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INTERNATIONAL NEWS

China Has Amassed $1 Billion Glut of U.S. Cotton It Doesn't Need

China has bought more than $1 billion worth of American cotton in the past three months. And it doesn't even need it.

The purchases -- made as part of the phase one trade deal between Washington and Beijing -- are hitting just as the pandemic shuts down clothing stores, decimating demand. That means China's state-run companies are stashing away the cotton they bought, dimming the outlook for further imports.

The trade deal requires China to buy $36.5 billion in U.S. agricultural products this year. That's created a disconnect between real demand and purchases, which are running at the fastest pace since 2013. More than 50% of the defaults reported to the World Cotton Exporters Association and the American Cotton Exporters Association in the past year involved Chinese counterparts.

"Recent Chinese purchases have not been correlated with downstream demand," said Jon Devine, chief economist for Cary, North Carolina-based researcher Cotton Inc. "Much of that cotton is believed to be destined for the Chinese reserve system. If it moves into storage, it can be used against future demand and offset future purchases."

The spread of Covid-19 has caused havoc in the global cotton industry, with shutdowns and bankruptcies of retailers including J.C. Penney Co. and Neiman Marcus Group Inc. hurting demand. World consumption is forecast to drop 23 million bales, the most on record, the U.S. Department of Agriculture estimates.

China Mills

China's mills haven't seen any growth in orders since June and 45% of the facilities surveyed were losing money by the end of that month, 17 percentage points higher than a year earlier, according to the nation's Cotton Textile Association. U.S. mill use also dropped to an all-time low.

"While agriculture was deemed critical and essential and supply chains remained open, retail clothing sales suffered immensely due to closures," said Buddy Allen, president of the American Cotton Shippers Association. That caused a "tidal wave of disruption through cotton's global supply chain creating incredible costs, losses, and risks for participants."

With Chinese mills struggling, performance on purchases made prior to both the trade war and the coronavirus remains "weak," Allen said. Other countries including India, Pakistan and Bangladesh have also defaulted, he said.

The recent rise in U.S. cotton prices is further weighing on the outlook for Chinese imports. New York futures have rebounded more than 25% from the a 10-year low reached in April, in part due to concerns about drought in the U.S. and Australia. China's state purchases have also added fuel to the recovery.

China hasn't issued additional import quotas to mills as in 2019 and if anything, it has canceled U.S. purchases in the two weeks to July 16. The nation is also selling government reserves to textile mills at a cheaper price than imports. All of that could point to a potential slowdown in purchases.

Rival Brazil

Rival cotton shipper Brazil is also feeling the pinch. Chinese private buyers aren't picking supplies from the South American nation even when prices are cheaper, said Marco Antonio Aluisio, vice president of an exporters group. He added that the U.S.-China trade deal was bad news for Brazil.

To be sure, China's purchases of U.S. cotton could still increase further as the government seeks to meet its phase one pledges, said Wang Qianjin, head of the information department at the Shanghai International Cotton Exchange. China is still far from meeting the target.

"We are excited to see these increased purchases but acknowledge the gap that still exists from commitments," Allen said. "We hope to see mill use ramp up in China and around the world very soon, otherwise we are just moving stock from to U.S. to Chinese balance sheet."

Source: bloombergquint.com – Jul 30, 2020

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US works with Sri Lankan apparel units to raise PPE export

The United States is helping Sri Lankan apparel producers to export personal protective equipment (PPE) to the United States. In partnership with the Joint Apparel Association Forum (JAAF) and the Sri Lanka Export Development Board (EDB), the US Embassy in Colombo organised two webinars recently for over 100 industry participants to prepare them to break into the US market.

The project was funded by the United States Agency for International Development and is implemented by Deloitte Consulting, according to a press release from the embassy.

The first webinar explained how to comply with the US Food and Drug Administration's (FDA) regulations. Experts on the classifications applicable to PPE exports and the FDA's Emergency Use Authorization (implemented temporarily during the COVID-19 crisis) engaged with participants and walked them through the process.

The second webinar focused on accessing the US market and featured in-depth discussions with US experts on market demand for PPE, including federal demand, distribution chains, and how to sell to the US federal government.

Participants learned about US government acquisition regulations, and examined criteria to consider in deciding whether PPE manufacturing would be a feasible and strategic, long-term decision.

Source: fibre2fashion.com– Jul 29, 2020

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Apparel continues to be hardest hit by Covid-19

Apparel continues to be the worst hit segment in retail due to Covid-19 as store closures and virus-wary consumers have severely dented seasonal spending.

The rising unemployment and threat of a global recession will exacerbate the contraction of the consumers' expenditure on apparel," says GlobalData, a leading data and analytics company. "As predicted, the pent-up demand is coming mainly from young consumers while family life-stage and older consumers continue to rein back on their discretionary spending."

GlobalData forecasts that Covid-19 will wipe US$395.6bn from global clothing and footwear sales in 2020, a 19.5% decline on 2019. The firm adds the segment's loss of sales is highly significant as it is equivalent to 29.1% of the US$1.36trn of total sales lost by the overall retail industry in 2020.

Similarly, Asia-Pacific (APAC) post-Covid-19 forecasts for the sector are $95.4bn lower than those prior to the pandemic, responsible for 16.3% of the overall retail sales lost in the region in 2020.

Meanwhile, GlobalData says the crisis has changed the purchasing attitudes of consumers. Most declare that trust is an important factor when purchasing products, with 60% stating that trustworthiness, risk-free and familiarity are factors influencing their choices of products/services, according to the firm's Covid-19 Tracker Survey.

The study covered 5,500 respondents across Australia, Brazil, China, Germany, India, Italy, South Africa, Sweden, the UK, the US and the UAE from 25-31 March, 21-26 April, and 26-31 May 2020.

"Brands need to continuously engage with consumers through social media channels and personalised messages to stay in contact and engage with their customers.

They should continue to build trust by delivering messages addressing Covid-19 and social responsibility and advertise the safety and hygiene measures taken during the manufacturing process and in-stores to drive more consumers to the stores," says Vijay Bhupathiraju, retail analyst at GlobalData.

On the other hand, the pandemic has already caused reduced product availability, assortment gaps and stock delays across apparel sectors. With severe financial uncertainty, suppliers will find it difficult to get credit insurance with retailers, and retailers will have less flexibility with their supply base.

Bhupathiraju adds: "Suppliers will be struggling with cash flow as many retailers have cancelled outstanding orders and extended supplier payment terms. Although normal production may not resume for a while, the eventual surge in demand will likely leave ports congested, resulting in a backlog of shipments."

Source: just-style.com– Jul 28, 2020

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UK's Boohoo to set up model garment factory in Leicester

UK fast fashion retailer Boohoo, which is facing allegations of poor working practices at its factory in Leicester, is setting up its own apparel manufacturing facility at a car showroom site in the city. The e-commerce firm is developing a model garment factory in a joint venture with a supplier to promote the highest standards of health and safety.

The factory, with a capacity to produce about 50,000 pieces of garments a week, is expected to employ around 250, according to British media reports.

The retailer launched an independent investigation into its supply chain following allegations that workers at a factory in Leicester were paid as little as £3.50 an hour. The national minimum wage for workers aged over 25 is £8.72.

Boohoo said it had not found evidence of the £3.50 hourly payment, but confirmed that there had been non-compliance with its code of conduct and terminated its relationship with two suppliers.

The review will be led by Alison Levitt QC and will focus on supplier compliance with minimum wage and coronavirus regulations, working hours and record keeping, and right to work documentation and contracts of employment.

Boohoo will update on the status of the review in September and January before publishing a full sustainability report in spring next year. Earlier this month the Environmental Audit Committee (EAC) wrote to Boohoo accusing it of being aware of issues in Leicester clothing factories at least two years ago.

Source: fibre2fashion.com– Jul 29, 2020

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EU-Vietnam trade pact to take effect from 1 August

The EU-Vietnam Free Trade Agreement (EVFTA) will take effect on 1 August following ratification of the trade pact by both parties and over a decade of negotiations.

The implementation of EVFTA is expected to open up a number of strategic cooperation opportunities to promote trade and industry relations between Vietnam and the EU, Vietnam's Ministry of Industry and Trade said today (28 July).

"The EU is a large-capacity market with unity in diversity and plenty of room for growth. At the same time, the structure of goods import and export between Vietnam and the EU is complementary rather than competitive.

Successful penetration of the EU market means Vietnam has the opportunity to expand cooperation with 27 member countries at the same time, contributing to solving the output problem of market expansion and diversification, going deep into the global value chain."

Vietnam is the EU's second-largest trading partner in the Association of Southeast Asian Nations (ASEAN) after Singapore, with trade in goods worth EUR47.6bn (US$51.91bn) a year and EUR3.6bn when it comes to services. The main EU imports from Vietnam include telecommunications equipment, clothing, and food products.

At present, only 42% of Vietnamese exports to the EU currently enjoy zero tariffs under the Generalised System of Preferences (GSP).

The FTA provides for the almost complete (99%) elimination of customs duties between the two blocks: 65% of duties on EU exports to Vietnam will disappear as soon as the FTA enters into force, while the remainder will be phased out gradually over a period of up to ten years. The EU will do the same over seven years.

Vietnam approved the agreement on 8 June, following a decision by the European Union in early May to conclude the deal.

Source: just-style.com– Jul 28, 2020

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European Union to restrict exports to Hong Kong

The European Union will restrict exports to Hong Kong of equipment that could be used for surveillance and repression after Beijing imposed a controversial new security law, diplomatic sources said on Tuesday.

The bloc has expressed deep concerned over the new law, which critics say will severely curb Hong Kong's longstanding autonomy and relative freedom.

But the EU has struggled to agree a united response to China, with member states deeply divided over whether to stand up to Beijing — a hugely important trading partner — or to try to cooperate with it.

France and Germany proposed the restriction on so-called "dual use" technology at a meeting of Foreign Ministers earlier this month and it will be formally signed off on Tuesday.

Support for HK residents

Along with the export restriction, the EU will also bring in measures to support the population of the former British colony by making it easier for them to travel to Europe through the granting of visas, scholarships and academic exchanges, diplomats said.

After presenting the plan, German Foreign Minister Heiko Maas said that, with the new security law in place, "It makes sense to treat Hong Kong no differently from mainland China" when it comes to the export of equipment that can be used for repression.

Beijing insists the security law is needed to restore stability in the financial hub after prolonged political unrest.

Source: thehindu.com– Jul 28, 2020

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S. Korea holds hearing on potential FTA with Uzbekistan

South Korea said Thursday it will hold a public hearing on the envisioned free trade pact with Uzbekistan, as the country aims to boost exports in the face of the new coronavirus pandemic.

The meeting will be held Friday by inviting representatives from business, energy and agricultural groups, according to the Ministry of Trade, Industry and Energy.

South Korea and Uzbekistan have already completed a feasibility study on the proposed free trade agreement.

Earlier this month, Finance Minister Hong Nam-ki and Sardor Umurzakov, Uzbekistan's deputy prime minister for investment and foreign economic relations, held talks in Seoul, during which they agreed to speed up preparations for the FTA.

Uzbekistan was the 35th-largest export destination for South Korea last year. Outbound shipments to the central Asian country reached $2.3 billion in 2019, up 10.4 percent from a year earlier.

South Korea's overall exports dropped more than 10 percent in 2019 on-year due to the growing trade row between the United States and China, along with a drop in chip prices.

The world's top two economies accounted for nearly 40 percent of South Korea's combined exports last year.

South Korea has been making efforts to diversify its trade portfolio to not only ease its dependence on the US and China but also to overcome the economic jitters caused by the COVID-19 pandemic.

Exports are expected to fall 9 percent on-year in July, possibly extending a slump to the fifth consecutive month, a poll by Yonhap Infomax, the financial news arm of Yonhap News Agency, showed this week.

This week, Seoul and Phnom Penh launched their first round of negotiations to clinch yet another FTA.

Source: koreaherald.com– Jul 30, 2020

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Nearshoring by US, Europe threatens Asian garment industry

A McKinsey study states, Bangladesh, Vietnam, Cambodia may soon lose their competitive edge in the global garment industry as manufacturing and marketing advances may make it easier for US and European garment importers to produce garments closer to home.

The study says that by 2025, around 25 per cent of global sourcing executives would source 50 per cent of their imported ready-made garments near Europe and the US. Forty-two per cent of the respondents believe that over 30 per cent of these imported garments would come from sources near Europe and America by 2025.

However, this may also cause a significant loss of business and employment for many Asian countries.

Shift in fashion influencers and trends

Earlier, when designers created new designs, brands would wait for 30-60 days before launching the final product. This would help them to evolve their consumers' demands. Now, this demand is influenced by celebrities and social media personalities.

The fast-paced fashion trends launched by these celebrities benefit small-sized, and internet-based fashion brands who are able to quickly transform a concept to a finished final product.

Earlier, cost-consciousness amongst fashion leaders helped Asian garment manufacturers to win many new orders. However, since the last two decades labor costs in Asia too have been increasing. It is already higher in China than in Mexico. Hence, it makes sense for manufacturers to bring manufacturing closer to destination markets.

Reduction in production costs

In future, automation, robotics, and artificial intelligence will dramatically reduce manufacturing costs and time lead times. New sewing technologies will help brands automate sewing for complicated clothing items like a collared shirt or a pair of fancy-dress pants. Automation of warehousing, fabric handling during sewing, shipping, and storing of readymade garments will also reduce their production costs.

Near-shoring will benefit countries like Turkey, Mexico, Morocco, and several South American nations and islands. However, it may harm labor intensive Asian garments powerhouses like China, Bangladesh, and Vietnam. The concept can be beneficial only if it reduces the cost of garments sourcing by 70 per cent. However, this scenario is around 10 to 15 years away, view experts.

Garment automation does not indicate an export collapse for Asian manufacturers like Bangladesh or Vietnam. These countries can start exporting their clothes within the Asian markets of Bangladesh and Vietnam.

However, automation may create major challenges for the employment sector of countries like Bangladesh. Hence, these countries would have to find alternative modes of employment for the displaced laborers; else they may lead to huge geopolitical and economic consequences.

Source: fashionatingworld.com– Jul 29, 2020

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Pakistan: Knitting export losses

The myth that Pakistan is a major global player in textiles and clothing is far from reality. It ranks 10 in basic textile exports and stands nowhere in clothing and apparel exports with China leading both textiles and clothing.

Major textile and clothing players are in Asia. This includes China, India, Vietnam, Bangladesh, Korea and Pakistan. In textiles China leads the world with exports of $118 billion, followed by India $18 billion, Korea $10 billion, Vietnam $8 billion and Pakistan $8 billion.

In textiles and clothing combined, China fetches over $250 billion, Bangladesh $38.73 billion, Vietnam $37.93 billion, India $37.11 billion, while Pakistan's textile and clothing exports reached $12.5 billion this fiscal.

Like Pakistan, economic development of India is greatly dependent on export earning of the textile industry. Textiles provides direct employment to over 45 million persons in the mill, power-loom and handloom sectors making it the biggest employer in the country after the agricultural sector.

India is the world's second-largest producer of textiles after China. It is also the world's third-largest producer of cotton after China and the US. At present, a third of India's textile production is exported.

This means that 70 percent of the textile production in India is consumed domestically. This explains the robust strength of textiles in India as global slowdown does not impact the producers as severely as in Pakistan or Bangladesh where bulk of the production is exported.

Bangladesh has emerged as a major clothing exporter. Starting with zero exports in 90s, the Bangladeshi textile exports are three times higher than Pakistan.

COVID-19 impacted the country badly. As Bangladesh's garment factories gradually reopen, manufacturers are suffering from weak global demand amid the pandemic.

Big fashion brands are still cancelling orders, adding to the plight of textile workers. In response to the call from Bangladesh Exporters Association President Rubina Haq, the European Union has organised emergency funding to help them, which was a good gesture, but could go only so far in limiting the damage done to the country's textile industry.

Textile and clothing account for more than 80 percent of Bangladesh's overall exports. Along with downsizing the previously placed order, many of the buyers have been asking for discounts up to 20 percent to 50 percent as well. Its textile and apparel, exports have increased at a CAGR of eight percent over last five years from $25 billion in 2012 to $36 billion.

It imports both yarn and fabric in large quantities. Duty free market access with China, makes it the largest supplier of T&A commodities to Bangladesh.

It has a share of about 56 percent in total imports which has grown at a CAGR of eight percent during the last five years. India and Pakistan are next top suppliers and together constitute around 25 percent of Bangladesh's total T&A import.

T&A import from India has grown at a CAGR of six percent in the last five years. Pakistan's textile exports to Bangladesh have remained stagnant in these five years, which means that its exporters did not benefit from the expansion in Bangladesh clothing exports.

Vietnam, in recent years has emerged as a major textile player in the world. It competes for second position with Bangladesh. The country has held its ground against the COVID-19 pandemic with its best and comprehensive strategies and implementation.

Vietnam has not reported any deaths from COVID-19. The country's highly effective containment of the virus proved to be an advantage for its investment environment, helping economic recovery and taking the country in a new position on the global stage.

In 2019, Vietnam reaped roughly $32.60 billion from exporting textiles and garments. It is the favoured venue for relocation of Chinese textile industries. Its manpower is more skilled than India, Bangladesh and Pakistan.

Pakistan's textile and clothing exports posted a negative growth of over six percent to $12.526 billion in the fiscal year 2019-20, as compared to $13.3 billion in the corresponding period of 2018-19. According to textile millers, Pakistan exports one way or the other 80 percent of textiles and clothing it produces. Because of heavy dependence on exports, its textile industry is severely hurt in any global recession.

The COVID-19 impact however was managed as the orders have started pouring in. Textiles account for 60 percent of our exports; still total textile and clothing exports are 1/3 of compared to Bangladesh or Vietnam.

Pakistanis have inferior textile and clothing skills than the competing economies. It is so because of the outdated technology. The industry is surviving on government subsidies.

Source: thenews.com.pk– Jul 30, 2020

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NATIONAL NEWS

India's gloomy economic outlook darkens recovery path

The economy is now likely to contract this quarter and next and in this fiscal year as a whole.

The outlook for India's reeling economy has worsened again as business activity slows and Covid-19 infections soar, and will probably prompt the Reserve Bank of India to cut interest rates again soon, a Reuters poll of economists suggests.

The latest findings echo recent criticism of New Delhi's $266 billion economic rescue package, which does not include new spending, tax breaks or cash support, suggesting more will be needed to turn the economy around.

With India now the third-worst-hit country by the number of infections after the United States and Brazil, the risk of renewed lockdowns after a nationwide shutdown in March-May has risen.

The Indian economy is now likely to contract this quarter and next and in this fiscal year as a whole, according to the July 20-28 poll of nearly 60 economists. Growth had been expected for all of those periods except the second quarter in the previous poll, taken in April.

“India's failure to contain the spread of the coronavirus, and the government's underwhelming support package for firms and households, means the economy will suffer its largest drop in output on record this year,” said Darren Aw, Asia economist at Capital Economics in Singapore.

In the quarter just gone by, the Indian economy is forecast to have shrunk 20.0% - the first double-digit contraction since official quarterly data started being released in the mid-1990s. It will then contract 6.0% and 0.3% in the current and following quarters, respectively, according to the poll.

That compared to a -5.2% forecast for the last quarter in the April 23 poll, followed by 0.8% and 4.2% growth in the current and next quarters, respectively.

For the current fiscal year, Asia's third-largest economy is forecast to shrink 5.1%, a complete turnaround from the 1.5% growth predicted in the previous poll. It would be the weakest performance since 1979.

Under a worst-case scenario, the economy is forecast to have contracted 30.0% in the April-June quarter, and to shrink 10.0%, 4.0% and 9.1% in the current and next quarters and this fiscal year, respectively.

“The health crisis is yet to be addressed and is spreading geographically, which has led to re-initiation of lockdowns and restrictions in many parts of the country,” said Prithviraj Srinivas, chief economist at Axis Capital in Mumbai. “With the health crisis yet to be contained, we cannot hope for a smooth recovery.”

Recovery likely within two years

When asked how long would it take for India's gross domestic product to reach pre-Covid-19 levels, a slight majority of economists, 23 of 44, said within two years.

Only seven respondents predicted it would happen within a year, while the remaining 14 said it would take two years or more. Inflation is expected to average 4.5% this fiscal year, and the RBI is forecast to cut the repo rate by another 25 basis points at its Aug. 4-6 meeting, and once more next quarter, to a record low of 3.50%.

The RBI has already reduced the repo rate by a total of 115 basis points since February, and 135 basis points in an easing cycle last year, from 6.50%, responding to an economy that was already slowing.

In response to an additional question, over three-quarters of 45 economists said the strength of the recovery had worsened or at best stayed the same over the last month.

“The government is the only catalyst at this moment to be able to spur growth and mitigate the Covid-19 crisis,” said Hugo Erken, head of international economics at Rabobank.

“Fiscal policy is there to fill in the gap left by an absence of domestic demand from the private sector, which we saw over Q2. Basically, the private sector was locked up for two months, but the government hasn't stepped up in any way that could have helped cover this gap.”

Source: thehindubusinessline.com– Jul 29, 2020

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Exporters lose over two-thirds of duty remission benefits after govt caps MEIS outlay

If India's foreign trade in goods and services have in recent quarters been a continuous drag on the gross domestic product (GDP), the pull-down effect could be far stronger in the current fiscal. By capping the outlay for the Merchandise Exports from India Scheme (MEIS) at Rs 9,000 crore for the April-December period, the revenue department has deprived exporters of over two-thirds of the duty remission benefits they are entitled to.

The move could also have wider implications for exporters of assorted goods as the denial of the benefit will suffice to blunt the already-narrow edge they enjoy in key markets over competitors, trade source say.

Fearing a shortage of funds following the revenue department's decision, the commerce ministry has, for the time being, blocked the online module for claiming MEIS benefits since July 23.

Federation of Indian Export Organisations (FIEO) president Sharad Kumar Saraf cautioned that many liquidity-starved exporters, especially MSMEs, could go out of business. "Cash flow is badly hit and export recovery is in jeopardy now," he said.

Merchandise exports have been contracting since March. They witnessed a record 60% crash, year-on-year, in April, although the contraction narrowed to 37% in May and 12% in June, as lockdown curbs were lifted last month. However, the latest decision of the revenue department may dash hopes for a steady recovery anytime soon, exporters warn.

Industry sources said the government's FY21 budgetary allocation for benefits under the MEIS (or a new scheme that is now expected to replace the MEIS from January 2021) was about Rs 27,000-30,000 crore, although there is no official word on it. In FY19, the MEIS outgo was to the tune of Rs 40,000 crore, according to an official source.

Exporters typically firm up deals after factoring in the MEIS scrips, which range from 2% to 5% of the export turnover, depending on the products or shipment destinations.

Any abrupt or premature withdrawal of or reduction in benefits by the government will, therefore, erode exporters' margins proportionately, at a time when they are already bruised by a Covid-induced cancellation of orders, said Mahesh Desai, chairman of the engineering exporters' body EEPC India. "The decision will also stoke further uncertainties on the export front," he added.

Hard-pressed for resources following the Covid-19 outbreak, the revenue department has asked its commerce counterpart to review the MEIS rates and coverage so that the allocation doesn't exceed Rs 9,000 crore.

In a letter to finance minister Nirmala Sitharaman on July 21, commerce and industry minister Piyush Goyal sought a review of the revenue department's decision.

Of course, the MEIS rates have been reduced for several commodities since FY19. Also, given the export contraction so far, the outgo was expected to drop in FY21. Nevertheless, the magnitude of MEIS fund reduction surprised exporters. In fact, with two of the key markets – the US and the EU – battered by the pandemic, exporters were hoping for a some kind of succour to beat the pandemic blues.

The MEIS would remain valid until December this year and is to be replaced with a more WTO-compatible scheme, RoDTEP, which reimburses all levies (that are not subsumed by GST) paid on inputs consumed in exports.

As reported by FE, in an office memorandum on Monday, deputy director general of foreign trade Praveen Kumar told Nitish Kumar Sinha, joint secretary at the revenue department, that MEIS scrips worth Rs 422.4 crore have already been issued to exporters for shipping bills with the so-called "let export order" (LEO) since April 1.

"Since allocated funds at this stage for MEIS for FY2020-21 (up to December) stand at Rs 9,000 crore and any additional allocation has not been conveyed by the DoR (department of revenue), the online MEIS module has been blocked on July 23, from accepting new application for shipping bills with LEO dated April 1 onwards to limit the issuance of any more scrips."

“DoR/CBIC (Central Board of Indirect Taxes and Customs) may take steps in such a situation and ask customs ports/field formations to stop registration of MEIS scrips with shipping bills with LEO date of April 1 and beyond,” the deputy DGFT said in the memorandum.

Even before the pandemic started to spread its tentacles far and wide and forced a nation-wide lockdwon from March 25, India’s merchandise exports had contracted by just over 1%, year on year, until February last fiscal. With a 35% fall in March, the contraction widened to 5% in FY20.

Source: financialexpress.com– Jul 29, 2020

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Exports incentive scheme MEIS inefficient, failed to deliver, to be wound up by year end

Merchandise Export from India Scheme (MEIS), a key incentive scheme for exports, will be wound up by December 31, 2020 as the government has found it to have failed to deliver and not yield the desired result of boosting exports which have hovered around $300 billion in the last five years despite its liberal application across sectors.

Government sources said the liability under MEIS ballooned from Rs 20,000 crore to about Rs 45,000 crore in FY20 “reaching an unsustainable level”.

The department of revenue has asked the department of commerce to review the coverage of MEIS tariff lines and rates to bring down the incentive level to Rs 9,000 crore this year as post Covid-19, the government faces a fiscal constraint and the limited resources are to be used optimally.

The commerce department has blocked the online system for exporters to apply for tax incentives under the scheme from July 23.

The scheme, which is not compliant with the World Trade Organisation (WTO), will be replaced by Production Linked Incentive Schemes for select sectors, and the Remission of Duties and Taxes on Exported Products (RoDTEP).

While the liability under the scheme increased, government sources said India's exports remained range bound. In 2014-15 Indian exports were $310 billion and in 2019-20 the export figure was $313 billion.

“The scheme did not yield the desired result. Even with liberal application of scheme across sectors and ever-increasing incentives under MEIS, the exports remained nearly stagnant during this period,” said the source.

The government's grouse is compounded by the fact that the scheme failed despite the rupee having devalued by about 20 per cent in the last five years, giving as much additional gains to Indian exporters.

MEIS came into being in 2015 when it covered 4,914 tariff lines with rates of 2 per cent, 3 per cent or 5 per cent on exports which were divided over three sets of export countries for a market focus of the scheme. With the country differentiation removed later, MEIS now covers 8,059 tariff lines which is 75 per cent of the total tariff lines.

“Over a period of time, MEIS was given at the rates varying from 2-20 per cent,” the source said, adding that liabilities on account of MEIS grew faster than the exports as inefficiencies crept into the scheme.

Source: economictimes.com– Jul 29, 2020

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July exports at 87% YoY, imports at 72%: Report

As of July 26, exports during the month have recovered to 87.5 percent of that recorded during the same period in 2019. India exported $26.33 billion worth of goods in July 2019, and exports in July are likely to recover to that level, The Economic Times reported citing official data.

"Imports are 72 percent of the corresponding period of July 2019. The trade deficit is falling," an official told the publication. Railway freight loading as on July 27 was 3.13 million tonne as against 3.12 million tonne reported in July 2019, the report added.

"These are signs of economic revival," a government official told the paper. Moneycontrol could not independently verify the story.

Export of non-oil products in July have bounced back to 95 percent of the levels seen last year while non-oil imports have recovered to 70 percent, the report stated.

India's exports had contracted for the fourth month in a row in June, falling 12.41 percent to $21.91 billion, it said. Economic activity had picked up in June, after halting for around two months during the COVID-induced lockdown.

According to the Centre for Monitoring Indian Economy (CMIE), the country's unemployment rate in June was 10.99 percent, lower than the levels of 23 percent observed in April and May.

Prime Minister Narendra Modi and Finance Minister Nirmala Sitharaman recently 'green shoots' of economic recovery are visible.

Source: moneycontrol.com– Jul 29, 2020

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Mask manufacturers pin hopes on exports

‘Enquiries from overseas buyers for coveralls and masks have been encouraging’

Mask and coverall manufacturers in the region are hopeful of tapping export orders as the government has permitted export of surgical masks.

Raja Shanmugham, president of Tiruppur Exporters’ Association, said manufacturers had invested in machinery to make coveralls and masks.

Though the government issued notifications earlier, permitting export of non-surgical masks and coveralls (with export quota), the manufacturers were unable to do so.

There was no clarity and the exporters were unable to get quotas. Now, there is no ambiguity. “We hope to tap the export market now,” he said.

International buyers were sourcing from China, Indonesia, Bangla Desh, Vietnam and Turkey. Indian exporters can approach the buyers now.

Enquiries from overseas buyers for these products have been encouraging, he said. The fabric masks are accessories and hence the exporters have to abide by the standards that are applicable for other garments.

A. Sakthivel, chairman of Apparel Export Promotion Council, said garment manufacturers who have taken to manufacture of masks will stand to benefit with the government permitting export of surgical masks.

According to K.S. Sundararaman, chairman of Indian Technical Textile Association, India has all the raw materials for production of surgical masks. Now that the government has permitted export of two-ply and three-ply masks with quota restrictions, “We can become mask suppliers to the world.” The government should permit export of N 95 masks too gradually. There are international standards to be met for export of surgical masks but the manufacturers will be able to meet the standards, he said.

Source: thehindu.com– Jul 29, 2020

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Revenue department asks commerce ministry to review coverage of export incentive scheme MEIS

The Department of Revenue has asked its commerce counterpart to review the coverage of export incentive scheme MEIS, so that the fiscal benefits under this programme can be brought down to Rs 9,000 crore this fiscal as it has not yielded "desired" results, sources said.

The liability under the Merchandise Export from India Scheme (MEIS) ballooned to about Rs 45,000 crore in 2019-20, which is an "unsustainable" level, according to the finance ministry sources.

"The Department of Commerce has accordingly been requested to review the coverage of MEIS tariff lines and rates, so that the MEIS incentive for this fiscal is brought down to the level of Rs 9,000 crore," one of the sources said.

This saving shall be used for supporting the sectors that have potential to grow and contribute towards the Atmanirbhar Bharat and has higher potential for exports, they added.

The idea of reviewing the MEIS has been to use resource optimally and in a targeted way.

It has also requested the commerce department that MEIS incentives should be targeted and need calibration in a manner that it promotes exports instead of spreading incentives in a manner that does not yield the desired result, they said.

"Post COVID-19 pandemic, the government faces a serious fiscal constraint, and the limited resources are to be used optimally. Re-directing the resources to thought through the PLI (production-linked incentive) scheme and other schemes under the Atmanirbhar Bharat is the immediate need," another source said.

Explaining further, they said that over a period of time, MEIS was given at the rates varying from 2 per cent to 20 per cent and with such attractive investment, it was anticipated that exports would grow substantially and capture new markets.

However, the MEIS liability continued to grow all these years as its coverage grew.

The liability under the scheme ballooned to about Rs 45,000 crore in 2019-20, however, exports remained range bound. In 2014-15, the exports were USD 310 billion and in 2019-20, the figure was USD 313 billion.

"The scheme did not yield the desired result. Even with liberal application of the scheme across sectors and ever-increasing incentives under MEIS, the exports remained nearly stagnant during this period. This is despite the fact that during the same period, the rupee had devalued by about 20 per cent, giving as much additional gains to Indian exporters under the scheme," the sources added.

Under MEIS, the government provides duty benefits depending on product and country.

Rewards under the scheme are payable as percentage of realised free-on-board value and MEIS duty credit scrip can be transferred or used for payment of a number of duties, including the basic customs duty.

The MEIS scheme, introduced in April 2015, will be wound up by December 31, 2020, and the government has already announced the Remission of Duty or Taxes on Export Products (RoDTEP) scheme to replace MEIS.

Under RoDTEP, the remission of embedded taxes and other levies on exports shall be allowed.

The commerce ministry has blocked the online system for exporters to apply for availing tax incentives under the MEIS scheme from July 23 as the Department of Revenue decided to limit the benefits under the scheme at Rs 9,000 crore for April-December 2020.

According to an office memorandum of the Directorate General of Foreign Trade (DGFT), the Department of Revenue in May had conveyed that it may not be feasible to exceed MEIS allocation beyond Rs 9,000 crore for 2020-21 (up to December 2020).

The commerce department has requested its revenue counterpart to reconsider its decision, and a communication has also been sent by Commerce and Industry Minister Piyush Goyal to Finance Minister Nirmala Sitharaman on July 21.

Source: moneycontrol.com– Jul 28, 2020

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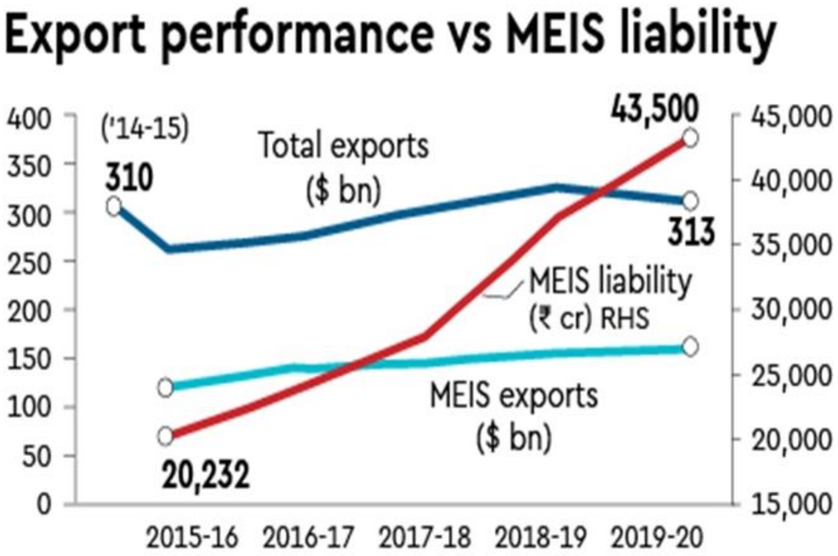
Finance ministry justifies cap: ‘MEIS benefits fail to boost exports’

While the commerce ministry has sought a review of the revenue department’s decision to cap benefits under the Merchandise Export from India Scheme (MEIS) at just Rs 9,000 crore for the April-December period, the finance ministry apparently feels the massive cut is justified, as the scheme has been a “miserable failure”.

Government sources argue that while the scope of the MEIS continued to widen over the last five years, leading to a higher liability, it didn’t result in any tangible growth in exports. They added that sector-specific performance-linked incentives (PLIs) was a more appropriate strategy to promote exports.

The sources said that the revenue department has requested the commerce department that MEIS incentives should be re-calibrated so that it promotes exports, instead of the wide-ranging incentive structure it has come to acquire. “Post-covid, the government faces a serious fiscal constraint and the limited resources are to be used optimally. Re-directing the resources to well-thought-out PLI Scheme and other schemes under Atmanirbhar Bharat is the immediate need,” an official said.



On their part, exporters argue that they firm up contracts, factoring in MEIS benefits, and any retrospective suspension or reduction of the incentives will only erode their cash flows at a time when they are battered by the pandemic. As such, any retrospective order adds to policy uncertainties. Also, subdued export growth is a result of the absence of both structural reforms and adequate incentives to improve competitiveness, they contend.

As FE reported, the revenue department has asked the commerce ministry to review and cap the outlay MEIS at Rs 9,000 crore for the April-December period, depriving exporters of over two-thirds of the duty remission benefits they are entitled to. MEIS scheme was introduced in 2015 and would be wound up on December 31 this year.

Merchandise exports have been contracting since March. They witnessed a record 60% crash year-on-year in April, although the contraction narrowed to 37% in May and 12% in June, as lockdown curbs were lifted last month.

MEIS has already been replaced by PLI schemes for a few identified sectors where India has competitive strength and assist companies to enhance their size and scale to create ‘global champions’, another official said. “Sector-specific PLI schemes have been introduced for electronics, pharma, medical equipment and more PLIs are in pipelines for few other sectors also,” the official added.

Further, the remission of embedded taxes and other levies on exports would be allowed through a new scheme Remission of Duty or Taxes on Export Products (RoDTEP) scheme.

At the time of its launch, the MEIS replaced five similar incentive schemes. However, while MEIS initially covered 4,914 tariff lines with rates of 2%, 3% or 5% on exports which were divided over 3 sets of export countries for a market focus of the scheme, it now covers 8,059 tariff lines. “This means 75% of total tariff lines are now covered under MEIS. Over a period of time, MEIS was given at the rates varying from 2% to 20%,” another official dealing with the matter said.

However, the scheme failed to perform as MEIS liability continued to grow to Rs 45,000 crore in FY20 from Rs 20,000 crore but the exports flatlined to $313 billion in FY20 compared with $310 billion in FY 15.

“This is despite the fact that during the same period rupee had devalued by about 20%, giving as much additional gains to Indian exporters under MEIS scheme,” the official quoted above said.

Wide coverage of MEIS meant that resources are spread across a number of tariff lines without focus.

Additionally, liabilities on accounts of MEIS have grown faster than the exports growth rate (see chart). Apart from the inefficiencies that have crept into the MEIS scheme, India has also faced hurdles at the WTO in respect of the continuation of MEIS, sources said.

“The idea of reviewing the MEIS has been to use resource optimally and in a targeted way. NITI Aayog has also echoed the need for replacing the inefficient MEIS with focused and efficient schemes like PLIs,” one of the officials quoted above said.

Source: financialexpress.com– Jul 30, 2020

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UP to host virtual exhibitions by exporters to beat Covid-19 slump

In order to overcome the Covid-19 headwinds faced by exporters in reaching out to offshore markets, the Uttar Pradesh government has decided to promote virtual exhibitions (e-exhibitions) during the current fiscal year 2020-21.

Since transnational Covid-19 safety and health protocols are likely to result in the deferment and postponement of international trade fairs and exhibitions, the Adityanath government will provide financial aid to exporters participating in such virtual exhibitions under the flagship Market Development Assistance (MDA) Scheme.

Besides, the UP Export Promotion Council will also draft a blueprint to organise similar virtual exhibitions for the benefit of the state's exporting firms. UP additional chief secretary (export promotion department) Navneet Sehgal has already directed officials to prepare an action plan in this regard.

Presiding over a review meeting in Lucknow last evening, he stressed upon the urgent need to facilitate easy bank credit to the micro, small and medium enterprises (MSME) in the state under different schemes, including the one district one product (ODOP).

The ODOP scheme was launched by the Adityanath government in 2018 to promote the traditional and indigenous industries and handicrafts by facilitating state support in terms of setting up of new enterprises, bank credit and marketing.

The success of the ODOP scheme could be gauged from the fact that UP attained industrial exports worth nearly Rs 1.14 trillion in 2018-19 compared to only Rs 89,000 crore in 2017-18, thus registering a upsurge of 28 per cent. Since, more than 80 per cent of these exports had emanated from the MSMEs, it amply indicated the positive impact of the innovative scheme on the beleaguered MSME sector.

According to estimates, UP is home to nearly nine million MSME units, who form the industrial backbone of the state. The sector contributes 60 per cent to UP's annual industrial output and directly employs 50 million people.

Interestingly, the MSME sector also blends with the macro development plank of the Adityanath regime, while resurrecting the positive image of UP and repositioning the state as a preferred investment destination in the league of Indian states.

Meanwhile, chief minister Adityanath today directed officials to expedite the plan to leverage the provision of Rs 15,000 crore loan component for the MSME sector in the federal economic package announced by the Centre earlier this year to beat the challenges posed by the Covid-19 lockdown and its aftermath.

Besides, the CM directed for creating district level employment portals to provide jobs to the millions of migrant labourers and workers, who were forced to return to the state following lockdown in March 2020.

More than 3.5 million migrants returned to UP from states, including Gujarat, Maharashtra, Punjab, Delhi, Karnataka, Haryana etc. The state is also preparing the skills' database of these workers to assist them in getting jobs in near future.

Source: business-standard.com– Jul 29, 2020

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Increased throughput time, manpower shortage hit goods movement

Warehousing, supply chain and logistics players are witnessing an increase in throughput time and longer waiting time for trucks, as manpower shortage continues to persist.

Moreover, with demand recovery still slow, transporters have raised concerns over a number of vehicles — trucks — going off roads, as they fail to clear EMIs once the mandated moratorium periods are over.

In the warehousing industry, throughput refers to the number of units that can be processed within a certain time. For example, an outbound team normally works for eight hours a day. In that duration, the team is able to pick, pack and hand over to the dispatch team for delivery an average of 80,000 cartons daily. The throughput will then be 80,000/8=10,000 cartons per hour.

Interestingly, an increase in throughput time means trucks are taking longer to unload/load goods at these warehouses. It also means lesser revenues for warehouse operators and slow movement of existing stock.

According to industry sources, the average clearing time of trucks across major warehouses have moved up by 3-5 times. For instance, if the time taken normally was 2-5 days earlier, now it's 10 days at least. Moreover, movement of goods, for categories like fashion and apparels, are slow.

"In March-April period, industry saw a drop of business volume by 70-75 per cent, thus reducing movement of goods. Subsequently in June, business volume stood at approximately 45 per cent of pre-Covid levels.

It will still take a minimum of 6 - 8 months or more, depending on how the pandemic eases, for demand to come back in business verticals like fashion, retail and consumer industry and throughput time to come down to peak 2019 levels," Koushik Roy, Chair- Logistics and Freight Panel of IET, told BusinessLine .

Absence of manpower

One major reason for increase in throughput and delayed truck clearances is the lack of manpower.
Many warehouses were operated through migrants, sourced primarily through contractors. Reverse migration has seen them return back to their hometowns. On the other hand, the local community people are being used at almost 30-50 per cent higher cost.

Moreover, there are social distancing norms and guidelines on the capacities to which warehouses can operate. Most are operating at 50 per capacities still with there being regular gaps in between shifts for carrying out sanitisation operations. This has only increased the time taken for operations by at least 30 per cent, a warehouse operator said requesting anonymity.

"Shortage of manpower will continue. The rural economy is booming. There is work in the fields, especially with the monsoons being good this year. Plus, MGNREGA has been highly remunerative. Hence, there is an increase in labour cost and a shortage in supply too. This will be the case for quite some time now," the warehouse operator said.

Fear of the virus spreading into rural areas or hinterlands has also made people reluctant to come out and work in far away distances, particularly these warehouses located along the highways and few kilometres off nearby villages.

Localised lockdowns have an impact on supply chains and truck movements across States in some cases.

Trucks count losses

However, for truck operators, it is a different story. Around 75 per cent of the long route trips have resumed (and vehicles are back on this route). But increased waiting time and localised lockdowns have take a beating on their margins. Margins per trip are down anywhere between 10-40 per cent, depending on the waiting time.

According to Anjani Mandal, CEO and co-founder, Fortigo Network Logistics, margin hit apart, there are also erratic payment cycles (to vehicle owners). A 30- day payment cycle now stands extended to 60-90 days, even by mid- to large-sized companies (with turnover of over ₹1,000 crore). Smaller ones have “deferred payments indefinitely” saying absence of cash flows.

“Margin hit — because of large waiting times — and deferred payments have hit truckers and supply chain players. This will see a spin-off effect in many truck owners not being able to pay EMIs for vehicles once the moratorium period ends in August,” he pointed.

Mandal explains that a monthly EMI of ₹50,000 on a truck is recovered through 5-odd trips by the vehicle in a month. As waiting times go up by at least three-four days for various reasons, the average monthly trips are reduced to 3.5 days now. Costs go up by 30-40 per cent too.

“There is a moratorium now. So this EMI is delayed. But, if turnaround times don’t improve soon, many of the loans will have to be renegotiated or trucks will go off roads or will be repossessed,” he added.

Source: thehindubusinessline.com– Jul 29, 2020

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Govt procures 40.3L quintal of cotton

Nashik: The state government has procured 40.26 lakh quintal of cotton from 1.37 lakh farmers in the five districts of Nashik division under the Minimum Support Price (MSP).

Of which, 8.84 lakh quintal of cotton were procured after the lockdown from 33,000 farmers, said an official from the office of joint registrar of co-operatives, Nashik division. The cotton was procured at the rate of Rs 5,500 per quintal.

Cotton is one of the major cash crops in the Nashik division, which includes Nashik, Ahmednagar, Jalgaon, Dhule and Nandurbar.

The state government had procured 66,000 quintal of cotton in Nashik district. Around 25.55 lakh quintal of cotton were procured from Jalgaon district, followed by 5.09 lakh quintal from Ahmednagar district, 4.50 lakh quintals from farmers in Dhule and 4.44 lakh quintal of cotton in Nandurbar district.

The total area under cotton crop in Nashik division is around 9.65 lakh hectares. An average area under cotton in North Maharashtra is 8.5 lakh hectare.

Source: timesofindia.com– Jul 30, 2020

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