Under the MEIS scheme, exporters are given duty- free scrips equivalent to a given percentage of the value of their exports which can be used to import inputs duty-free and are also freely transferable in the market.

While the MEIS rates for a number of handicraft items was increased by 2 per cent in the mid-term review of the Foreign Trade Policy 2015-20 in December 2017, there were a number of items that were left out. The latest enhancement in rates seeks to cover the items that were left out when the rates were enhanced in December 2017.

Exports of handicrafts declined 9 per cent in 2017-18 to $11.75 billion compared to $12.91 billion in 2016-17, according to data from the Commerce and Industry Ministry. The move will also help in baling out exporters suffering from a cash crunch due to stuck refunds of the Goods and Services Tax (GST).

The Export Promotion Council for Handicrafts (EPCH) Chairman OP Prahladka said the enhancement in MEIS rates will help handicraft exporters to recover some of the input costs involved in production of handicrafts and would also encourage them to have competitive pricing, which could boost exports.

Source: thehindubusinessline.com- May 03, 2018

HOME

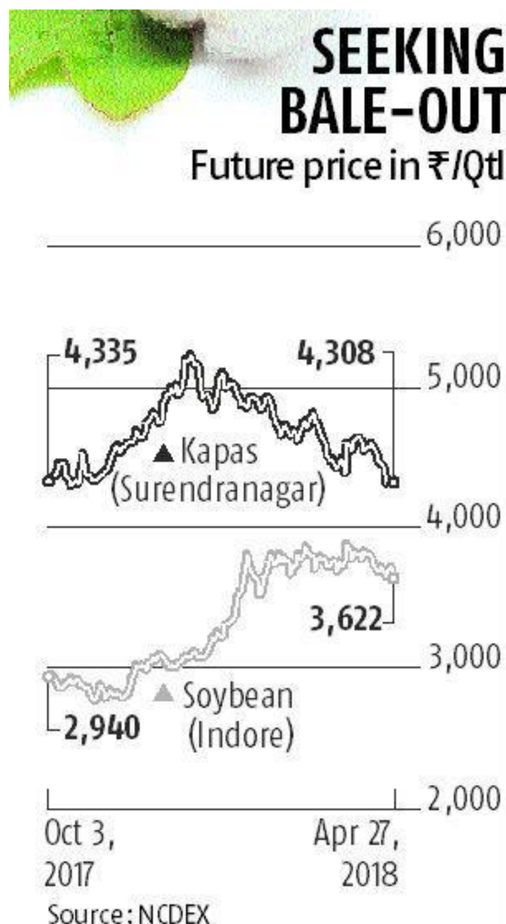
*****************

## Subdued cotton prices may force farmers to move to soybean this kharif

Many cotton farmers are reportedly looking to shift to soybean during the coming kharif sowing season, as the oilseed fetched a better return last year.

During most of the 2017-18 cotton season (July 1 to June 30), prices have, barring a couple of short-term ripples, remained lower than the minimum support price (MSP) fixed by the government.

It was only towards the end of the supply season, that prices moved above the MSP of Rs 4,020 a quintal for medium staple and Rs 4,320 a qtl for long staple in the Gujarat spot market, thanks to aggressive procurement by government-owned Cotton Corporation of India (CCI).




In contrast, soybean is trading at a 25 per cent premium to the MSP, after initially slipping below the government's threshold procurement price of Rs 2,850 a qtl. The government recently raised the import duty on edible oils to enable a price increase in oilseeds and edible oils.

"We expect at least 15 per cent of cotton farmers shifting towards soybean this kharif season, for better realisation," said Atul Chaturvedi, chief executive at Adani Wilmar, producers of the 'Fortune' brand of edible oil.

Cotton farmers had a bad experience last year, especially in Maharashtra, due to an attack by the pink bollworm on the standing crop. Around a third of the 4.2 million ha under cotton in Maharashtra was hit by this.

Even so, India's total supply is estimated to be nearly 400,000 bales (a bale is 170 kg) higher at 44.18 million bales for 2017-18, than the estimated demand of 40.1 mn bales, according to the first Cotton Advisory Board meeting.

"Cotton farmers are looking to shift to more remunerative crops not only in Maharashtra but also in Telangana and Andhra Pradesh. Soybean is set to gain at least 12-15 per cent in acreage, primarily from cotton, this kharif season," said Atul Ganatra, spokesperson, Shree Radhalakshmi Cotton, a trading and exporting entity here.

Currently Rs 4,700-5,500 a qtl, cotton prices moved up during the past month when export demand emerged suddenly from Bangladesh, China and Pakistan. However, farmers in general had already sold their entire stock and did not benefit.

Earlier, prompted by falling prices, CCI bought a record amount of 1.2 mn bales this year, compared to only 150,000 bales last year.

Soybean is now at Rs 3,738 a qtl at the benchmark Gujarat mandi, about 23 per cent higher than its MSP of Rs 3,050 a quintal (including Rs 200 as bonus).

In March, the central government raised the import duty on crude palm oil (CPO) and refined oil (refined, bleached and deodorised or RBD palmolein) to 44 per cent and 54 per cent, from the earlier 30 per cent and 40 per cent, respectively.

With this third such increase in the past seven months, the basic import duty has increased by almost sixfold on CPO and fourfold on RBD palmolein.

Before the first such increase in August 2017, the basic import duty on CPO and RBD palmolein stood at 7.5 per cent and 15 per cent, respectively. Over and above, a 10 per cent social welfare cess is also levied on the basic import tax.

The effective import duty on edible oil, however, is much lower than the one demanded by the industry of 70 per cent on CPO and 55 per cent on RBD palmolein, with 15 per cent of differential duty.

Source: business-standard.com- Apr 30, 2018

HOME

*****************

## With costs rising in China, Taiwanese firms eye India

The US-China trade war and the economic impact of China's debt (at about 250 per cent of its GDP) may prompt Taiwanese companies based in industrialised, coastal China to move out to South East Asia and the US. In this context, India is also a destination.

Da-ching Yang, Senior Executive Officer, Office of Trade Negotiations, Executive Yuan, told Businessline, that Taiwanese firms were seeking a climate of looser regulations, with China clamping down on air pollution. Labour and environmental costs were on the rise in China, he said. "This could prompt Taiwanese firms to move to South East Asia, the US and even the western part of China," he said. "They are not interested in moving back to Taiwan," he said.

### Interest in India

James Hwang, Chairman of the Taiwan External Trade Development Council (TAITRA), said that the earlier focus on South East Asia would now be supplemented by an interest in India "as a constructive partner in the next 20-30 years." He spelt out smart cities, electric vehicles and petrochemicals as areas of investment interest. "India needs a sophisticated petrochemicals industry," James said, adding that on the Indian side, the Tatas were keen to invest in Taiwan. "Food processing industries were in discussions with TAITRA about projects in India," James said.

Citing the fact that India's bilateral trade with Taiwan was $6.7 billion in 2017 comprising $3.3 billion exports to India and about $3 billion in imports, James said that a 15-16 per cent increase in bilateral trade was being targeted in 2018. India has received an FDI of over $5 billion from Taiwan, the bulk of it from Foxconn, an IT and electronics manufacturing company. Taiwan seeks to showcase its expertise in auto parts for electric vehicles, medical equipment and food processing in a trade expo to be held on May 17-19 in New Delhi. "An FTA with India has also been a subject of discussion," James said.

Meanwhile, Da-Ching said that China's debt may lead to a slow decline, rather than a crash, since it remained a state-controlled economy. As a response to this and China's emerging policy concerns, Taiwan would focus on sectors such as green energy and recycling of industrial waste, besides its

bicycles industry, he said. ICT jobs in China, he said, could be "shipped out to US and Europe."

Taiwan is also keen to be a partner in the Trans-Pacific Partnership, "a high standard FTA with a focus on labour standards, IPRs and environmental services,", James said.

**China's influence**

China's share in Taiwan's exports have risen from 23 per cent in the mid-1990s and late-1990s to about 40 per cent at present. Meanwhile, China's imports from Taiwan have fallen from 11 per cent of its total imports in 2005 to about 7 per cent now. The ASEAN market accounts for another 19 per cent of Taiwan exports. Taiwan's exports to India have gradually increased from 0.5 per cent of its total exports in the mid-1990s to 1.2 per cent at present.

With about 80 per cent of Taiwan's exports comprising intermediate goods, it is clear that Taiwan is increasingly locked into the manufacturing economies of China and ASEAN. In terms of product categories, the electrical machinery and equipment account for 45 per cent of total exports, while machinery, including computers make up another 10 per cent. Plastic articles and medical equipment make up another 12 per cent.

Hence, analysts fear the impact of the US-China trade war on Taiwan, a $580 billion economy, with a trade to GDP ratio of well over 100 per cent. Taiwan's exports in 2017 were $317 billion, with imports about $60 billion less. The share of US in Taiwan's exports has fallen from 24 per cent in the mid-1990s to 12 per cent at present.

The share of the EU in Taiwan's exports has fallen from 15 per cent to 10 per cent at present over about two decades. In terms of both product mix and export destinations, Taiwan's options are not diversified. Recognising the risks, the New Southbound Policy, announced by the Democratic Progressive Party which came to power in 2016, "is conducive to Taiwan's integration into the South and Southeast Asian region, as well as Australia and New Zealand…" Taiwan is keen to promote scholarship programmes for Indian students, Hwang said.

Da-ching said that stagnating wages and inequalities were issues in Taiwan, more so in the context of the uncertain export environment.

The DPP rode to power on fears arising out of the Economic Cooperation Framework Agreement with China.

Source: thehindubusinessline.com- May 03, 2018

HOME

*****************

## Gujarat expo to connect local businesses with garment retail giants

The Farm to Fashion expo, to be held in the city beginning March 4, will act as a liaison between garment and fabric manufacturers from Gujarat and retail giants likes Walmart, Philip-Van Heusen (PVH Corp), Gini and Jony, Reliance Trendz, Arvind Ltd, and Simba Fashions (Bangladesh), who will be attending it.

Sources say, participation of such buyers will open gates for small business in Gujarat and help expand their footprint across the nation and even abroad.

"Representatives of Walmart and other major brands have approached us. This will be a huge opportunity for local players to showcase their products to top buyers from across the country and even foreign buyers.

We urge them to reap full benefit of the textile exhibition and the various sessions that will be held," said Shailesh Patwari, President, Gujarat Chamber of Commerce and Industry (GCCI). GCCI, along with Maskati Market Kapad Mahajan, is organising the exhibition, which will be on till May 6.

Local players believe this will benefit local manufacturers by helping them reach markets where these brands have their footprint.

Nitin Prasad, V-P (sourcing ), India, Phillip Von Heusen; Navneet Bhagat, M-D of Simba Fashions; Yogesh Chaudhary, V-P of Gini and Jony; representatives of Arvind Ltd and Reliance Trenz, are some of those who would attend the exhibition. Organisers have invited close to 400 buyers, which include major export houses from Delhi, Bengaluru, Mumbai and other major hubs, along with international buyers from Bangladesh, Vietnam, and Indonesia.

In addition to interaction with prospective buyers, the expo will host a series of knowledge sessions.

Meena Kaviya, Chairperson, Textile Committee, GCCI, said this will give local businesses an idea of regulatory requirement, technological updates, sustainable business practices, environment regulations, certification aspects, global scenario, government incentives, and other business insights.

A white paper depicting the road map for the growth of textile sector will be prepared by sectoral experts. It will be presented to the central government as an input for the upcoming textile policy.

The three-day expo aims to strengthen the entire garment production chain, right from cotton growers to garment makers in Gujarat, and to halt the export of low-value textile products and instead, create value added products within Gujarat to help local farmers and small businesses.

Source: dnaindia.com- May 03, 2018

HOME

*****************

## PAT's path to energy efficiency

*The next phase of this market based trading system must learn lessons from the PAT Cycle 1 and design better policies*

The Perform, Achieve and Trade (PAT) Scheme is a programme launched by the Bureau of Energy Efficiency (BEE) to reduce energy consumption and promote enhanced energy efficiency among specific energy intensive industries in the country.

In the first cycle of this scheme from 2011-14, 478 energy-intensive units from eight large industrial sectors, namely thermal power plants, fertilisers, cement, aluminium, pulp and paper, iron and steel, textiles, and chlor-alkali were given specific energy reduction targets to be achieved.

Those that overachieved the targets were awarded Energy Saving Certificates or ESCerts, each equal to 1 metric tonne of oil (MTOe).

Those unable to meet their assigned targets were required to purchase ESCerts (from the overachievers) through a centralised online trading mechanism hosted by the Indian Energy Exchange (IEX).

Cumulatively, this was meant to achieve an energy savings of 6.68 MTOE by the end of 2014-15.

**Performance assessment**

India has committed to a 20-25 per cent emission intensity reduction target as compared to 2005 levels in its Nationally Determined Contributions (NDC) as per the Paris Agreement. According to the BEE, PAT Cycle 1 has achieved more than 30 per cent of this targeted energy saving, along with an almost 2 per cent reduction in emissions. This involved a cumulative investment of ₹24,517 crore in energy efficient technology by the industries included in PAT Cycle 1.

A total of 38,50,000 ESCerts were awarded to 306 facilities for overachieving their targets, and 110 facilities were directed to purchase 14,50,000 ESCerts for not achieving their targets. With Cycle 1 being completed, this is an opportune moment to evaluate the experience of the scheme, so that future versions of PAT benefit from the learnings of PAT Cycle 1.

**Early days**

BEE was understandably keen to seek greater buy-in from industries in the early days of PAT, and would be expected to ratchet up the targets and add more sectors in future versions. PAT Cycle 1 had to establish data collection protocols and baselines, in addition to setting targets. Once this was done, industries had to compile their annual data.

At the end of Cycle 1, during the monitoring and verification stage, anomalies in the data were addressed. Examples of anomalies included changes in power mix, fuel mix, market demand and unforeseen shutdown.

This resulted in changes in baselines and targets due to the normalisation carried out to overcome errors for a few industries. This could be one more reason for overflow of ESCerts in the market; the other one being the low targets established during Cycle 1.

For PAT Cycle 2, even if targets are more stringent, allowing the ESCerts earned in Cycle 1 to be utilised would inject inefficiencies in the system. And if the targets aren't ratcheted up, we could see more over-achieving of targets, and a failure of this market-based trading mechanism.

## ESCert's trading effectiveness

When trading began, more than 30,00,000 ESCerts were available against a demand for 14,50,000 ESCerts by the companies. At the outset, it was assumed that each ESCert would cost around ₹10,000, as 1 MTOe is the average price of coal, oil, gas and one unit of electricity for the industrial sector.

However, when trading started in September 2017, the opening price of 1 ESCert was ₹1,200, almost 10 times lower than expected As more industries registered on the trading site, the number of ESCerts available for purchase steadily increased. The low demand ensured that the price gradually declined. By November 2017, the price was as low as ₹200.

## Investment profile

The industries that achieved their target invested ₹24,517 crore in energy-efficient technology. In comparison, companies that didn't achieve their targets spent a mere ₹100 crore as compensation for non-compliance.

The absence of a floor value attached to the trading of ESCerts, allowed some energy-intensive industries to continue to deprioritise investing in energy efficiency.

Cumulatively, those who didn't achieve their targets were able to continue to delay investments in energy efficiency, and those who achieved their targets failed to gain supplementary finance. This situation needs to be fixed in PAT Cycle 2.

Secondly, it was stated that facilities that didn't achieve their targets would be liable to pay an additional penalty of ₹10,00,000 if they failed to purchase ESCerts. In the case of continued failure to meet targets, further penalties would be levied.

However, there is no clarity on enforcement or timelines for defaulters to make these applicable.

**More transparency**

Thirdly, bringing more transparency and clarity in the trading mechanism and regulations will build confidence amongst industries, and control liquidity interactions and balance in the system.

India could learn from similar efforts in other countries including, Italy's 2017 rules for white certificate trading to control effective obtainment of energy savings; liability for the implementation of energy efficiency interventions, stricter rules to calculate the baseline energy and associated energy savings. This is expected to maintain the liquidity and stability of the white certificate in market.

In conclusion, while PAT Cycle 1 was a good start, one expects to see Cycle 2 benefit from the lessons and experience of Cycle 1, while also lessons from similar efforts in other countries attempting to enhance their energy efficiency, and to design future policies in an effective and efficient manner. The writers are part of WRI India's Energy Program.

Source: thehindubusinessline.com- May 03, 2018

HOME

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