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From the Director's Desk

K.T. Chacko

TEXTILE and Clothing (T&C) sector occupies a significant place in India's economy. Being the largest foreign exchange earner, contributing 4 per cent of its GDP and 20 per cent of country's exports, providing direct employment to 38 million people, it is the second most important sector after agriculture.

This sector, over many decades, has been subjected to discrimination. Especially with the establishment of Multi Fibre Arrangement (MFA) in 1974, India's exports in this sector have faced severe resistance as it imposed a restrictive quota system.

With the WTO coming into being in 1995 and the Agreement on Textile and Clothing (ATC) coming into effect, it was visualized to be a potential area of benefit for developing countries, with the estimates at that time suggesting that over one-third of the total benefits from the Uruguay Round would result from the liberalization of world trade in T&C in the wake of phased abolition of the quota regime and its integration into WTO/GATT disciplines.

The anticipated benefits, however, haven't materialized. This is largely because the integration process hasn't been commercially meaningful. In other words, India's market access in this sector has not increased significantly. Compounding the problem are various measures adopted by importing countries such as antidumping actions, transitional safeguards and rules of origin, which have further scuttled the market access emanating out of the implementation of the ATC.

As the MFA phase out came into existence on 1st January 2005, the scope of market access looked visibly expanded, allowing the domestic sector also to face intense competition. In the last two years the sector has experienced a marginal rise in exports amounting to US$10 billion in 2004-2005, and further increasing to US$12.5 billion in 2005-2006. In the current year, the trends are not encouraging. India's share of global trade in T&C is around 3.37 compared to China's 24.07 per cent. This explains that China continues to be a fierce competitor for India.

India to become globally competitive, a joint initiative is required from trade and industry and the Government. India's core competence in this sector already lies in natural resources and factor endowments such as raw cotton and human resources. Industry must exploit these before anybody else takes advantage of. Further, it should invest in R&D, reduce transaction cost and improve raw material base.

The Government at its level may provide market access to Indian exporters through bilateral agreements with large consumer countries, make amendments in the labour and land laws to enable expansions and efficiency improvements and encourage FDI to come in to this sector.

Post Quota Scene in T&C Industry

D.K. Nair*

The Paper makes an attempt to provide a detailed analysis of textile & clothing sector in the post MFA phase out. While projecting the immense potential, the sector has in terms of promoting country's textile growth and providing huge employment opportunities only after the agriculture sector, it identifies certain deeper problems and constraints that the sector faces to raise its exports and garner larger share of world market.

THE last couple of years have seen significant developments in the textile and clothing (T&C) industry of India from the points of view of capacity building, production and exports. While exports had been growing in the past as well, it was after nearly fifteen years of demand recession and losses that various segments of the industry came back to the path of growth and profitability in the domestic front. Present trends indicate that the T&C industry has tremendous potential for further growth in the coming years both in the domestic and international markets, if its areas of strength can be nurtured and harnessed properly. However, considering the complexities of some of the issues involved, translating this potential into performance will be quite a challenge.

Abolition of bilateral quotas from January 2005 resulted in a substantial increase in our exports of T&C products to North America and West Europe, where our exports had been subjected to quota restrictions in the past. However, it is seen that the momentum in our exports to these markets has started faltering in recent months. The trends in US and EU are evident from the details indicated in Table 1.

Both in US and EU, our growth rates are declining and this is not in sync with the trends in their global imports. Countries like China, Bangladesh, Vietnam, Cambodia and Indonesia have increasing growth rates in US and in our case there has been a negative growth in January 2007, compared to January 2006. Our cotton products as a whole continue to grow reasonably well in US, whereas man-made fibre based products are actually registering a negative growth. Our total exports of T&C products have also been showing a declining trend in recent months, as can be seen from Table 2.

TABLE 1

TRENDS OF T&C IMPORTS IN US AND EU

	US (US$ mn)		*EU (Euroes mn)*	
	Global	***From India***	***Global***	***From India***
2004	83310.44	3633.27	69207.00	4447.00
2005	89205.50	4616.59	72999.00	5255.00
% Increase	7.08	27.06	5.48	18.17
2006	93277.22	5031.06	61846.00 (Jan.-Oct)	5119.00 (Jan.-Oct.)
% Increase	4.56	8.98	6.76 (Jan.-Oct)	15.40 (Jan.-Oct.)

Source: OTEXA and Euro Stat.

*Secretary General, Confederation of Indian Textile Industry (CITI), New Delhi.

TABLE 2

INDIA'S TOTAL EXPORTS OF T&C PRODUCTS

(US$ million)

Year	Textiles	Clothing	Total
2003-04	5,214.46	6,066.25	11,280.71
2004-05	5,482.80	6,372.04	11,854.84
% Increase	5.15	5.04	5.09
2005-06	5,865.12	8,141.69	14,006.81
% Increase	6.97	27.77	18.15
2005-06 (Apr-Oct)	3,349.51	4,528.76	7,878.27
2006-07 (Apr-Oct)	3,621.19	4,677.41	8,298.60
% Increase	8.11	3.28	5.34

Source: DGCI&S (Excludes silk, jute and handicraft products).

Vision of the Industry

A comprehensive assessment of the size and potential of the T&C industry of the country was made for the first time in 2004 in the Vision Statement for the Textile Sector formulated by the Confederation of Indian Textile Industry (CITI), through a study assigned to CRISIL The study was carried out in the context of the impending abolition of MFA quotas by the end of 2004 and the need to improve the investment climate in the industry. In the absence of verifiable data on certain segments of the industry, the study had to rely on derived figures and on interactions with the industry at various levels. Based on data relating to 2002, the Vision Statement projected that the size of the industry could grow from US$36 to US$85 billion and exports could reach US$40 billion by 2010. This growth would take direct employment by the industry from 35 to 40 million workers and the allied sectors would generate another 7 million additional jobs. Investments required during 2002-2010 in the entire textile chain to realize these projections were quantified at Rs 140,000 crore. Measures required on the part of various stakeholders for facilitating this growth were also flagged in the Vision Statement.

CITI has now brought out an updated version of the Vision Statement - this time covering the period 2007-2012, in order to coincide with the 11th Five Year Plan. The action plan and projections in the Vision Statement of 2004 have been revised in the updated version, since some of the measures recommended in 2004 have already been taken, the trends in the industry have undergone substantial changes during the last couple of years and the period for the projections have now been extended to March 2012. The important targets and projections in the Vision Statement for 2007-2012 are in Table 3.

TABLE 3

PROJECTIONS IN VISION STATEMENT FOR 2007-2012

Particulars	Unit	2006	2012
Size of the industry, of which	US$	52	110
Exports	US$	17.9	50
Domestic Consumption	US$	34.6	60
Employment, of which	Mn. workers	88	102
Direct	Mn. workers	33	39
Indirect	Mn. workers	55	63

Investment Targets

The targets envisaged the mandate of an annual growth of over 13 per cent. Capacity building, both in terms of modernization and expansion, is the most significant among the measures recommended for achieving these projections. On the basis of capacities in place presently and the projected growth, the Vision Statement envisages investment of Rs 194,000 crore or US$43 billion during 2007-2012 in various segments of the industry, as per details indicated in Table 4.

TABLE 4

INVESTMENTS REQUIRED DURING 2007-2012

(Rs crore)

Segment	Investment
Spinning	55,000
Weaving	38,000
Knitting	10,000
Processing	51,000
Garmenting	40,000
Total	194,000

Investment Trends

It is apparent that achieving these investment targets will be a Herculean task. Though the informal feedback from the industry and textile machinery suppliers show that huge investments have been taking place in most segments of the T&C industry during the last few years, no verifiable data is available on these. What is available is the investment trend under the Technology Upgradation Fund Scheme (TUFS) launched by the Government in 1999, which has since been extended up to March 2012. The Scheme is closely monitored by the Government and therefore the data on investments under TUFS is fairly reliable. While there are significant investments outside TUFS, it appears to be safe to assume that the Scheme now covers about 75 per cent of all investments in the T&C industry. Investments under TUFS during the last five years have been as indicated in Table 5.

TABLE 5

INVESTMENTS UNDER TUFS

(Rs crore)

Year	*Projects Sanctioned*
2002-03	1,438
2003-04	3,289
2004-05	7,349
2005-06	15,032
2006-07 (April-January)	33,175
2006-07 (Projected)	40,000
Total during 5 years	67,108

Assuming that one-third of the total investments are taking place outside TUFS, the total investments during the last five years would work out to about Rs 90,000 crore. As against this, investments of Rs 194,000 crore are required in the next five years. Our efforts for achieving this investment target have to focus necessarily on improving the manufacturing competitiveness of the industry in terms of cost and quality. The external weaknesses in the Indian economy that are taking a heavy toll on our T&C industry would also need to be addressed in the process.

Data Base

Data deficit is one of the primary issues that need to be addressed. Presently, over 95 per cent of production in all the segments of the T&C industry, other than yarns, takes place in small fragmented units and there is no mechanism for collecting complete and reliable data on their numbers, production, investments, employment, etc. Since over 90 per cent of yarn production is in the organized sector, the Government collects data on yarn production and derives data on fabric production from the yarn production data, on the basis of a set of standard conversion factors. These conversion factors are decades old and therefore do not reflect the current production trends. And in the case of garments and home textiles, even such infirm methods for collection of production data do not exist. Non-availability of reliable data on the industry is a major hindrance in drawing up effective growth strategies for the industry.

Raw Materials

With the Technology Mission on Cotton launched in 2000 and the extension activities of industry bodies and individual mills, the availability and quality of cotton have improved significantly and the country is expected to remain self sufficient in cotton at least in the immediate future. However, man-made fibres and filaments, which account for about 60 per cent of fibre consumption internationally, have a share of less than 40 per cent in our fibre consumption. In order to remedy this mismatch and improve the consumption of man-made fibres in the country, it is necessary to make our fibres competitive in terms of cost. Significant reductions in excise duties for man-made fibres have been effected in recent years. However, there is still a mandatory excise duty of 8 per cent on them. Import duty on man-made fibres is currently 10 per cent, which is the peak customs duty stipulated for industrial products. For polyester and their intermediaries, a reduced rate of 7.5 per cent has been stipulated. However, with the additional customs duty of 4 per cent, even import of polyester continues to be unviable. Actual imports of man-made fibres and their intermediaries are insignificant and the fibre industry does not have vulnerable units. Therefore there are no serious revenue or social angles involved in duty reduction for these products.

TUFS

Technology Upgradation Fund Scheme (TUFS), launched in April 1999 has proved to be very effective in encouraging investments for modernization and capacity building, especially during the last three years, as can be seen from Table 5. The Scheme has now been extended to the 11th Five Year Plan period. But the budget allocation for TUFS has been insufficient during last year and the current year. Allocations for the coming years have to take into account the actual investment requirements.

Under TUFS, an upfront capital subsidy of 10 per cent has been introduced in April 2005 for specified processing machines. This has significantly increased investments in this vital segment of the textile chain. A similar upfront subsidy needs to be incorporated in the Scheme for Technical Textiles and Garments. In both these segments, investments are currently very low and the potential is very high. At the current level of investments, fund requirements for the upfront subsidy will be minimal.

Textile Machinery

Textile machinery industry in India is small and needs to expand significantly. Currently it is not able to meet the requirements of the fast expanding T&C industry. In fact, over 70 per cent of the machinery requirements of the T&C industry is currently being met through imports. The excise duty on textile machinery and their spare parts/components has to be reduced from 16 per cent to at least 8 per cent in order to improve the competitiveness of this industry. A scheme similar to TUFS could also be introduced for assisting the textile machinery industry to invest in expansion and modernization.

Until the domestic machinery industry establishes the necessary capacities, imports are unavoidable for the T&C industry for their growing requirements. Import duty on all new machines covered under TUFS should be reduced to 5 per cent, so that the immediate requirements of the T&C industry that the domestic machinery industry is not able to meet can be met competitively through imports.

Manpower Development

The textile and clothing industry has been experiencing shortage of skilled manpower and it is widely believed that this shortage will continue to be more acute in the years to come. The gap in the supply and demand of trained manpower over the next 5 years is estimated to be about 2,500,000 for the textile and clothing sector. Skill development has an important bearing on the competitiveness of the industry in terms of productivity and quality. The current infrastructure of training institutions is capable of providing only around 200,000 personnel over the next 5 years. Thus a focused and financially sustainable strategy needs to be put in place to train atleast 1,000,000 persons at the shop floor level and supervisory level in the next 5 years, leaving the remaining manpower to be trained in-house by the units. This can be done through SPVs run by the user industry and institutions associated with the development of textile industry. IL&FS is in the process of establishing such an SPV for garments with industry participation. The scope of this SPV needs to cover all the segments of the T&C industry.

Branding

New product lines as also ideas and services have to be rendered to the consumers to improve the value realization. Branded clothing presently have a 24 per cent share in the garment market in India, while unbranded garments have around 50 per cent share and the remaining is catered to by tailor-made garments. Branded clothing needs to be promoted so that it constitutes at least 50 per cent of the market by 2012. The Indian apparel export industry is not able to realize optimum unit value in the export markets since the exporters are mostly suppliers to the global brands. Brand development will deepen the market share and UVR of Indian apparel.

However, brand promotion is not only an expensive proposition but also requires very carefully designed multi-stakeholder strategy, on a sustainable basis. Indian industry, by virtue of being dominated by SMEs, fragmented and decentralized, is not in a position to design and launch brand promotion efforts on its own. Therefore, a Public-Private Partnership (PPP) approach is the appropriate strategy to develop globally acceptable Indian textile and apparel brands.

Foreign Direct Investment (FDI)

Considering the huge investment target, substantial foreign investment will be necessary in our T&C industry in the coming years. Total FDI in the country in 2005 was only US$8.1 billion as compared to US$65 billion in China. The contribution of textile and clothing sector was only 0.6 per cent (US$50 mn) in overall FDI, whereas in China, the figure was 8.3 per cent (US$5.4 bn). The restrictions under Press Notes 1 and 18 are among the impediments for attracting FDI. For capacity building, the

Government needs to consider FDI proposals, independent of the stipulations in the Press Notes 1 and 18, at least on selective basis. In addition to various segments of the textile and clothing industry, FDI is also required in our textile machinery industry.

The desirability of FDI is not restricted to boosting investment levels but also for effecting technology transfer, which will be concomitant with portfolio investment. This is crucial, given the low levels of technology, especially in the weaving and processing sectors, which has restricted productivity enhancement.

Archaic Laws

The Hank Yarn Packing Obligation that requires spinners to pack 40 per cent of their production on hanks irrespective of the demand for them, the Handloom Reservation Order that reserves 11 textile items for production exclusively by the handloom industry and the Textiles Committee Cess at the rate of 0.05 per cent of turnover applicable to non-apparel textile industry and the machinery industry are all stipulations that have outlived their utility and need to be abolished. Our labour laws are decades old and protect only the interests of the miniscule workforce in the organized sector and the trade union leaders. A more flexible labour regime would generate considerably larger job opportunities and enhance productivity in the highly labour intensive T&C industry.

Infrastructure

An overall comparison of the infrastructure facilities made by the *World Competitiveness Report 2005*, ranks India 54th among 60 countries surveyed. Most of the other Asian countries which are alternative sourcing destinations for T&C products like China, Malaysia, Hong Kong and Indonesia have much better rakings. Power sector in the country has problems of availability, quality and cost of energy.

Poor port facilities add to lead times. All these issues need urgent attention of the Government.

In terms of domestic transport facility, NHAI projects have rendered some better roads. But development of better roads needs to be supplemented by free movement of trucks, without the present delay at each State border.

Exports

Although the domestic market is expected to grow faster than the global market, the target of 13 per cent growth mandates a higher share in the export markets for Indian T&C products. Following are some of the steps needed to improve our market share:

(i) ***A Road Map for Future PTAs and FTAs:*** The global trade has increasingly been routed through FTAs and PTAs. US and EU, the most important textile trade destinations for India and its competing countries have been sourcing textile products under special agreements. On the other hand, India does not have any FTAs with them as of now. Our FTAs are mostly with other Asian countries which are our formidable competitors in the international markets and do not offer much market access for our T&C products. We need to establish FTAs with our major importing countries in the West.

(ii) ***Neutralization of Inefficiencies in the System:*** The total incidence of transaction costs being incurred by exporters at various levels is still very high in India and it is adding to the cost of export products, affecting compe-titiveness. As per the Report of the Task Force on Transaction Costs headed by DGFT, the cost disability suffered by Indian manufacturers *vis-a-vis* competitors ranges between 19 and 22 per cent of FOB value of exports. This includes about 10 per cent towards transaction costs arising due to poor infrastructure, delays at ports, customs, banking, licensing, etc. The high transaction costs need be effectively addressed or at least factored in while computing export incentives. The numerous State and local bodies level taxes levied on textile products will also have to be reimbursed to exporters.

With a significant presence in all the fibre lines and the entire textile value chain, we have the potential to grow substantially and achieve the targets of the industry's Vision. All that is required is a coordinated and collective growth strategy on the part of the various segments of the industry and the Government.

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NEWS
(NATIONAL/INTERNATIONAL)

Textiles Needs Stitch in Time, More FDI

THE captains of the textile industry seem to be a worried lot. With the Technological Upgradation Fund Scheme (TUFS) coming to an end next month and the FDI pegged at a level of only 1.31 per cent of the total $44 billion attracted by the country, they are wondering whether it would still be possible to meet the Textile Ministry's target turnover of $85 billion by 2010. According to estmates by the ministry, the sector needs an investment of $36 billion for technological upgradation and capacity expansion in the scale of operations, especially in man made fibre (MMF) sector and technical textiles.

The new areas present a ready opportunity for the industry. However, industry sources said that the MMF textile sector, which has the potential to grow at 19 per cent annually to $6.1 billion by 2010, has largely grown on its own – in the face of various bottlenecks and government apathy. This, they said, has affected capital investment in mass scale weaving, processing and large scale garmenting units for production of MMF textile and clothing, thereby compromising the segment's growth.

To address the issue, additional capacities in spinning, weaving and processing, investment in product development, focused investment in technical textiles, backward integration in knitting sector, development of fashion and design studios for garments and concentration on logistics and development and supply chain management, investment in quality and development of skilled manpower are immediately needed.

(*The Financial Express*, 14 February 2007)

Textile Firms to Jack Up Capacity; Cos to Tap Primary Market

BUOYED by a bull phase in the capital market along with a retail boom in the country, a significant number of textile companies have taken up capacity expansion. These companies are either tapping the primary market or opting for government-sponsored Technology Upgradation Fund Scheme (TUFS).

As many as 12 mid-size and large textile majors have followed Bombay Rayon, which made its debut in 2005 during the quarter ending December 31 of the current fiscal.

Next came Gokuldas Exports, India's largest manufacturer of readymade fashion garments. The company will start operations at its new factory for bottom pieces at Tumkur near Bangalore. Its four units have already been commissioned at SEZs in Chennai and Karnataka. The company has also started a domestic supply chain catering to big retailers like Wal-Mart, Bharti, Reliance Retail and Metro Group.

Inspired by the response in the primary market to Gokuldas Exports, SPL Industries offered 90 lakh shares at Rs 70 a piece in 2005 and is planning for Initial Public Offer (IPO) in the next few months. It is expected to float 25 to 30 per cent shares through public issue.

The capital will be invested in brand promotion, product manufacturing and retailing. The phase-II expansion programme of the company, including backward linkages in spinning, knitting, wet-processing, garmenting, retailing and acquisition cost of brands, is expected to reach about Rs 3.7 billion.

Fabrics and garment manufacturer Mudra Lifestyle has fixed a price band of Rs 75 to Rs 90 for its IPO of 95.8 lakh equity shares.

The net proceeds of the issue will be used to fund the company's expansion plans. Over Rs 177 crore will be invested to expand its manufacturing facilities by setting up new units having all process of yarn dyeing, weaving and processing at Tarapur and Bangalore.

Accessory and garment manufacturer, Evinix Ltd. will soon join the IPO bandwagon with its public issue to fund Rs 52-crore growth plans, which will see the company expanding capacities and setting up retail business activities. The company plans to raise Rs 43 crore through IPO of 35 lakh shares.

Other players include Nahar Industrial Enterprises Ltd. (NIEL), a leading integrated textile company, and Gupta Synthetics, a part of Gupta Group of Surat. While NIEL proposes expansion plans at its existing facilities, its major focus will be on retail. The company will have 250 Cotton County exclusive outlets all over India with an estimated revenue of over Rs 700 crore. The company has posted a net profit of Rs 24 crore for the quarter ended December 31. Gupta is currently implementing a capacity expansion programme.

(*The Financial Express*, 10 February 2007)

Textile Firms Tap Market for Expansion

MEDIUM-SIZE textile firms are tapping funds from all sources, including term loans and capital market, to implement their expansion and consolidation plans.

Last month, four textile companies, with turnover ranging from Rs 100-250 crore, hit the market with initial public offers (IPOs). A booming economy, coupled with growth in the textile industry in the last three years, is spurring entrepreneurs to go in for expansion, said industry sources.

"The Indian textile industry is going through a consolidation phase. For this to happen, investments are a must. The industry is doing good and making profits. Textile firms have understood the importance of investment," said D.K. Nair, Secretary General, Confederation of Indian Textile Industry. Earlier, it was not easy to mop up funds, as the industry was in a bad shape, he added.

Vikram Rao, Director, Aditya Birla Management Corporation, said, "all textile firms have their growth plans and to fund the projects, they are keen on raising funds and IPO is one of the routes. Most of the companies are taking up forward integration plans to step up the vertical chain. Simultaneously, retail activities and increasing supply chain too are demanding investments."

The last three years have proved beneficial to the over $40 billion textile industry, which is aiming to surpass the target of $85 billion by 2010.

Fragmented status (except in spinning) of the industry was a concern and a big challenge. The industry should consolidate, which is happening now, an analyst added.

Fast-changing lifestyles and business strategies in the global and the domestic markets were pushing up demand, which could be met only by expanding the manufacturing base, said Shri Nair. "Unless we go in for expanding our manufacturing capacities, we will not be able to keep pace with the market, where the demand is rising hugely," he added.

"We want to grow with the growing economy," said S.G. Vyas of Jagjanani Textiles, a Jaipur-based Rs 120 crore firm. The company recently hit the market with a Rs 20 crore IPO. Technocraft Industries, Lawreshwar Polymers and Vijayeswari Textiles have also mopped up Rs 204 crore through public issues.

"There is a lot of investment going into expansion. Firms are going in for loans as well as tapping the equity market. It is a wave and everybody wants to ride it," said Prashant Agarwal, Associate Vice-president, Technopak.

(*Business Standard*, 9 February 2007)

New Delhi Wary as WTO Doha Round Talks Revived

THE trade ministers of national governments who met in Davos, Switzerland, for the World Economic Forum's annual summit reportedly resolved to revive the WTO Doha round talks, which broke down in Geneva in July 2006 after facing the sharp rift between the developing countries and the US over the latter's stubborn refusal to cut trade-distorting support (subsidy) given to its farmers.

The developing countries had got limited EU support in the bargain, given that the 20-country bloc itself was unhappy with the US stance. In New Delhi last month, WTO Director General Pascal Lamy had wanted India to adopt a more liberal approach to salvage the multilateral process for further liberalization of world trade. He said the US and EU had begun "testing new positions" (to revive the talks) and advised India to contribute to the process.

However, New Delhi wouldn't be swayed so easily. It has to protect the subsistence of millions of small farmers who will be exposed to unfair competition from the heavily subsidized rich farmer in the West. "The Doha round would remain a non-starter unless the US agrees to make meaningful cuts in trade-distorting agriculture subsidies," a Commerce Ministry official said post-Davos. He added, "The talks broke down in July on the issue of the US shallow offer in cutting domestic farm support. That situation has not changed".

Mr. Lamy apparently had told the policy-makers here in New Delhi that if India agreed to budge, he would try and extract concessions from the US and EU. "But that is like asking you to reveal your cards before the game starts. Nobody plays with the cards open," the official added. He asserted that India, an influential member of G-20 countries on agriculture, would stick to the stand that the developed countries should effect "substantial reduction in trade-distorting subsidies in agriculture along with disciplines".

India is also disinclined to yield any ground on its position that the developed world must make meaningful reduction in agricultural tariffs, particularly in products of export interest to developing countries. Giving allegiance to the government's stand, Nagesh Kumar, Director General, RIS says that since Doha round is a development round, the concerns of developing countries should be addressed first.

The US and EU are resisting meaningful market access for developing countries' agriculture and industrial products, even as their average applied tariffs are lower. This is because the US, EU and Japan maintain high tariffs on products of export interest to developing countries like India — farm products and employment-intensive industrial items like textiles and leather products. For instance, the tariff on leather products in Japan is 140 per cent.

The US average applied tariff on farm products is about 35 per cent while it is slightly higher in the EU. As for industrial products, the applied tariffs are low in both, at below 4 per cent. However, other instruments such as special safeguard mechanisms and non-tariff barriers are being used by the developed countries to thwart or delay access to their markets.

India has offensive interest in opening up farm and industrial products trade, just as it has amply demonstrated its ability to gain from liberal trade in services. But getting market access to the US for farm products hinges on meaningful cut in applied domestic support.

As per its October 2005 proposal from which it has not improved in the July Geneva meet, its applied trade-distorting domestic support would increase from $19 to $22 billion. India is also concerned over the US strategy to shift actionable subsidies – blue and amber box – to the green box which is not actionable. G-20 wants this subsidy to be cut to $12.8 billion.

As regards EU, what India is keen is that the bloc adopts a non-discriminatory tariff regime. The EU has already offered to cut tariffs on farm products by 54 per cent over a period of time. "We are not averse to giving market access to US farm products, provided the subsidies are whittled down. The incidence of subsidy in the US rice products is 39 per cent while it is 48 per cent in cotton," said another government official.

(*The Economic Times*, 6 February 2007)

Textile Machinery Manufacture Needs Scaling-Up

THE Union Minister of State for Textiles, Shri E.V.K.S. Elangovan took pride on the strength of domestic textile sector and its growth pace. But he added that there was a need for scaling up capacity of textile machinery manufacturing sector, which is not in a position to meet the industry's machinery requirement, thereby causing huge backlogs in supplies.

Speaking at the inauguration of the five-day Knit-Tech 2007, a knitting technology trade fair being held at the Hi-tech Tirupur Exhibition Centre at Tirumurugan Poondi near Tirupur, the Minister said that the domestic textile sector had recorded 8-9 per cent annual growth in the last two years compared to average rate of 3-4 per cent in earlier decades. Exports too showed double-digit growth (22%) last fiscal.

Shri Elangovan said he hoped the Scheme of Integrated Textile Park (SITP) would be extended to the Eleventh Plan to enable creation of more textile parks over the next five-year period. Similarly, he hoped that the Technology Upgradation Fund Scheme (TUFS) for the textile sector would be extended during the Eleventh Plan to provide continued capacity building opportunity.

(*The Hindu Business Line*, 3 February 2007)

Hosiery Units Set for Revival

THE Rs 1,200-crore hosiery industry in Ludhiana is all set to bounce back. The 3,000 small and medium units located in the narrow markets of old Ludhiana city are ready to relocate to the upcoming integrated textile park on the outskirts of the city. The park will eventually absorb about 60 per cent of the small and medium hosiery units of Ludhiana.

Entrepreneurs did not make any fresh investments in modernizing or upgrading machinery. Twenty export houses closed down, and 150 ancillary units lost their businesses. The recent removal of the quota regime in the international market coupled with the introduction of TUFS for textiles have, however, helped the industry revive its fortunes.

About Rs 400 crore have been invested by the industry to replace obsolete machinery under the TUFS, due for a roll-back in March. The Ludhiana businessmen want it to be extended till March 2010, but exclusively for SMEs. Most of the units in Ludhiana manufacture hosiery garments from man-made fibre. They need to invest in machinery for finishing cotton garments since demand for cotton garments is higher in the export market. About 1,000 knitting machines were imported in Ludhiana last year. The investment in machines for finishing garments is yet to be made.

The upcoming integrated textile park will enable the units to relocate themselves in a cluster and would provide a sophisticated laboratory, information centre and a training school. Training is indispensable for the new computerized machines and cannot be run by the semi-skilled labourers. But these machines would slash labour cost by 50 per cent, said Vinod Thapar, Managing Director of the park.

(*Business Standard*, 2 February 2007)

Chinese Textile Firms Seek Allies in India

TEXTILE firms based in Shaoxing, the textile capital of Asia, are keen to set up manufacturing bases and scout for trading partners in India. A delegation, comprising government officials and businessmen, from Shaoxing County was on a visit to India.

According to Xu Huan Ming, Delegation Head and Secretary of the Chinese Communist Party's Shaoxing County Committee, the objective of the visit is to gauge opportunities in India and explore the possibility of Chinese textile companies using India as an export base.

"We are the largest textile centre in Asia, among the largest in the world. It is natural that we should ally with India, a country with a rich tradition in textiles," Mr. Ming said. "We want to promote Shaoxing and also see how our businessmen can work with and in India," he said.

Shaoxing, located three hours from Shanghai, houses all the elements of the textile manufacturing chain from PTA to spinning to weaving, printing and garments. The county produces 4.2 billion metres of fabric annually and has 35,000 sets of shuttleless weaving machines. The county's annual filature capacity is 1.5 million tonne.

Mr. Huan Ming said from a Chinese company's perspective, India had an advantage in labour resources both in quality and quantity. "Moreover, India has a lot of raw material, particularly cotton, which Chinese companies are looking for," he added. The clincher, according to him, was the strong presence of Indian businessmen and traders in Shaoxing. "We have had very good cooperation with Indian businessmen," he said. Shaoxing incidentally has the largest concentration of Indians in China, many of them having arrived here from once flourishing textile trade centres like Seoul, Taiwan and Dubai.

Officials accompanying the delegation said India and Shaoxing did $145 million worth of trade in 2006. There are nine representatives of Indian companies in the county and another seven are funded by Indians. Interestingly, while precise figures are not available, Indian businessmen who have traded with Shaoxing said the textile hub is producing beyond its capacity. "Overcapacity has prompted Shaoxing's textile companies to explore other markets," they said. Shaoxing County claims to offer over 10,000 kinds of fabrics with about 100,000 customers visiting daily.

The county's GDP for 2006 stood at $5.8 billion with direct exports at $4 billion. Shaoxing ranks in the top 10 of the 2,000 counties in China on the basis of economic strength. "We want to become number one," Mr. Huan Ming said.

(*Business Standard*, 1 February 2007)

Italy Sees India as Textile Hub

ITALY is considering making India its textile sourcing hub, provided Indian designers produce garments of Italian style, said Roberto Formigoni, Chief Minister of State of Lombardy, on his visit to India.

"We are interested in sourcing our entire textile needs from India if textile designers and manufacturers from the country adopt Italian style and their concept of textile designing and manufacturing," he said.

The Engineering University of Milan, Italy & Banyan Tree Holdings have entered into a joint venture to establish the project "Idea Factory" in the country. The Idea Factory will promote export promotion, fashion designing, training, digital operations, design development, and business facilitation.

(*Business Standard*, 30 January 2007)

Customs Cut to Boost Textile Industry

IN a move that could give the $52-billion (Rs. 234,000 crore) textile industry a great impetus, the Government is likely to extend the concessional duty rate on textile machinery to 84 additional items in the forthcoming Budget. At present, these 84 items attract customs duty of 10 per cent even though other components of textile machinery are imported under a concessional duty rate of 5 per cent.

Reducing the customs duty on textile machinery has become critical to the competitiveness of the Indian textile sector that is expected to grow to $110 billion by 2012. The import of textile machinery in 2006-07 is estimated at Rs. 6,080 crore while indigenously produced machinery sales will be around Rs. 2,800 crore.

The high cost of textile machinery coupled with countervailing duty of 16 per cent makes the use of such machinery items uneconomical even at 5 per cent customs duty. The total customs duty at 5 per cent actually works out to 25 per cent on imported machinery.

(*The Hindustan Times*, 24 January 2007)

Rid Textile Industry of Regulatory Baggage

THE Government's recent decision to abolish the cess on readymade garments is minuscule reform. In a single stroke, it should have ended the irrationality of maintaining a complex web of old laws, guidelines, institutions and prescriptive canons which it uses nonchalantly to micro-manage the $46-billion textile and clothing industry.

The Textile Committee, established in 1963 under a Central Act to "verify and certify export-worthiness" of textiles and garments, has no reason to exist, other than letting political parties to propitiate disgruntled leaders. It should be disbanded and the Act annulled forthwith. The Textile Committee no longer verifies and certifies products for export. It stopped pretending doing such things some 15 years ago.

Deprived of its original mandate, the committee has found itself innocuous jobs – offer consultancy, run cloth testing laboratories, do market research and so on. The cess meant to raise the wherewithal for the committee has, however, lived beyond its natural life-term.

Introduced at a rate of 0.025 per cent on the value of all yarns, fabrics, made-ups, home furnishings, garments and textile machinery manufactured in the country, the cess was subsequently raised to 0.05 per cent. In 2005-06, the cess contributed Rs 53 crore to the consolidated fund of India and this year the contribution would be Rs 60 crore. Now, the Government has scrapped the cess on garments, but it remains on other products. The cess could well go in its entirety.

The Textile Commissioner's office (TxC) is also redundant and could face the axe. The TxC used to implement the provisions under the Cotton Control Order (CCO) and enforce the control cloth scheme. Under the CCO, the TxC used to frame stock authorization norms for cotton and regulate export of the farm produce after assessing the demand and supply situation.

Though the CCO is still in force (under the Essential Commodities Act), the Textile Commissioner has largely confined his activities to "export promotion and industry facilitation." With cotton production in the country increasing dramatically in the last three years, there is clearly no need to enforce the CCO. Cotton production this season is estimated to be 270 lakh bales of 170 kg each as against 177 lakh bales three years ago.

Export of raw cotton has already been freed. The TxC now performs the function of enforcing stamping regulations (of fibre content and composition), a job which could be done by the Bureau of Indian Standards and the Customs authorities (for imported products).

Again, with the quota regime for textile and clothing exports to the US, the EU and Canada gone, why should there be many export promotion councils for this industry? There are separate councils for cotton (Texprocil), synthetics (SRTEPC), woollen (IWEPC), silk (ISEPC), powerlooms (PDEXCIL), handlooms (HEPC) and garments (AEPC).

Many of these councils used to administer quotas and are struggling to carve out a space for them in the changed scenario. The Government could amalgamate these councils into one, given their reduced roles.

The Handloom Reservation Act and the hank yarn obligation could also be abrogated. These laws restricted the growth of the industry even as it is doubtful if they have served their purpose.

(*The Economic Times*, 23 January 2007)

Top Brands Make a Beeline for NIFT Graduates; Salaries Up 75%

GOOD fortunes look in the face of fresh graduates at the National Institute of Fashion Technology (NIFT). Over 200 companies, including retail majors Reliance and design leaders Tommy Hillfiger and Benetton, have converged in on NIFT for campus recruitment.

As a result, salaries offered have jumped over 75 per cent in 2007. The highest salary this year is over Rs 700,000 a year. On offer are over 1,200 jobs for 550 graduates.

Some of the top recruiters that have made a beeline for NIFT are: Pantaloon, Reliance Retail, Pyramid, Shopper's Stop and Lifestyle and Khadim from retail segment. In the design category, the big names include, Tommy Hillfiger, Indian Terrain, Madura Garments, Raymonds, Colorplus, Benetton, Arvind VF, Ginny & Johny and Welspun.

This time, renowned designers like JJ Valaya, Abhishek Gupta, Raghvendra Rathore, Pooja Nayar and consultants such as Technopak, Third Eyesite and Munch Design have also shown interest in NIFT graduates.

Luxury goods and cosmetic brands like Intercraft Trading and AYN Accessory Trading from Germany are also amongst the potential recruiters. Similarly, many foreign companies like Brandix Apparel from Sri Lanka, Landmark (Dubai), MUST Garments (Bahrain), Mayfair & Paris Group, Dubai, had come to the campus for the first time paying dollar salaries, said a senior NIFT official.

This way, a company like Madura Garments could come to NIFT Delhi and recruit students for manufacturing, designing, merchandising, and retailing, all at the same time, making their selection from among students of all seven NIFT centres in Delhi.

(*The Financial Express*, 23 January 2007)

Fall in Textile Exports to US Makes Govt Jittery

CONCERNED over falling textile exports to the US in the recent months, the Government has convened a meeting of industry representatives on 24 January to discuss ways out to improve the situation.

During October-November, the country's textile exports to the US declined by 4.8 per cent to $404 million as against $424.3 million in the corresponding period last year.

However, the total textile exports to the US in the 11-month period of CY06 witnessed an increase of 8 per cent to $5,118.4 million from $4,739.4 million in the corresponding period last year.

Terming the fall as a temporary trend, Textile Commissioner J.N. Singh said: "At present, the country's textile sector has shifted its focus on the domestic market, which witnessed a growth of 10-12 per cent this year as against 3-4 per cent last year."

Notably, total US textile imports slumped by 14.6 per cent to $8,013.3 million from $9,378.3 million in the October-November period in 2006. However, US imports marginally went up by 3.5 per cent to $91,737.5 million from $88,663.4 million in the 11-month period of CY06.

Quantitative restrictions on Chinese textiles also resulted in 21.3 per cent ($700.4 million) decline in exports to the US during the October-November period last year. Despite such a drastic decline, the country maintained 13.2 per cent export growth to the US. This, according to industry veterans, is because of exports through other countries including Bangladesh.

"China is possibly selling its fabric to Bangladesh and Indonesia, and these countries, in turn, export it to the US after value additions," an industry source said.

Apart from Bangladesh, Indonesia, Pakistan, Vietnam and Cambodia have made significant gains in textile exports to the US in the two months.

India's exports to non-European Union countries declined to 11.02 per cent during the January-October period in 2006 against 15.4 per cent in the same period in 2005. But, exports from Bangladesh, Indonesia, Vietnam and Cambodia in the same region recorded a phenomenal growth of 34.22, 21.27, 51.69 and 19.67 per cent respectively. While Chinese export grew by 8.5 per cent.

(*Business Standard*, 23 January 2007)

PM is in Favour of TUFS Extension, Says Kamal Nath

PRIME MINISTER Dr. Manmohan Singh has supported the continuation of the TUFS for the textile sector beyond March 2007, Commerce and Industry Minister Shri Kamal Nath said.

"In our last meeting with Prime Minister we apprised him of other needs to have technology upgradation scheme (for the textile sector). Prime Minister himself was supporting it. We are going through the process," he said at the 48th Annual General Meeting of Northern India Textile Mills Association.

TUFS, that provides interest subsidy for modernization, is slated to expire in March 2007 and the industry has been pushing for extension of the scheme in the Eleventh Plan period.

"This issue (the extension of TUFS) is on the table for the Government to resolve. With the industry persistent to extend it, Government recognizes the industry's need," Shri Kamal Nath said. He indicated that while extending the scheme it could be modified. "TUFS will be streamlined. Inputs from industry have already been received," the Commerce Minister said.

Responding to the industry's concerns on trade agreements that India is negotiating, he said the textile industry would be the major beneficiary in all the preferential and free-trade agreements.

Shri Kamal Nath said, as a big country, India has to engage with other nations. "Can we say we cannot compete with Bangladesh or Malaysia when we are adding a Malaysia to our middle class every year," he said, adding that five years down the line tariffs would not be an issue. He said the domestic market would continue to be the biggest revenue generator for the industry as the Indian economy grows.

Earlier, Minister of State for Textiles Shri E.V.K.S. Elangovan said the Ministry was hopeful of extending the Scheme for Integrated Textile Parks during the Eleventh Plan to cover more textile parks. "In addition to the 26 parks, which were sanctioned earlier, four more textile parks have been sanctioned recently, taking the total number to 30," Shri Elangovan said. The 26 parks involve a total project cost of Rs 2,428 crore, of which share of the government would be Rs 866 crore. These parks would attract an additional investment of Rs 13,445 crore, additional annual production of Rs 19,200 crore and also about 5.29 lakh direct and indirect jobs, the minister added.

(*The Financial Express*, 23 January 2007)

Central Asian Countries Woo Indian Textile Cos.

FACED with labour law inflexibilities and constraints such as high power tariffs and infrastructure bottlenecks, Indian textile players are looking to shift production base. They are looking at alternative locations such as Uzbekistan and Kazakhstan, in a bid to gain cost competitiveness in the global export markets.

Both countries, which are major cotton producers, are heavily marketing a bounty of fiscal sops to Indian textile firms, including heavy price discounts on cotton, power at nominal rates, 10-year tax holidays and superior infrastructure. Indian firms are evaluating investment opportunities in the light of the sops being offered, as well as the added advantage of proximity to key EU markets, industry players said.

Early Movers

Spentex Industries Ltd. is among the early movers in the Uzbek market, with several other players, including the Vardhman Group, which is said to be evaluating investment options through both the greenfield and acquisition route. "Several textile units are evaluating options to shift their production base to new locations like Kazakhstan and Uzbekistan, where cotton is available at a 15-20 per cent discount, power at a low rate of around three cents (Rs 1.20) per unit as against nearly Rs 4 per unit in India, besides cheap gas and 10-year tax holidays," an industry representative said.

Uzbekistan has already announced plans to attract investments to the tune of $300 million from Indian textile companies over the next three years. The Uzbek Government is offering a 15 per cent concession on cotton procurement for spinning purposes and 20 per cent on the same for integrated apparel production facilities.

The Kazakhstan Government is promoting investments into the "Ontustik SEZ", where textile firms would be exempt from corporate income tax, land and property taxes, and also from VAT up to 10 years. The only basic requirement for investors would be that the textile products should be made from 100 per cent cotton, of which not less than 30 per cent must be Kazakh cotton.

Spentex Industries Ltd. had, in July 2006, acquired the business of Tashkent-To'yetpa Tekstil Ltd., a state-owned spinning company in Uzbekistan for $81 million, for which the Uzbek administration extended a number of incentives, including a 15 per cent discount on raw cotton, exemption on corporate taxes, customs duty and VAT. Spentex, subsequently in November, acquired the assets of a company in the country to set up a dyeing facility there.

(*The Hindu Business Line*, 22 January 2007)

TUFS May be Restructured to Focus on Priority Sectors

THE Technology Upgradation Fund Scheme (TUFS) for the textile industry modernization now in operation may see a new avatar beyond March when it is due for a relook/review by the Centre. The Central Government may restructure the TUFS core elements by prioritizing scheme's focus, according to A.K. Singh, Secretary, Ministry of Textiles (MoT).

Talking to presspersons at the sidelines of the annual convocation at the Sardar Vallabhbhai Patel Institute of Textile Management, Shri Singh said though his Ministry was serious about TUFS continuation, there is also a thinking in the

Government that the scheme should be fine-tuned so as to make it more focused towards those sectors of textile industry that are in priority. In this regard, the Government had to give due weightage in following procedures by considering the wish-lists of other agencies like the Planning Commission, he added.

Stating that the aspirations of other textile sectors such as processing, garmenting and technical textiles would have to be accommodated in the ambit of the TUFS, he said that it did not mean that the interests of the spinning sector would be ignored while extending the TUFS benefits.

Shri Singh's observation comes in the wake of the growing debate among various sectors of the textile industry on the continued operation of the TUFS whose tenure is set to expire by 31March 2007, and amidst the speculation that the scheme would see major overhauling that may lead to dropping of some sectors totally from the scheme purview or alteration in the eligible rate of capital subsidy/ concessional interest rate on the TUFS loans charged by the financial institutions.

Textile Parks

The Centre, which has already cleared establishment of 26 textile parks, has also extended the total number of parks to be set up under the Tenth Plan programme to 30 by adding four more park proposals and this has been decided at the recent Cabinet Committee meeting, Shri Singh said adding that the Government would also try to establish another 50 more textile parks during the Eleventh Plan under the integrated textile park scheme.

The Government thinking behind creation of such parks is to enable the textile sector to have modern textile infrastructure as desired by the user industry which should also be involved in continued maintenance of these parks. Hence, the amalgam of two earlier schemes into one under the SITP which envisages Government bearing 40 per cent of the cost of park infrastructure building as grant/equity for the promoters.

The Government hoped that the 30 textile parks cleared would be in place before 2008 and these parks would have a total financial grants of Rs 864 crore from the Centre and would have attracted a total investment of about Rs 13,500 crore. As for the demand for removing the Textile Committee cess, Shri Singh noted that the Centre had recently acceded the demand and removed the cess on the garment sector and it was seriously looking at the scope of removing the cess for other sectors too.

(*The Hindu Business Line*, 21 January 2007)

Textile Ministry Favours Continuation of TUFS

THE Textile Ministry has made out a compelling case for continuing the TUFS to the plan panel in the Eleventh Plan period (2007-12), even as various segments of the textile industry unanimously pleaded for its retention to help modernize the industry and cash in on global demand for Indian apparel and clothing.

Senior Textile Ministry officials said that a presentation to the Planning Commission made for their plan funds laid particular emphasis on continuing the TUFS well into the Eleventh Plan span as the scheme is scheduled to end on 31 March 2007.

Their argument is that the textile industry has seen a spurt in production despite modest increase in capacities, primarily because of modernization and growing productivity, driven by the TUFS. Official data show that Rs 31,590 crore has been sanctioned for investment by the industry on the basis of 4,248 applications received for various projects since inception of the scheme in February 1997. The Government has sanctioned Rs 1,440.15 crore as subsidy for these projects.

According to the officials, even if the recent approvals under the TUFS had to be discharged to the industry, it would entail an expenditure of Rs 5,000 crore over five years.

Also, it would be difficult to discontinue the scheme when its results during the eight-year tenure have been spectacular in terms of injecting productivity improvement through modernization and upgradation of technology.

They said to help the industry benefit through the scheme, "the emphasis would shift from weaving and spinning to processing and value addition in garmenting," so that more units could make use of the scheme and meet global competition. The sources said the processing industry has historically suffered lower investments because of stringent environmental norms.

Which is why, effective from April 20, 2005, a credit-linked capital subsidy scheme at 10 per cent interest under TUFS over and above the extant 5 per cent interest reimbursement was brought into vogue.

Vision Document

According to the latest vision document of the Confederation of Indian Textile Industry, investment of the order of Rs 51,000 crore is required in this segment as it is critical to step up exports of made-ups and apparel and reduce the reliance of the industry on imported fabric. Industry is of the view that it depends heavily on expensive imported machinery (over 70% of demand) and hence, incentive under TUFS needs to be in place to offset the cost. This is also compounded by the fact that declining availability of second-hand machines is driving up investment needs for an equivalent capacity, thereby rendering it difficult for small entrepreneurs to scale up.

Fragmentation

In the face of fragmentation in the fabric, processing, garmenting and made-ups industry, there is a strong need to provide fillip to small entrepreneurs to scale up and integrate, they said.

With the focus shifting to processing and high-value garmenting under the revamped TUFS, the $9.5-billion apparel export industry is hopeful that the scheme would not only be continued during the next Plan span, but also that the allocation of funds under the scheme would be increased to suitable level to meet the escalating demand of the industry.

(*The Hindu Business Line*, 21 January 2007)

Bright Prospects Ahead for Textile Industry

THE country's textile-sector prospects will be bright and may last for the next 20-25 years, the Union Minister of State for Textiles, Shri E.V.K.S Elangovan, has said.

Inaugurating an international workshop on Italian fashion and design, the Minister said that part of his optimism was on account of India's demographic profile, where 54 per cent of the country's population are people below 25 years of age and 80 per cent of them are educated. "This skilled working-age population will continue to grow into the century. More and more talented designers should join the fashion design industry to bring new and exciting design concepts to the textile industry,'' he said.

Enhancing Trade

Shri Elangovan pointed out that Italy was keen to enhance its textile trade with India and forums like this, associated with fashion designing, would give an opportunity for Indian entrepreneurs in the fashion industry to forge partnerships with successful Italian fashion houses. It was in this background that Italy had chosen India as a "focus country" for trade promotion in 2007.

The international workshop, attended by an eight-member delegation from Italy – including fashion design experts and textile faculty from Milan University – was jointly organized by the Powerloom Development and Export Promotion Council (Pdexcil) and the Mumbai-based Banyan Tree Holdings Pvt. Ltd. (Italy's Carrera Group) in association with the Tirupur Exporters Association and the Komarapalayam-based SSM College of Engineering.

(*The Hindu Business Line*, 21 January 2007)

Pantaloon Plans Joint Ventures with European Cos. for Apparels

PANTALOON Retail is planning to forge two new joint ventures with European manufacturers in clothing for men and kids this year. These would be separate mass premium brands which the retailer would initially bring into the country with intentions of manufacturing them at a later stage.

Jaydeep Shetty, Head, New Business, Pantaloon Retail, said, "We intend having two joint ventures with European manufacturers this year in the area of men's and kids clothing. Our target is to reach Rs 100-crore turnover within three years of launching them."

Having forged ventures with international companies such as Etam and Lee Cooper in the past, Pantaloon is now planning to stretch them into new areas. For instance, the lingerie brand of Etam would get into the ready-to-wear category while Lee Cooper would soon be re-launched in the market and pitted against brands such as Levi's and Pepe in the premium end of the denim market. Pantaloon is already targeting Rs 200-crore turnover from the Lee Cooper brand within the next two years.

The retailing company has reduced its manufacturing operations over the years and has been outsourcing its apparel brands over time. Pantaloon Industries, its associate company, which had been engaged in manufacturing, has negligible operations today. "Today we are focussed on being a retail company and have been outsourcing from other manufacturers and also the overseas markets,"' Shri Shetty said. For instance, in the case of its French lingerie brand, Etam, the retailer would continue to import the brand considering the lack of technology available in making lingerie in the country.

Besides, apparel may also get added as new category to be part of its duty-free businesses once it wins more bids for airports. Apart from the usual duty-fee categories such as liquor, chocolates and confectionary, the retailer may bring in apparel as a new category at its Alpha Future stores. "If we win the bids for the Hyderabad airport, we might bring in apparel," says Shri Shetty. Pantaloon is targeting a Rs 500-crore turnover from its duty-free business and is expected to start operations at the Delhi airport within the next few weeks.

(*The Hindu Business Line*, 20 January 2007)

Textile May be a $110 bn Industry by 2012

RELIANCE Industries Executive Director Shri Nikhil Meswani said the Indian textile industry could reach the $110-billion mark by 2012, from the current level of $52 billion. Speaking at the second textile conference in New Delhi, Shri Meswani also said that the industry could create 14 million jobs during this period. He said the industry in India should look beyond apparels as there are ample opportunities in the non-wovens and industrial textiles. He added that at present, less than 7 per cent of polyester is being used for non apparel applications as against 40 per cent in China.

(*Business Standard*, 19 January 2007)

Textile Units Get IT Savvy

INDIAN textile businesses are increasingly investing in IT infrastructure. The textile sector's ambition to touch the $85 billion mark by 2010 may not fructify, if it lags in using technology. But an increasing number of owners of textile units believe that IT is not only essential but indispensable. Given that more than 85 per cent of the industry consists of small units, the rising trend of textile units going in for IT-related infrastructure is a positive sign.

"It's difficult to carry on without IT-related infrastructure in textile operations. In our factory, all the machinery is automated," said S.G. Vyas, Managing Director, Jagjanani Textiles, a Jaipur-based firm. "IT components account for almost 10-15 per cent of the total investment on textile machinery," he said. Online quality monitoring has helped Jagjanani cut costs significantly. "By implementing ERP, we managed to cut costs in processing, which contributed to our bottomline," said Shri Vyas.

Increasingly complex product mixes and longer processing sequences are intensifying the need for IT infrastructure. In composite mills (spinning, weaving, garmenting, retailing), these are becoming inevitable. "We are investing Rs 5 crore in installing IT equipment with the help of IBM. Within a year, our plants will be connected through ERP systems," said K.C. Agarwal, Joint Executive President, Sutlej Textiles and Industries.

ERP helps a business manage key functions such as product planning, parts purchasing, maintaining inventories, interacting with suppliers, providing customer service and tracking orders. Once the plant is equipped with ERP, everything is at your finger tips, added Shri Agarwal. "With this, the senior management is aware of developments at different units, which helps us utilize our resources better," he said.

Adds Shri Vyas, "IT helps in minimizing inventories and maximizing output. ERP simply gives straight access to data and the know-how of various stages the process is in." However, it is not only ERP, that textiles firms are interested in.

Internet connectivity is another area which they feel can play a vital role in boosting the sector. At a time when newer plants are coming up in inaccessible areas, online connectivity becomes vital.

"IT infrastructure in textile firms is at a nascent stage. Though ERP is proving helpful for many units, broadband connectivity is equally in high demand. In its absence, online updating is not an easy job," said Shri S.K. Saraf, Managing Director, Technocraft Industries. Manufacturing and processing require IT assistance, and more and more firms are going for it, he added. Information technology can streamline processes by organizing information from manufacturing, sales and finance, enabling data sharing for improved decision making.

Hyderabad-based Suryajyoti Spinning Mills has connected its plants with a network.

"So far, we don't have online connectivity. But in six months we will be connected online," said Arun Kumar Agarwal, Executive Director, Suryajyoti Spinning Mills. "It will help us increase our efficiency," he said.

(*Business Standard*, 19 January 2007)

TUFS Must for Textile Sector Growth: Report

THE TUFS for the Indian textile industry should continue with certain modifications, says a Crisil research report.

According to the report, the scheme should continue for the weaving and processing segments and for the spinning sector it can be discontinued.

TUFS was started by the Government in 1999 to uplift the declining textile industry. Later, it was extended to 31 March 2007. Various textile bodies have been seeking another extension of the scheme during the Eleventh Five-Year Plan. Despite assurances from the Ministry of Textiles, no actions have been taken so far.

The Crisil report said if the TUFS is terminated in March, the efforts to provide financial support to the textile sector would be a half-done affair. However, the scheme needs to be modified to achieve the goals in the post-quota global supply chain for textiles. The report further noted that the domestic spinning sector is mature enough while the weaving and processing sectors at their nascent stage. The spinning sector has availed maximum benefits under the scheme.

Quotas in the pre-2005 arrangement guaranteed access to the US and EU markets for smaller textile companies. However, with the removal of quotas, integrated textile players are now preferred in the new global sourcing paradigm.

Under-developed weaving and processing sector, the report said, resulted in poor quality fabrics. This forced domestic garment exporters to rely on fabric imports, the report said. Meanwhile, market players said that there is a possibility of a subsidy cut. It could be down by 3 per cent from the existing 5 per cent. The Ministry had hinted at certain modifications in the scheme, if it is allowed to continue in the Eleventh Plan period.

(*Business Standard*, 19 January 2007)

Textile Cos Gear up to Ride Retail Boom

TEXTILE companies are fast gearing up to ride the retail boom, investing in capacity additions and signing exclusive agreements with retail companies. The currently promising international markets, with the cap on Chinese exports to the US applicable until 2008, have added vigour to their expansion plans.

The industry buoyancy can be gauged from the fact that even relatively low profile small- and medium-sized companies are investing in new units.

Shri Govindaraja Mills, an unlisted company, plans a greenfield venture at Cuddapah, Andhra Pradesh for one lakh spindles, and will add 25,000 spindles at Aruppukottai, Tamil Nadu, to its existing capacity of one lakh. It will invest Rs 350 crore through the TUFS, said company officials.

Ahmedabad-based Gupta Synthetics, a listed company, will invest Rs 220 crore (partly through TUFS) for setting up a new manufacturing unit of nylon tyre cord fabric (NTCF) and nylon filament yarn at Silvassa. "Most of the installed capacity of 8,128 tonnes per annum will be operational from October 2007, while NTCF unit will be on stream from March 2008," said a company official.

In a bid to maintain their brand value in the present retail rush, some of them are setting up their own outlets or sewing up exclusive manufacturing arrangements with big retailers.

Pioneer Group, which acquired Hakoba brand in 2001, has plans to set up 100 Hakoba Lifestyle retail outlets across India and overseas by the end of 2007. “We wish to set up 50 stores across India by February-end. Our target is to have 200 stores and achieve a turnover of Rs 150 crore by the end of 2009,” said Srikant Velu, CEO, Hakoba Lifestyle Ltd.

Celebrity Fashions, Chennai-based garment exporter, recently signed an agreement with Reliance Retail for its economy brand ‘Spirit’, to produce shirts, trousers and t-shirts priced between Rs 500 and Rs 800.

The ready-to-wear supply chain “House of Pearl Fashion Ltd.”, a wholly owned Gurgaon-based unit of international entity “House of Pearl”, plans to double its capacity to 40 million pieces at an investment of Rs 400 crore in the next three years.

“The 10 per cent cap on Chinese textile exports will continue till 2008. This has also provided ample opportunity for India to establish itself in the export market and compete with China when the cap on the country’s textile exports will be lifted,’’ said an analyst with a private broking firm.

(*The Hindu Business* Line, 19 January 2007)

The Right Fit

APPAREL exports from India have risen exponentially in the last few years, and are expected to touch the $10-billion mark by the end of the current fiscal, up from $8.4 billion in the last financial year.

The reimposition of quotas on China, the biggest apparel exporter ($55 billion), by the US, a few European countries and South Africa is believed to be the single largest reason for this development. The quotas, imposed in 2005, will remain in effect till 2008.

According to the Apparel Export Promotion Council (AEPC), the future of apparel exports is bright. “In the last few years, we made rapid strides. We expect apparel exports to grow at a healthy rate of 12 per cent year-on-year. Next financial year, we expect the exports to be in excess of $10 billion,” says AEPC Secretary General K.K. Jalan.

“Indian apparel exporters have three years to explore inaccessible markets and establish their presence. We may not catch up with China but this is the best chance for us to increase our footprints. Most of the apparel exporters have responded well,” says Rajendra J. Hinduja, Executive Director (Finance), Gokaldas Exports, the largest apparel exporter from India.

In 2003-04, Indian apparel exports stood at $4.6 billion. In 2004-05, it increased to $5.8 billion. It rose to a high of $8.4 billion in 2005-06 following the reimposition of quotas on China. “International brands are showing more faith in India,” Shri Hinduja points out.

Gokaldas Exports, which supplies apparel to well-known international brands like Adidas and Reebok, is set to record Rs 1,000 crore in revenues (Rs 880 crore in 2005-06). Indus Fila, another garment manufacturer, is expecting Rs 190 crore in revenues from exports alone this fiscal, compared to a modest Rs 18 crore in 2005-06.

“Indian apparel is considered value for money. The confidence the international brands have in Indian exporters is very high. That has enhanced the brand value,” says Nitin Mandhana, Chairman and Managing Director, Indus Fila. “International brand GAP now sources nearly 30 per cent of its apparel goods from India. That is a very encouraging sign,” he notes.

Gokaldas Exports is in the process of setting up a 100 per cent export-oriented Apparel Special Economic Zone (SEZ) near Bangalore. With an estimated investment of Rs 2,000 crore from 50 players, the SEZ alone is likely to export apparel and accessories worth Rs 5,000 crore every year.

Expansion Mantra

As international brands enter the Indian apparel market, the existing brands are foraying into related categories to expand their product basket. Popular brands like Pepe, Zodiac, Arrow, Killer, Adidas and Van Heusen, known for their jeans, shirts or shoes, are taking their lifestyle product positioning further by entering categories that range from women’s wear to sun glasses and footwear.

Recently, Madura Garments, in partnership with Sierra Enterprises, launched Van Heusen’s premium footwear collection while Pepe, the well known jeans brand, intends to foray into innerwear and timewear. Zodiac Clothing is extending its brand portfolio by introducing ladies trousers. Killer intends to launch fragrances and watches in India. Even older players like Century Mills are extending their Cottons by Century label to ladies wear. Pantaloon has introduced a range of in-house brands like Jealous 21 and Urban Yoga, offering fashion and accessories. Explaining the rationale behind branded players foraying in other categories, Prashant Agarwal, Apparel Analyst, KSA Technopak says, "The trend of family shopping in malls has prompted apparel brands to offer a wide range of products to customers. Brand expansion is the next step in the Indian branded apparel sector."

He adds that women's wear is expected to offer better margins to the brands while accessories will help attract customers.

Retail Fever

Apparel exporters are setting up retail chains to take control of the distribution side of business and enhance margins. Tamil Nadu-based Sabare International, which produces and exports home furnishing textiles, is targetting metros and tier-II cities for its retail foray. Texport, a garment export firm, has opened the first showroom, Sepia, a women's wear brand at Atria, a luxury mall in Mumbai. The emergence of organized retail, and the demand for high volume of ready-to-wear segment has prompted exporters to look at the lucrative branded apparel segment. While Alok Industries has opened eight retail stores, Sabare International aims to sell all merchandise required by households, except grocery, through its retail chain. Texport plans to open 20 stores by the end of 2007. Creative Garments has unveiled women's wear brand 109F and home furnishing brand Portico.

(*Business Standard*, 17 January 2007)

Textiles Sector on M&A Spree

THE textile industry is poised for a major cross-border merger and acquisition mood, thanks to the quota regime phase-out and liberalization of fiscal restrictions in the current financial year.

As many as 12 textile majors, including Alok Industries, House of Pearl Fashions, Gujarat Heavy Chemicals and Raymond, went into global acquisitions, helping textile biggies diversify into newer domain. While Alok Industries has signed an MoU with Mileta International to acquire 60 per cent stake in Czech Republic-based company for euro 13.96 million, the Rs 800-crore House of Fashions has set up a wholly-owned subsidiary in the US, say industry sources. The move is expected to help the company establish supply chain alliances with global brands based in North America.

Malwa Industries made acquisition of Emmetre Tintolavanderie Indusriali of Italy and Third Dimension of Jordan for $11 million. The Jordan acquisition was to give the company foot-hold on garment manufacturing with duty-free access to US markets.

This was followed by Gujarat Heavy Chemicals Ltd.'s acquisition of US-based Dan River. While Gurgaon-based Orient Craft acquired a manufacturing plant of Levi's in Spain, Raymond acquired Regency Textiles Portuguesa Limitada of Portugal.

(*The Financial Express*, 17 January 2007)

Labour Woes in Bangla Boosts Textile Export Hopes

THE labour strife plaguing Bangladesh textile industry may well turn out to be boon for Indian companies as exporters are hoping that bulk orders from the US and Europe will get re-routed to India. According to industry experts, the two largest textile importers have been looking at Bangladesh for imports, as it was economical and on time. "The textile industry in Bangladesh grew systematically with good infrastructure. This enabled them to offer products at a much cheaper rate. But now the situation has changed. The country is over booked with orders. So there is lot of pressure on the work-force, which has triggered labour related issues. This is quite advantageous for Indian exporters as now Bangladesh will not be that economical and the international importers will look at the next possible source which is India," they said.

If the orders get re-routed to India then big exporters will start getting better business. Small exporters who have arrangements with bigger players will also get business. Unfortunately, there are not many independent small exporters operating in the country. However, a major problem facing the Indian textile sector is the high delinquency rate. Almost all the textile units in the country operate only to the extent of 65-70 per cent of the overall capacity because of lack of manpower. We do not have enough trained manpower. The industry needs machine operators, pattern makers to support the production process," they said.

(*The Financial Express*, 12 January 2007)

Textiles Weave 30 lakh Jobs in Two Years

TEXTILES, India's sunrise industry today has managed to add almost 3 million new jobs in the sector since the dismantling of the quota regime in January 2005. This is close to 10 per cent of the total direct and indirect employment in the industry, which was over 30 million up to January 2005. A large part of the additional jobs were created in the garment sector, which largely employs women.

The ministry is now pushing for the extension of highly successful subsidy scheme, TUFS, which is likely to give a fillip to investments and generate employment in the textile sector.

In last five years, since the TUFS was introduced, as much as Rs 450,000-crore investment has been made in various segments of the textile sector such as ginning, spinning, weaving and garmenting.

"According to our estimates as much as Rs 1.60 lakh crore of additional investment is likely in the textile sector that will create huge employment opportunities," J.N. Singh, Textile Commissioner said.

Shri Shankarsinh Vaghela, Union Minister of Textiles announced a Rs 77-crore relief package for the flood-affected textile industry of Surat.

Of the Rs 77 crore, about Rs 56 crore has been earmarked for the calamity relief package and Rs 21 crore for interest subsidy for working capital loan package. As many as 5,845 units were affected during the floods in Surat in the second week of August. Most of these units were located in areas like Ved Road, Pandol, Anjana Farm, Katargam GIDC, Salabatpur and Kim Pipodara in and around Surat.

(*The Economic Times*, 27 December 2006)

China's Textile Exports Face Pressure from India

CHINA'S textile and clothing exports rose to record levels of $12.72 billion in November but could soon lose their comparative advantage in costs to developing nations like India, the state media reported. China's textile exports were up by 30.85 per cent from November 2005, the highest monthly growth in two years, according to the latest customs figures. However, experts warned against believing this high level indicative of a new wave of rapid export growth. "It's only a temporary flourishing before fading away," the China Securities Journal reported.

The paper attributed the hike to export firms that were catching their last chance to benefit from higher export tax rebates. As the textile industries of India, Pakistan and the Association of South East Asian Nations (ASEAN) are developing fast, the Chinese textile exporters are facing the heat from them in the region, it said.

The Ministry of Commerce announced in September that tax rebates for textile exports would be cut from 13 to 11 per cent, but companies that signed export contracts before 14 September and cleared their goods through the customs before 14 December could still claim the original tax rebates.

The Government had hoped the measure would force domestic textile firms to be more aware of technical innovations and to develop more products with proprietary intellectual property rights The move coupled with the appreciation of the Chinese currency, Renminbi, however, has pushed Chinese textile manufacturers to mark down their prices this year to sustain their exports and offset the negative impact of the rising yuan.

"The sudden hike in November will not last long. A decline will appear in December," the newspaper reported, adding that overcapacity would continue to haunt the industry despite the rising domestic demand.

Figures from the National Bureau of Statistics show retail sales of clothing in China climbed 21.5 per cent in November. The growth was 7.4 percentage points higher than the average. In future, the focus of China's textile and clothing industries would gradually shift from abroad to home, the newspaper said.

After the EU and the US set caps on China's textile exports in January, more than 69 per cent of China-made textiles and clothing have gone to the ASEAN, South Korea and African countries.

(*Business Standard*, 26 December 2006)

Textile Ministry to Weave 24 Parks for Rs 1,000 cr.

THE Textile Ministry has mooted establishment of 24 new textile parks, increasing the total number of such parks to 50. The new parks would require an estimated investment of over Rs 1,000 crore. The proposal is part of the draft plan to raise the country's share of global textile trade to 10 per cent by 2015 from the current 3 per cent. A medium-term target of 8 per cent has been set for 2010. The Textile Ministry has approved 26 textile parks under the Scheme for Integrated Textile Parks (SITP). Many parks are at various stages of implementation.

The draft plan for raising competitiveness in the sector has been prepared in consultation with the National Manufacturing Competitiveness Council (NMCC), which has marked out textiles and garments as a priority sector for increasing competitiveness.

According to experts, the domestic textile industry has not been able to compete with countries such as China as most of its textile units are in the small sector. The textile parks are expected to make the domestic industry competitive *vis-à-vis* other nations. "The problems of economy of scale can be dealt with by the textile parks, which would also enhance our competitiveness," said NMCC Member-Secretary, V. Govindarajan.

Under SITP, the Textile Ministry provides infrastructure facilities such as roads, electricity supply – including captive power plants – and telecom lines to firms willing to set up textile units. "The Government has approved the construction of 26 textile parks. Four more projects will be approved shortly and we would try to raise the total number to 50," Textile Minister Shri Shankersinh Vaghela said.

Apart from making the industry cost competitive, the parks are expected to enhance manufacturing capacity of the domestic textile sector. "SITPs are being built to boost manufacturing by textile companies. The parks would also help in enhancing exports," Confederation of Indian Textile Industry Secretary-General, D.K. Nair said.

The Textile Ministry, meanwhile, has also sought SEZ-like benefits for SITPs and a full SEZ status for four of the 26 parks. The SEZ status means textile firms will get all the tax benefits available under the SEZ Act such as tax holiday for 15 years. The demand is expected to be part of the Textile Ministry's Budget recommendations.

(*The Economic Times*, 19 December 2006)

Textiles will Grow 5.7% to Touch $700 bn

THE principal drivers of growth would be 5.7 per cent in world trade in textiles and clothing, from $479 billion in 2005 to around $700 billion. This was stated in a vision document for the Indian textiles and clothing industry for the period 2007-12, released by Textiles Minister Shri Shankersinh Vaghela.

The document was worked out by Crisil for Confederation of Indian Textile Industry (CITI) after a detailed study and extensive consultation with stakeholders. It also says that India's share in the export market needed to be increased from the existing 4 to 7 per cent by 2012. The share of clothing in the country's export basket has been envisaged to increase to 60 per cent from the current 48 per cent in the same period.

The vision statement predicts that domestic household market growth will be driven by a rise in penetration of organized retail, favourable demographics and rising consumption and income levels. Meanwhile, non-clothing consumption growth would be driven by rising use of technical textiles, spurred by industrial growth and increased activity in construction of residential and commercial properties thereby driving demand for furnishing items.

In order to achieve the desired growth, the production output of the industry would need to double by 2012 from the current level, the document says, adding that the higher growth in value would result from manufacturing of more value-added products and rise in usage of technical textiles. To achieve this target, it calls for an investment to the tune of Rs 194,000 crore during 2007-12. Consequently, the industry could generate additional employment for 14 million persons. Shri Vaghela also said that the Textile Ministry has sent a proposal to the Planning Commission for setting up of four integrated textile parks at an investment of Rs 1,600 crore. The clearance in this regard is expected by the beginning of next fiscal. "The decision has been taken following successful operation of 26 parks that have attracted an investment of about Rs 30,000 crore during the last two years," Shri Vaghela said. The number of parks will be taken upto 50 in the Eleventh Plan period, he added.

(*The Financial Express*, 19 December 2006)

"Discontinuing Tech Upgradation Fund Scheme Will Hit Textile Sector Growth"

ANY move to discontinue the TUFS for the textile sector beyond March 2007 would lead to the collapse of investment plans drawn by the textile industry for the Eleventh Plan period.

Such a move may also erode the competitive edge wielded by the Indian textile sector in the global market because different free trade agreements signed by the country are expected to come into force only during the period, according to Southern India Mills Association (SIMA), the apex textile trade body.

Expressing apprehension over recent media reports suggesting that the Union Government is not keen on giving an extension to the operation of TUFS beyond March 2007, when the tenure of the scheme would expire, the SIMA Chairman, S.V. Arumugam, noted in a communication that revival of the domestic textile industry took shape since 2003 due to Government's proactive measures such as fiscal policy changes, low interest regime and thrust for modernization under TUFS.

Modernization Pace

Though TUFS evoked very little response due to stiff eligibility norms initially, it later on picked up in the last couple of years. Capacity constraints of domestic textile machinery manufacturers in the meantime impeded the industry's modernization drive, forcing them to depend on imported machinery. Import of textile products from China also put some of the domestic textile sector in difficulty. In this scenario, if TUFS is not extended beyond this fiscal year, it would only further compound the industry's woes, he said.

The absence of capital investment-supportive scheme of TUFS may also nullify the success achieved in other centrally sponsored schemes such as technology mission on cotton, which led to higher domestic cotton output. A sluggish capital investment for capacity expansion by the industry would in turn lead to drop in cotton consumption, thereby affecting the farmers and cotton economy of the country, Shri Arumugam noted.

Promotion of textile infrastructure projects such as the scheme of integrated textile park would lose sheen without TUFS, especially when the weaving and processing sectors were yet to catch up with the modernization pace. The need for continuing TUFS in the Eleventh Plan assumes all the more importance given the fact that the domestic textile sector is poised to attract Rs 2-lakh crore investment, 15 million jobs and $110 billion business volume by 2012, the SIMA Chief pointed out.

The continuation of TUFS into Eleventh Plan period is necessary for stabilizing the competitiveness of domestic textile sector, the Cotton Textile Export Promotion Council (Texprocil) has said.

The industry has envisaged to attract an investment of Rs 1.9 lakh crore by 2012 to attain a market size of $110 billion at an annual growth of 13 per cent. To achieve this, the industry needs investments which have to come from TUFS, Texprocil said, adding that since the industry heavily depends on expensive imported machinery, the scheme becomes essential to offset the high capital cost.

Making a case for further extension of TUFS, the Texprocil Chairman, Prem Malik, said that the industry had shown turnaround due to progressive policies of the Government especially TUFS. In the case of yarn, it could show an increase in production without significant increase in operational spindleage, indicating that the funds under the scheme have been used for modernization and productivity increase.

Similarly, the production of fabrics too recorded 4.5 per cent cumulative annual growth during 2002-06 mainly due to the scheme. The processing sector also gained under TUFS with almost 22.3 per cent of the total investment going into this sector during April-September.

(*The Hindu Business Line*, 12 December 2006)

PMO, Plan Panel Oppose TUFS Extension

Concerns over WTO Compatibility, Other Textile Ministry Sops may Spell Doom for Scheme

THE textile industry's favourite TUFS may not get a fresh lease of life. The PMO and the Planning Commission have opposed extending the scheme beyond the current deadline of 31 March 2007, saying schemes that provide subsidy to individual companies should be replaced by infrastructure grants such as those under the Scheme for Integrated Textile Parks (SITP). The TUFS, launched in 1999 enables the lenders to give an interest subsidy of up to 5 per cent for modernization and technological upgradation. Financial institutions have disbursed Rs 12,673 crore under the scheme so far, for projects with total investment of Rs 47,217 crore. The cost of the subsidy is borne by the Government, and resulted in an expend of over Rs 2,500 crore since the start of the scheme.

Textile Minister Shri Shankersinh Vaghela had favoured the extension of TUFS, touted as a grand success, up to 2010 to meet the Ministry's ambitious export target of $50 billion by that time. He had also proposed to extend the TUFS benefits (under credit-linked subsidy scheme route currently made available to the processing sector) to technical textile projects also. Private textile firms too have been lobbying hard to obtain the extension of TUFS.

However, both PMO and Plan Panel have said that since Textile Ministry already offers a host of benefits to the sector, extension of TUFS is not a viable option.

The Plan Panel, an official source said, is concerned about the TUFS' compatibility with the WTO's Agreement on Subsidies, since the benefit is extended to individual companies.

The PMO has rather emphasized the need to promote schemes such as SITP that lead to infrastructure development for the sector. Under SITP, the Textile Ministry provides infrastructure facilities such as roads, electricity supply including captive power plants and telecom lines to firms willing to set up textile units. The Ministry has approved setting up of 26 SITPs so far and 5 of them have recently begun operations.

In the period April-September 2005-06 alone, the banks and financial institutions have sanctioned Rs 6,776 crore under the TUFS, up from Rs 2,990 crore sanctioned in the corresponding period last year.

Apart from TUFS, under which companies from organized textile and garment industry and powerlooms get assistance, the Textile Ministry also has the cluster development schemes for the powerloom and handloom sectors. Further, the Textile Ministry also provides a 25 per cent capital subsidy to the handloom sector. The Textile Ministry, meanwhile, has also sought SEZ like benefits for SITPs.

(*The Economic Times*, 4 December 2006)

"Tech Upgradation Fund for Textiles may be Extended to 2010"

THE Union Government may extend the Technology Upgradation Fund for the textile industry up to 2010, said the Union Textile Minister, Shri Shankersinh Vaghela.

"We are hopeful about extending TUFS to 2010 and have proposed including technical textiles under the scheme as well," said Shri Vaghela. The current scheme will expire in March 2007. So far, investments of Rs 33,000 crore have been made under TUFS.

Speaking at the Synthetic and Rayon Textiles Export Promotion Council's (SRTEPC) annual award function, he said that in view of the favourable investment climate in the textile sector, there is a strong case for continuation of the scheme in the next Five-Year Plan period.

"I am in dialogue with various ministries of the Government to increase the corpus of the scheme and make it more exporter-friendly so that the industry is in a position to modernize in the shortest possible time and thus prepare itself to meet the challenges of the future," said Shri Vaghela.

Shri Vaghela was very optimistic about the technical textile sector. "Opportunities in this sector have already been spotted and companies have targeted almost Rs 1,000 crore investment in this sector and another Rs 10,000 crore investment is expected in the next 3-4 years."

R.L. Toshniwal, Chairman, SRTEPC, said exports of man-made fibre textiles stood at Rs 10,227 crore in 2005-06, registering a growth of 6 per cent over the previous year. Exports during April-September have increased 17 per cent to touch Rs 4,213 crore. "I am confident that the growth trend would continue and the export target of Rs 10,350 crore set for the current year would not only be achieved but surpassed," he said.

Winners of this year's SRTPC awards included Reliance Industries Ltd., Rajasthan Spinning and Weaving Mills, Indo Rama Synthetics and Grasim Industries.

(*The Hindu Business Line*, 3 December 2006)

Punjab's Textile & Garment Sector Faces Labour Shortage

THE textile and garment industry of Punjab is facing a severe labour crunch. The boom in construction activities in the region has headed off migrant labourers to the construction sector.

The chief executive officer of Nahar Industrial Enterprises Ltd. (Fabrics Division), S.S. Aich, said workers from Bihar and Orissa, who used to work in the textile units of the state, had now moved to manufacturing industries and construction projects.

"So, we have turned to less developed areas of Orissa to access labour," he added. He further said the representatives of the human resource department of the company visited those parts of the state and with the help of local agents, arranged to have labourers who could work for them consistently.

Textile has been a traditional industry in Punjab and groups like Vardhman, Nahar, Winsom and Trident have been operating in the state. The large players have resorted to technical upgrade, which resulted in labour substitution. The garment industry is labour-intensive. The advanced technology may obviate the labour demand but this can be possible in textile units. The business capital of Punjab, Ludhiana, houses about 10,000 garment and hosiery units.

At the same time, the scale of operations has increased and demand for labour surged. Rs 5,500 crore has been invested in Punjab till now under the Textile Upgrade Fund Scheme, of which Rs 400 crore has been invested in small units. Many small players, particularly in the garment industry, have expanded scale, leading to augmentation in demand for labour.

The manufacturers are also offering incentives to local female workers in textile units to bridge the gap between demand and supply. Of late, the industry has revised wages to retain the workforce. The big companies in Punjab are also offering more social security and infrastructure.

In accordance with the present guidelines, the TUFS will cease to be operative in March 2007. But the industry has been pressing hard to keep the Fund going and in that case, there would be a further shortfall in the number of workers.

Till date, about 160 garment-manufacturing units in Punjab have drawn funds from the TUF. The proposals of many of the units are in the process of getting final approvals.

(*Business Standard*, 1 December 2006)

Textile Ind Body Seeks Cut in Duty for Man-Made Fibre Products

THE Confederation of Indian Textile Industry (CITI) has asked the Finance Ministry to extend the "optional" excise duty scheme to all textile producers including the man-made fibre consuming industry. To facilitate this, it has wanted the excise duty on man-made fibre products cut from the present 8 to 4 per cent at par with products from cotton.

This will enable maintaining the option of either paying the excise duty and taking the Cenvat credit on duty paid at the previous stage or not paying excise duty at all, a CITI delegation has represented to the Ministry of Finance.

The delegation led by the CITI Deputy Chairman, P.D. Patodia, had suggested that the excise duty on man-made fibres and the polypropylene chips be brought down to 4 per cent and total removal of the import duty on polyester/ viscose fibre to make imports viable.

Another plea from the apex textile body is to remove the excise and customs duty on furnace oil used by the textile industry for captive generation, which, it said, will bring about the parity in the power costs between India and those in the other competing countries.

Making specific fiscal measures to make Indian textiles globally competitive, the CITI has also favoured scaling down in the excise duty on all textile machinery from 16 to 8 per cent and the customs duty to 5 per cent, which will assist the domestic machinery industry in capacity building and also smooth sourcing of machinery from international suppliers. Among the other fiscal sops sought are exemption from service tax for all export activities, removal of the textile committee cess and lowering of the central sales tax to 2 per cent immediately.

(*The Hindu Business Line*, 30 November 2006)

Italian Textile Machinery Cos Eyeing India

INDIA'S booming textile industry has caught the eye of Italian textile machinery manufacturers who are showing interest in setting up manufacturing units in India.

Matec Spa is one such company that manufactures machinery to make socks. The company recently set up a factory in China and is now looking to do the same in India.

"We see a lot of potential in India and are investing about $100,000 on research in India. We are sending people to study the market and conditions as we are looking to set up another factory like the one in China," said Bruno Pardini, Sales Manager, Matec.

China Ahead

For Italy though, India is not even close to China when it comes to exports of textile machinery (Matec exports around 300 machines to India compared to 4,000 to China annually). But companies such as Matec and SMIT Textile have expressed their optimism about increasing their exports to India.

"India is our third largest importer after China and Turkey and accounts for 15 per cent of our turnover. By the next year, we expect India to become our second largest market," said Luciano Corain, President, SMIT Textile.

India currently exports machinery worth 129 million euros (approx Rs 741 crore) from Italy. "With more and more companies foraying into retail, domestically there will be a huge demand for textiles," said J.N. Singh, Textile Commissioner.

"Italy is known for its high quality machines and if they want to take advantage of the situation here, then they should look to set up joint ventures or direct manufacturing capabilities," he added. Shri Singh also said that he expects the total investment in the textile sector in India to be Rs 1.4 lakh crore in the next 4-5 years.

(*The Hindu Business Line*, 23 November 2006)

Let Textile Cos Thrive at Home to Grow in West

True Account: Proposed Takeovers by Indian Cos Aimed at Shifting Production, Not Customer Bases

RECENT reports suggest that many Indian textile companies want to own production units abroad, mainly in Europe, the US and Central Asia, either through greenfield investments or through acquisition of existing plants. Several north-based textile companies such as Vardhman Group, Ginni Filaments, Abhishek Industries are looking at acquisition in Central Asian countries such as Uzbekistan and Kazakhstan in deals that could have combined size of $250-300 million. Spentex Industries is reported to have already acquired state-owned

Uzbek spinning firm Tashkent To'ytepa Tekstil for $81 million. Chandigarh-based Winson Yarns has announced a plan to invest $5 million in a new yarn manufacturing and dyeing unit in Italy, whose total cost is pegged at $20 million.

S. Kumar is reportedly set to acquire American Pacific, a US home furnishing maker in a $90 million deal. Recently, GHCL has taken over Dan River, a US textile company. Mumbai-based Alok Industries has signed an MoU with Czech textile firm Mileta International to acquire a 60 per cent stake in it for 13.97 million euros. The stated objective of these potential acquirers is to go closer to the lucrative US and EU markets.

The obvious reading of these deals and purported moves would be that like other manufacturing industries such as steel and pharmaceuticals, India's textile industry has also arrived and is anxious to take over units abroad. The fact is, however, far from this notion. The proposed takeovers are just attempts to shift production bases, not of customer bases. Textiles being a labour-intensive industry, mere re-location of production bases with no significant expansion of the export markets is nothing to write home about. Recent data suggest that rate of growth of India in US apparel market has dwindled during January-September 2006 to 10.75 per cent, compared to a growth of 30.56 per cent in April-October 2005. There is a substantial dip in unit value realization also, because of intense competition from countries like Bangladesh and Indonesia, which have in recent months posted a dramatic surge in their growth in US apparel and textile markets.

India's textile industry, despite the major moderation-cum-rationalization of the indirect tax structure over the last three years, continues to be hamstrung by a host of factors that blunt its international competitiveness. High cost of synthetic raw materials attributable to an effective 15 per cent non-Cenvatable import tariff, power (which accounts for 15 per cent of spinning cost) and inflexibility in labour management are the principal reasons for India losing out in competition in western markets.

The reported attempts by Indian textile and garment firms to own production units abroad are aimed at benefiting from the better production economy of Central Asian and South East Asian countries. It may be noted that no company wants to set up a unit in Mexico, despite its zero-duty access to the US market. In fact, the US investments in Mexican garment industry are being withdrawn after dismantling of quota restrictions. Neither do Indian companies plan to buy units in South America, which does not offer any cost advantage.

The US and EU apparel markets are largely based on synthetic raw materials. Both have a 60 per cent plus share of synthetic material in the apperal market. However, manmade fibres and filaments, which account for about 60 per cent of fibre consumption internationally, have a less than 40 per cent in India's fibre consumption. As for exports, synthetic fibre content is just over 15 per cent in garments and close to 20 per cent in textiles (yarns, fabrics and made-ups).

The reason, conventionally, for import tariffs on synthetic inputs PTA, DMT, PSF, PFY, Acrilonitrile, etc., have been higher, virtually allowing domestic producers to resort to import parity pricing. Excise duties on these inputs have been slashed in recent budgets, reducing the disparity between cotton and synthetic textile industries. Import duties too have not come down *in tandem* with the reduction in peak rate. After a specific reduction in last Budget, import duty on manmade fibres and their intermediates, is currently 10 per cent, and with 4 per cent additional customs duty, the incidence is 15 per cent. Reliance Industries account for about 70 per cent of the production of these inputs and intermediates, and the company has recently brought down prices to even below import parity price.

Currently, India has a share of 5 per cent in both US and EU textile and garment markets – 3-4 per cent in synthetics and over 10 per cent in cotton textiles. With the high cost of synthetic inputs – they are much cheaper in China and Indonesia – India's growth in US and EU markets gets virtually restricted to the cotton textile market where it has already got reasonable market share.

The Indian textile industry has a size of $46 billion. The projection is to increase the size to $85 billion by 2010. This needs investments of $31 billion, and at least $8 billion of this should be FDI. The shortage of trained manpower is estimated to be 25 lakh in next 5 years. The extant infrastructure of training institutions can provide only 200,000 over the next 5 years. Further lowering of customs duty on synthetic inputs and intermediates, coupled with sufficient labour flexibility would keep Indian textile makers at home, even as they make major headway in global markets.

(*The Economic Times*, 23 November 2006)

Rs 750 cr for Textile Parks

THE textile sector contributes 4 per cent to the GDP and 14 per cent towards the national industrial production, and accounts for about 15 per cent of exports.

Highlighting various central government schemes for the textile sector, J.N. Singh, Textile Commissioner, Ministry of Textiles, said, "The Government has floated two major schemes to enhance the involvement of the private players in the textile industry. Under the integrated textile parks scheme, the Government provides 40 per cent subsidy to the weaving, processing and apparel units.

As many as 25 textile parks are in various stages of progress and another 25 would be developed over the next two years at an investment of about Rs 750 crore, he added.

Currently, there is no park based exclusively on fashion. If any park is dedicated to fashion alone, like the upcoming Fashion Technology Park at Mohali, that can also be included under the purview of 40 per cent subsidy.

Under the TUFS, an investment of about Rs 15,000 crore was catalyzed last year and this year we are targeting double the investment, added Shri Singh.

India's market share in world textile trade is expected to grow from 3-6 per cent, and exports are expected to grow by 20 per cent by 2010.

"Fashion designers understand the consumer and design clothes. If Indian designers fail to capitalize this demand, the international brands would flood the market," the official said.

(*The Financial Express*, 17 November 2006)

India 7th Largest Exporter of Textiles: WTO

INDIA, China and Pakistan have boosted their roles in global exports of textiles and clothing in 2005, while the market shares of the suppliers of these products from South and Central America and Africa have suffered big losses.

According to the WTO's latest international trade statistics, the phase-out of the WTO agreement on textiles and clothing was one of the reasons for such a change in the sectors in 2005.

In the list of leading exporters of textiles in 2005, India figured 7th with $7.85 billion (3.9% of the total world exports in the same category). The EU topped the list with $68 billion, followed by China with $41 billion. Interestingly, Pakistan was 8th with $7.09 billion.

In the importers list in the same category, India finished 14th with $2.1 billion (1% of world total). Again the EU came first in this list too with $65.83 billion, followed by the US with $22.5 billion and then China with $15.5 billion.

Among the leading exporters of clothing, India was 5th with $8.29 billion (3% of the total share of exports in the category). While the EU topped the list with $80.35 billion, China came a close second with $74.16 billion. Pakistan was 13th in the list with $3.6 billion. India's neighbours Bangladesh and Sri Lanka also figured in the top 15.

India did not figure in the top 15 importing countries' list, while China was 14th with $1.6 billion. The EU topped that list too with $128.7 billion. Europe has a close to 40 per cent share (both exports and imports) of the total share of world trade in textiles. Asia's exports were over 45 per cent of the total and imports were a little over 25 per cent. But the exports and imports of South & Central America and Africa were not more than a mere 5 per cent of the total.

Almost similar is the scenario in the clothing sector as far as South & Central America and Africa are concerned. The only major difference being Asian countries' exports were close to 50 per cent of the world exports, while their imports were only about 15 per cent. In the case of Europe, the exports were close to 40 per cent of world exports while their imports were a little above 45 per cent.

"India, China and Pakistan have become very competitive. Earlier, they were stopped by quotas. Now, in spite of the price difference imposed by duties, we are still able to compete with the countries having a preferential treatment," said D.K. Nair, Secretary-General, Confederation of Indian Textile Industry.

(*The Financial Express*, 15 November 2006)

Rs 140,000 cr Needed to Upgrade Textile Industry

THE Ministry of Textiles has carried out a survey on the status, annual capacity, actual production, exports and proposed investment for technology upgrade of textile engineering industry.

Of the Rs 140,000 crore investment required by the industry for its modernization and expansion up to 2010, about Rs 70,000 crore is needed for installation of plant and machinery, the survey revealed. The production of textile machinery, parts and accessories saw an increase from Rs 1,668 crore in 2004-05 to Rs 2,151 crore in 2005-06, registering an increase of 28 per cent, said the industry sources.

Despite the buoyancy in manufacturing sector, the imports of both new and second-hand machinery have risen from Rs 2,575 to Rs 3,765 crore, but exports have not gone up comparatively. They stood at Rs 690 crore in 2005-06 against Rs 587 crore in the previous year,

"To meet the growing demand, intensive consultations have been started with Chinese and Japanese manufacturers for setting up joint ventures in the country,'' a senior official in the Textile Ministry said.

The effort is a part of the Government's strategy as domestic manufacturers have not been able to meet local demand and textile sector has to rely on imports which have soared to nearly Rs 4,000 crore per annum. Currently, the waiting time for delivery of machines is between 16 and 18 months, said a senior official of the Ministry.

Reacting to the Ministry's opinion, the chairman of the Textile Machinery Manufacturers Association R.S. Bachkaniwala said, "The production trend in the Indian market was good but there is also another trend of huge imports which needs to be reversed.''

He said a large quantity of textile machinery, especially in weaving, processing and garmenting has been imported during the year by the industry. There is an urgent need to initiate measures by both user and engineering industry with the cooperation of the government. There is an urgent need to shorten the time required. The country needs to step up its spindlage capacity as its immediate competitor China's spindlage stood at 4.3 million against India's level which hovered around 900,000, he said

(*The Financial Express*, 15 November 2006)

Govt. Plans Separate Foreign Investment Cell for Textile Sector

THE Government is planning to form a separate foreign direct investment (FDI) cell to increase foreign funds inflow into the textile sector.

The areas of focus will include the equipment industry where nearly 70 per cent of its requirements are met through imports for manufacture of technical textile items. These items include industrial fabrics, healthcare disposables, non-wovens and high tenacity yarn.

This segment offers immense opportunities to overseas firms with technology prowess to set up base in the country. The guidelines for the purpose have been finalized and will be announced by the end of the year.

The new outfit will be created within the Textile Ministry, which is expected to bring in FDI on an average of Rs 50 crore a day for the next five years as per estimates made by the Ministry.

When contacted, Textile Minister Shri Shankarsinh Vaghela said, "The ministry has decided to set up the FDI cell as India's textiles in totality need an investment of Rs 75,000 crore for the next five years, and the element of foreign investment in it will play a significant role''.

The objective of the exercise is to mobilize huge foreign capital through further liberalizing the textile policy and make the sector as healthier as possible, Shri Vaghela said. He said the Ministry would act as facilitator and bring forth a perspective to the industry on the ingredients of successful joint ventures, structuring arrangements and how they can benefit from increased foreign fund inflows.

The global market opportunity for technical textiles is over $107 billion presently and is expected to grow at 4 per cent per annum over the next five years. The domestic market of technical textile industry is $5 billion and is expected to record an annual growth of 12 per cent to reach the level of $7 billion by 2007-08 and offers fantastic opportunity to foreign investors.

This is coupled with trade competitiveness factors of multi-fibre base, value chain integration, and low labour cost providing competitive cost structure for operations driving relocation of international majors.

(*The Financial Express*, 14 October 2006)

Textile Exporters Opting for "Speed to Market" Route

THE "speed to market" concept is gaining currency with Indian textile export firms as they try to leverage cross-country synergies to set up bases closer to target markets of the US and the EU with a view to bringing down export lead-time.

Spreading out the manufacturing base across a number of countries to become "full-service providers" is also being attempted to win over big global buyers, who are drastically cutting down vendor base to selectively source from a smaller number of niche suppliers with diversified production facilities.

One of the players gaining turf in the major markets using the diversification plank is House of Pearls, an integrated textile player with a chain of manufacturing facilities and offices across India, the UK, Bangladesh, Indonesia, the US and China. The firm procures, designs, processes and warehouses apparel items through a cluster of 10 of its own units and 150 partner factories across the globe.

Through the diversified model, it is able to leverage this advantage to ramp up production at short notice when it gets enlarged orders. The company has also invested in warehouses in the UK and the US to move packaged, ready-to-sell goods at short notice after processing them. Supplying to big retailers such as Wal-Mart, J.C. Penney, GAP, Banana Republic, George Kohls, M&S, Espirit, Liz Clairborne and Next, the company has a team of in-house designers based out of the US, who work on material sourced from the firm's supply outposts in line with changing global trends.

The company has clocked revenues of over Rs 800 crore last fiscal, with a topline target of Rs 1,000 crore for the current year. "We put our eggs in many baskets, leading to a very scalable model," says the Group Chairman, Deepak Seth.

Others taking the "speed to market" route include the Rs 150 crore Zodiac Clothing Company Ltd. that had earlier acquired a shirt manufacturing facility in the UAE, mainly with a view to leveraging supply chain efficiency in its target EU markets. Zodiac retails its brand in the high-end chains such as Bijenkorf in Holland and Globus in Switzerland and has been eyeing markets such as Germany and France.

The Ludhiana-based integrated denim solutions provider Malwa Industries Ltd. is also toying with the same strategy. It acquired Third Dimension Apparels in Jordan, which has duty-free access to the US and Europe for a consideration of $6 million. The company has also picked up a majority stake in an Italian firm.

Textile firm GHCL recently announced taking over Rosebys, a leading retail home-textile chain in the UK. GHCL had earlier acquired home textile company Dan River in the US, a move that enabled it to utilize the firm's existing marketing arrangements of around $250 million.

(*The Hindu Business Line*, 3 July 2006)

Apparel Export Body Hails Decision to Remove Cess

THE Apparel Export Promotion Council (AEPC) has hailed the decision of the Union Government for exempting readymade garments from Textile Committee cess, which would go some way in making the $9 billion garment export industry globally competitive.

Reacting to the revocation of cess on garment industry, the AEPC Chairman, Vijay Agarwal, told that the cess was an "irritant" as the exporters were compelled to get the cess paid and endorsed before shipment, entailing avoidable paperwork and adding to transaction cost.

Hassle-free Milieu

He said during the inter-ministerial meeting of the Commerce and Finance Ministers held in New Delhi on 21 December, the AEPC pleaded for its removal to provide a hassle-free milieu for exporters to undertake their operations instead of frittering away their energy in complying with cumbersome procedures and paperwork. The extant rate is 0.05 per cent ad valorem in vogue effective from 1 July 1997.

However, textile industry is sore over the removal of cess on garment segment alone and not on the whole industry. In 2004-05, the Textile Committee remitted to the Government of India close to Rs 50 crore towards the cess collection, whereas the funds received by the Committee for its budgeted operation during that year were Rs 21 crore.

The Committee also generated revenue from consultancy services and income from the regulatory certification scheme that was in vogue till the phase out of quota regime on 31 December 2004.

Total Cess

Officials of the Textile Ministry said that during the fiscal year 2005-06, the total cess collected by the Committee amounted to Rs 52.65 crore. Out of this, the contribution of garment sector (i.e. mainly on export of garment based on shipping bills) is Rs 17.50 crore, which is approximately 33 per cent of the total collection. With the removal of cess, there would be loss of about Rs 17.50 crore to the total cess collection.

The composite mills are also paying cess on readymade garments.

Based on returns, their contribution to the total cess collection comes to around 10 to 15 per cent of the total cess collection.

Hence, the loss due to exemption of cess on garments would be roughly 40 per cent of the total cess collection.

Even as the garment industry is glad about its removal as part of the rationalization of the tax and cess burden in the changed scenario of global competitiveness, the other components of textile manufacturers are left with the unenviable task of continuing to pay cess.

(*The Hindu Business Line*, 7 January 2007)

Home Textile Exports Likely to Grow to $10bn by 2010

INDIA, a leading global player in the home textile space, is poised to strengthen its position with an over three-fold jump expected in exports by 2010, global financial services major Citigroup said. Country's home textile exports are forecasted to rise to $10 billion by 2010 from $3 billion in 2005, on the back of self-sufficiency in cotton and recent acquisitions and tie-ups with global brands, Citigroup Global Market India said in its equity research report. Despite prospects of excess capacity and cost pressures amidst cut-throat competition, bed linen exports to the US by three Asian countries – China, India and Pakistan – continue to dominate with a 76 per cent share of the total. The US and European Union together accounted for 70 per cent of the world's $70 billion imports for home textiles. The US imports bed linen worth $24 billion, the Citigroup report said. With China cornering 38 per cent share, it is the largest exporter of home furnishings to the US, Pakistan comes next with 22 per cent while India accounts for 16 per cent share. The rest 24 per cent exports to the US are shared by Turkey, Brazil, Mexico, Portugal, Italy and other numerous countries.

(*The Economic Times*, 6 December 2006)

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BOOKS/ARTICLES NOTES

ARTICLES

Impact of WTO on the Patterns of Trade in Textile & Clothing, by Syed Kashif Rafi, *Journal of Management & Social Sciences*, 2005, Vol. 1, pp. 204-226.

THE article attempts to forecast the future trade patterns and identify the determinants of exports of textile and clothing, which are significant sectors for developing countries like India, South Korea, Indonesia and even least developed countries like Bangladesh and Pakistan.

It surveys top 24 leading exporting countries from these sectors, which cover more than 72 per cent of global exports and 70 percent of imports in textile and clothing sectors, and also 81 per cent of the Gross World Product (GWP).

The article discusses the fear generated by the abolition of all quotas under the WTO regime from 2005 in the US, with the threats of China emerging as a major challenger the strength it has in manufacturing textiles worldwide. However, it delves deeper into the mechanism of export-import and the causes to find significant results for countries evolving as textile exporters by using econometric models.

For example, Hong Kong and Italy are going to experience a decline in their share in textile business worldwide in the next three years following the lifting of the quotas. China is also expected to come down from 1st to 3rd position around 2007.

The study also finds that financial liquidity, endogenous production of cotton and the magnitude of imported raw material and intermediate goods are the root-causes of export of textile and clothing products.

Exporting Textiles & Clothing: What's the Cost for LDCs? by Matthias Knappe, *International Trade Forum*, 2005, Issue 1, pp. 19-24.

THE article captures the market trends in the textile sector and looks at the abolition of textile quotas by the WTO members, subsequent to which the textile exports market have shown various trends. Prices have started falling and major Western buyers are narrowing their sources. While large Asian countries with vertically integrated industries are becoming the world's leading suppliers, within supplier countries, there are signs of industry consolidation. Small and medium-sized firms (SMEs), on the other hand, are facing a shortage of orders.

Strategizing to retain their share in the export market becomes very important for the least developed and small, vulnerable countries in the face of new supply demands from the EU and the US. They are most likely to buy from mega companies or smaller, flexible firms located near buyers, and in both these categories, LDCs lack a major advantage. The LDCs also cater to the garment making facilities, while expecting yarn, fabric and accessories from the buyer. While delivery time frame has become far more competitive, costs have also increased.

Earlier, in the quota regime, the interests of these countries were protected. However, in this free market, as sharper competition is eroding the protected status of LDCs, even preferential status to market access is not enough for these countries.

The article also offers a series of recommendations for the LDCs like taking part in developing a sector strategy, improving sourcing skills, focusing on higher value products, benchmarking and increasing involvement in e-trade. There are other important suggestions related to role of trade facilitation, improved relation with foreign investors, etc.

Settling for Second Best, *Business India* Intelligence, 1/26/2005, Vol. 12 Issue 2, p. 3

(This article was adapted from **The end is nigh? What the end of quotas means for Asia's textile and garment industries**, a paper by Jake Statham, Asia editor of the Economist Intelligence Unit's Views Wire.)

IT focuses on the ***textile*** industry in India. Despite structural rigidities, India is regarded by many as the biggest likely beneficiary, behind China, from the end of ***textile*** quotas on 1 January 2005. Although China should gain most from the abolition of quotas, there will be room for other countries to prosper. India will be the best of the rest, but will not for many years, if ever, be able to compete with China in terms of sheer scale. India's annual ***textile*** and ***clothing*** exports are one-sixth the value of China's, and account for just 3.3 per cent of the worldwide market, compared with 20 per cent for China.

Despite this, India is expected to thrive in the post-quota environment. Perhaps its biggest advantage is its domestic raw materials and textile base, particularly in cotton, also in synthetic fibres. In 2002 the value of India's textile imports was equivalent to less than 15 per cent of its clothing exports, suggesting that exports are not heavily reliant on imported inputs. This compared with shares of around 32 per cent for China, 50 per cent for the Philippines and almost 80 per cent for Vietnam, which should help the Indian textile industry's chances of developing upstream and downstream linkages.

How to Catch up with Latest Textile Market Trends by Arsalan Ghani, *Economic Review* (05318955), July 2006, Vol. 37 Issue 7, pp. 34-35.

SINCE conventional textiles have entered into a highly competitive market, the supply market seems saturated, and therefore, the author suggests that there should be a shift from conventional textile technology to technical textiles for greater profitability to the suppliers. The term technical textiles refer to the application of textiles in relevance to their technical properties and performance rather than appearance or other aesthetic characteristics. For example, clothes worn by defense personal, space ware, sports and leisurewear, technical components of shoes and clothing, industrial application are some forms of technical textiles.

While conventional textiles needed skills, technical textiles need research expertise and is a purely knowledge-based business. Citing examples of India and China, which have already oriented their focus towards developing technical textiles for the market, the author argues the case for Pakistan, which is lagging behind these two South-Asian powers. Pakistan lacks an organized and capable SME sector, unlike India and China, which can take the initiative in this direction. It also lacks the necessary research culture for developing technical textile products, and financial assistance is also hard to come by.

The Pakistani government is seeking expert solution for policy level initiatives for its textile sector through a committee under the ministry of textiles, which recommends steps like financial assistance, and taxation and duties. It suggests that all these recommendations may be taken into account to revitalize the sector.

Textile and Clothing Trade Post the Quota Regime: An Essential Agenda for Sustaining Apparel Exports of Developing Economies, UNCTAD Presentation by Munir Ahmad, Executive Director, International Textiles and Clothing Bureau (ITCB), Geneva,

IN this UNCTAD presentation, the writer aims to find a direction for textile exporting countries amidst the maze of predictions for emerging trends in export for developing countries. For example, proximity to the markets, lower transit times and duty concessions available are underlined by WTO and OECD studies as key factors determining competitiveness, whereas ironically, countries like Mexico, with all the underlined factors present are experiencing slides in their export share. On the other hand, countries like Jordan and some of the Sub-Saharan African countries, situated far from the US market but benefiting from the same tariff advantage have been witnessing a boom in their exports during this same period.

The answer quite evidently lies in, *firstly*, the structure of these countries' domestic industries but, *secondly* and more importantly, in the US/EU trade policy that binds Mexico, Central American and Caribbean countries, Morocco, Tunisia and Romania to sourcing their upstream textile inputs – yarns, fabrics, components, etc., — from them; and this, due to the working of US/EU rules of origin as own capacities in these product lines are either non-existent or limited for these countries, therefore the fundamental reason for deteriorating exports for countries like Mexico is the working of the US rules of origin. By virtue of a so-called "yarn forward" rule Mexico and Central American countries are virtually locked in with the US textile makers, with problems of related formalities to benefit from the tariff concession under NAFTA and the US-Caribbean Basin legislation. Interestingly, those countries which are not bound by such rules are experiencing export boom. More successful apparel exporters have been meeting their textile requirements from non-US/EU sources.

Therefore, the author concludes that restrictive origin requirements, especially those requiring the use of US/EU textile components, undermine the competitiveness of a number of developing countries. Most of these countries are exporters of apparel to these major markets and have a heavy reliance on those exports. And these requirements also serve to hinder the development of South-South trade and, thereby, hold back the process of industrialization of developing economies. Urgent multilateral action is necessary to correct the situation and to make the origin rules more trade-friendly, especially in the interest of countries that are in dire need of sustaining their apparel exports in the wake of the expiry of the quota regime.

The Liberalization of Trade in Textiles and Clothing: China's Impact on the ASEAN Economies by Junyuan Christopher Tan, Department of Economics, Stanford University, Stanford CA 94305, USA, Source: www.econ.stanford.edu/academics/Honors_Theses

THIS study examines the effect that China will have on the South-East Asian countries, as part of a bigger picture of economic competition and cooperation within Asia following the WTO abolition of quotas on textile and clothing. Prior to this event, China had risen as a major textile and clothing exporter, with a pool of efficient and cheap labour, increasing its share from 12.6 to 23.0 per cent between 1992 to 2003 in the world clothing market.

The likely impact that the freeing of China's shackles will have on the ASEAN economies makes for an interesting study. To understand the phenomenon, the study overviews the supply chain in the clothing trade, the history of textile agreements under the WTO, and the demise of ATC in terms of trade trends. In the quota regime, due to cheap labour and competitiveness in terms of raw materials production for producing textile and clothing, China had experienced extremely heavy restrictions relatively in comparison to other ASEAN countries.

Now with the restrictions removed, China can bank on its strong cost advantages, efficient port facilities, a strong domestic industry for intermediate inputs for the textile and clothing industry, and most importantly, a large, highly productive, and low-cost labour force for increasing its export share.

China exports mainly to the three markets—the US, the EU and Japan. While the ASEAN countries and China have varying capabilities in terms of the supply chain, they seem to be heavily concentrated in the final stage of the chain, that is finished clothing.

However, many of the ASEAN countries worry that they are unable to compete with China based on pure production and transportation costs. Wage rates in the Philippines, Thailand, and Malaysia are high, and uncompetitive with China. Political unrest and low labour productivity are some other drawbacks of other ASEAN countries.

However, the trends were found to be positive for the less developed, more vulnerable ASEAN economies. They were significantly positive for Vietnam and Cambodia in the US, and for Myanmar in the EU—though Laos, on the other hand, seems to be uncompetitive in both the US and EU market. These are likely because these countries, close to China, are a logical destination for quota-hopping FDI. However, it is also quite probable that some part of these trends have occurred independent of quotas, as evidenced by the Japanese market. They are possibly an indication of comparative advantage in clothing production increasing at a faster rate than China.

India Gains from End to Quotas by Matt Kovac, ICIS Chemical Business Americas; 11/20/2006, Vol. 270 Issue 19, p. 17.

THE article reports on the advantage of the quota-free trade to the textile and apparel industry in India. The percentage increase in export sales to the US and European Union countries are cited. Several factors that ensure India is able to beat competitors include GDP growth, economic liberalization and a complete supply chain.

Pakistan's Textile Industry and Threat of WTO by Asif Maqbool, *Economic Review* (05318955), January 2006, Vol. 37 Issue 1, pp. 25-29.

THE article focuses on the weaving industry in Pakistan, which is a very important segment of the national economy in terms of GDP, exports, employment, foreign exchange and investment. The country has been producing sophisticated quality fabrics in line with the latest overseas demand, and has taken steps to replace obsolete machinery of the industry and importation of the latest equipment which may produce first-class products.

The writer tries to look at the steps the Pakistani government has taken to ensure the industry's competitiveness in a global scenario under the WTO set-up. Though the government is strongly claiming that Pakistani textile industry is ready for competition in the open trade regime, there are certain areas which need to be looked into closely. Pakistan's cost of production in textiles is still higher than its competitors owing to lack of modern technology, trained human resources and institutional ineffectiveness. To meet the requirements, the industry's exporters need to introduce innovations to update technology and restructure its institutes. There is also a need to look for new markets to export products.

The need to reorient the industry's preferences should be supported by necessary regulations and attempts at improving research in this direction through setting up of universities and research institutions. The writer also shows that to make the textile industry competitive, the government should ensure the competence of its supporting sectors like energy.

The World After Textile Quotas, by Alan M. Field, *Journal of Commerce*, 10 January 2005, Supp Botteneck, pp. 61-65.

FOLLOWING the long-anticipated WTO sanctioned import quotas; the textile industry in the world is geared for changes, which will also have larger implications for the apparel trade.

Immediately after the quota removal, the world is agog with anticipation of China dominating the US and EU market, exploiting their enormous scale of production. Previously under the quota system, the share of Chinese exports going to the US remained modest; with only 9.9 per cent of China's total textile exports and only 12.6 per cent of China's total clothing exports to the US in 2003. Other major sources of US supply have been far more dependent on the US market like Mexico.

The WTO, in their report on the Textile Sector, predicts China to be the major gainer in exports to the US, increasing its share to 50 per cent, with India being another possible gainer increasing its share from 4 to 15 per cent after quotas in the apparels category. Though it predicts a modest rise from 11 to 18 per cent in the textile category, this present article suggests that there are several reasons to believe that these forecasts overstate China's future performance in the apparel sector. Other countries of Asia like India, Indonesia and Vietnam are coming up in terms of boosting productivity and restraining unit labour costs. Low wage locations like Bangladesh, Cambodia and Vietnam also would survive contributing to low-end markets. This is particularly significant in the apparel sector as the other countries are also gaining some experience in the field.

The End of Textile Quotas: Implications for ASEAN Economies, by Ng Boon Yian, *Regional Outlook*, 2006/07 Southeast, pp. 77-80.

ANALYSTS were full of widespread concerns that smaller textile and clothing producers, including those in some Southeast Asian countries would not be able to withstand the onslaught of competition from China and India after the withdrawal of WTO-sanctioned quotas. The event holds special significance for countries such as Cambodia, Laos, the Philippines, and Indonesia where textiles and clothing are a principal export item. For instance, in the Philippines the textile and clothing industry is the second largest export earner and employs 400,000 people. In Cambodia, textiles and clothing account for 87 per cent of exports and employ about 200,000 workers.

With its hordes of low-cost labour, the competitive advantage of China has certainly caused some impact on the textile and clothing industries in ASEAN.

Contrary to popular fears, however, the regional industries did not immediately tank when vast Chinese exports flooded major markets in the West. According to the US Department of Commerce, ASEAN's total exports of textile and apparel to the United States, its biggest market, fell by just 4.05 per cent in the first six months of 2005. Meanwhile, China's cheap exports, not surprisingly, expanded by 45.81 per cent year-on-year However, it is clear that ASEAN's textile industries, rather than its clothing production, are the ones bearing the brunt of competitive forces from low-cost powerhouses such as China and India. In fact, while ASEAN's textile export to the United States have fallen 19.8 per cent, its clothing exports have actually risen by 5.7 per cent in the first six months of the year. The only exceptions were Singapore and the Philippines, which saw a fall in clothing exports of 22.5 and 2.7 per cent, respectively. While Singapore has clearly lost its comparative advantage in garments production as it moves up the economic value chain, the reason for the Philippines' poor performance is likely to be due to its ill-preparedness in dealing with the quota phase-out. For instance, its poor logistics, slow turnaround time, inefficient supply chain, declining productivity, high transaction costs, and reliance on the US market through the quota system are some of the factors strangling the Philippine clothing industry.

Overall, however, the garment industry in ASEAN remains relatively resilient. Even though China, with a market share of 21.2 per cent, is now the biggest exporter of clothing to the United States, ASEAN, with its share of 16.7 per cent, is not far behind. Of course, these indicators should be taken tentatively as it is too early to posit a long-term trend from these early figures.

The article also suggests certain steps for the smaller ASEAN countries in the garment sector is that it is important that ASEAN countries seek to fine-tune its competitive edge by enhancing vertical integration. After all, one of the major advantages that China enjoys is a high level of vertical integration.

ASEAN countries should also fight low-cost competitors by differentiating their products in terms of design and quality by investing in research and development in these areas. •

Focus WTO

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DOCUMENTS

Textiles Monitoring Body

AGREEMENT ON TEXTILES AND CLOTHING

Preparation of the TMB's Comprehensive Report

ATC Implementation during Stage 3

Communication from India

The following communication, dated 6 May 2004, from the Delegation of India on behalf of several members of the International Textiles and Clothing Bureau listed in the communication, is being circulated to WTO Members for their information.

AMBASSADOR
and
PERMANENT REPRESENTATIVE

Permanent Mission of India
to the World Trade Organization, Geneva

Mr Andras Szepesi
Chairman
Textiles Monitoring Body
World Trade Organization, Geneva

6 May 2004

Dear Mr Chairman,

Preparation of the TMB's comprehensive report on ATC implementation

With reference to the TMB's request for information in connection with the preparation of its comprehensive report (G/TMB/30), I am pleased to forward herewith some observations on behalf of the following members of the International Textiles and Clothing Bureau (ITCB) that are also Members and Observers of the WTO: Argentina; Bangladesh; Brazil; China; Colombia; Costa Rica; DPR Korea; Egypt; Guatemala; Hong Kong, China; India; Indonesia; Republic of Korea; Macao, China; Maldives; Pakistan; Paraguay; Sri Lanka; Thailand; Uruguay and Vietnam.

With best regards,

Yours sincerely,

(Signed)
K.M. Chandrasekhar
Ambassador/PR of India to the WTO
and
Chairman, ITCB

1. The Agreement on Textiles and Clothing (ATC) has now been under implementation for over nine years. For the purposes of this final major review, we wish to focus on certain key aspects of the Agreement that have a major bearing on its full and faithful implementation, including those in the remainder of the transitional period. The following observations are being submitted for the TMB's consideration accordingly.

2. We wish to recall that Article 8.11 of the Agreement provides that the TMB's comprehensive report may include any recommendation to the Council for Trade in Goods as deemed appropriate by the TMB.

The Integration Process

3. The ATC provided for a ten-year transitional period to accomplish the phase-out of quota restrictions. This long period was intended to facilitate a smooth and progressive process.

4. Against the aforesaid objective and purpose of the Agreement, it would be instructive if the TMB could summarize how major restraining countries did actually phase out the quota restrictions. In this connection, Table 1 is submitted for consideration of the Body. In a nutshell:

- Of a total of 937 quotas applied by the United States on imports of textiles and clothing products from WTO Members under the MFA, it phased out only 103 quotas up until now. This number includes 17 quotas applying against Kenya and Mauritius. These were lifted only under the AGOA legislation. The United States will thus abolish 834 quotas, or 89 per cent of the total, at the end in one go.
- The EU carried over 303 quotas; phased out 91 as of now; and would abolish 212, or 70 per cent, on 1 January 2005. The number 91 includes 13 quotas that the EU suspended in return for market access concessions that it secured from two WTO Members.
- Likewise, out of a total of 368 quotas carried over by Canada, it has so far phased out 76. Consequently, it will abolish 292, or over 79 per cent, at the end of the process.
- Contrary to the above three, Norway had already abolished all 54 quotas (46 before the end of 1997 and the remaining eight at the beginning of 2001).

5. Looked at from a different angle, and taking as the basis the portion of 1990 import trade that was actually under quota restriction, the United States has thus far integrated less than 20 per cent, while the EU, based on 1995 imports when its membership increased to 15, only 32 per cent. Consequently, the amount of restrained trade left to be integrated by the two at the end of the process is 80 per cent and 68 per cent respectively (the large bulk in each case, consisting of trade in apparel). Unfortunately, for lack of necessary information, it has not been possible to assess similar percentages in respect of Canada and Turkey.

6. For assessment of the integration process in its context and in light of the object and purpose of the ATC, the Body may also like to recall that at the very start of the integration process, the United States had declared that it "will ensure that integration of the most sensitive products will be deferred until the end of the ten-year period" (cf., US Statement of Administrative Action on Uruguay Round Agreements Act). Similarly the EC followed a policy in which it "considered appropriate to retain control over quotas with a view to keeping the possibility of using them as a bargaining chip to obtain better market access in third countries" (cf., EC Commission web site, Trade in Goods, the textile sector, November 2000).

7. It is suggested that the TMB report bring out these facts in order to shed light on the pace and progressivity of the process of phase-out of quota restrictions, and underscore the desirability of the restraining Members taking steps to avoid any rush to alternate methods of protection by their domestic industries following the abolition of the large bulk of quota restrictions only at the end of the phase-out process.

The Administrative Arrangements – Article 2.17

8. The three major restraining countries have recently notified their final integration programmes to the TMB. In these notifications, it has been indicated that with the integration of remaining ATC products they will also eliminate all remaining quota restrictions. It is noted, however, that these notifications are silent with respect to the

administrative arrangements and procedures that have been in place for the implementation and administration of quota restrictions.

9. That notwithstanding, we note that, when reviewing these notifications, the TMB provided the following clarification:

> "… [TMB] also recalled that the quantitative restrictions maintained under Article 2 of the ATC were being implemented through additional procedures, such as the administrative arrangements agreed between Members and notified under Article 2.17. The TMB recalled that these administrative arrangements could only be deemed necessary in relation to the implementation of restrictions applied under the ATC. Therefore, with the elimination of all quantitative restrictions under the ATC, all related administrative procedures and measures, including those specified in the administrative arrangements notified pursuant to Article 2.17, shall also stand terminated." (G/TMB/R/106, paragraph 13, and G/TMB/R/107, paragraph 7)

It is suggested that, in its report to the Council for Trade in Goods, the TMB may reiterate its findings with respect to the issue of administrative arrangements.

Extension of EU Quotas to New Member States' Markets

10. The EU is being enlarged with the accession of ten new member States from May 2004 (namely, the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia). In accordance with Council Regulation (EC) No 487/2004 of 11 March 2004, the EC has announced the extension of its quotas on textiles and clothing to include these newly acceding States, and determined the levels of these quota limits unilaterally.

11. We note that these are new restrictions as they were not notified either by the EC or any of the acceding States pursuant to Article 2.1 of the ATC.

12. It is felt that the imposition of these new quotas is not compatible with Article 2.4 of the ATC according to which "no new restrictions in terms of products or Members shall be introduced except under the provisions of [the ATC] or relevant GATT 1994 provisions".

13. In this connection, the TMB may wish to recall that similar restrictions imposed by Turkey following its customs union with the EC were found violative of Article 2.4 of the ATC by a dispute panel and the Appellate Body, and it was ruled that neither were they justified by reference to GATT Article XXIV. The following finding by the Panel is especially noteworthy:

> "The prohibition on 'new restrictions' must be interpreted taking into account the preceding sentence [in Article 2.4 of the ATC]: 'The restrictions notified under paragraph 1 shall be deemed to constitute the *totality of such restrictions* applied by the respective Members on the day before the entry into force of the WTO Agreement'. The ordinary meaning of the words indicates that WTO Members intended that as of 1 January 1995, the incidence of restrictions under the ATC could only be reduced. We are of the view that any legal fiction whereby an existing restriction could simply be increased and not constitute a 'new restriction', would defeat the clear purpose of the ATC which is to reduce the scope of such restrictions, starting from 1 January 1995 ... . Thus, we consider that, setting aside the possibility of exceptions and justifications mentioned in Article 2.4 of the ATC, any increase of an ATC compatible quantitative restriction notified under Article 2.1 of the ATC, constitutes a 'new' restriction.
>
> On 28 February 1995 (therefore within the 60-day period of Article 2.1 of the ATC), the European Communities notified its previous restrictions maintained under the MFA. This notification referred to restrictions applicable only to EC territory. After the period of 60 days (under Article 2 of the ATC) the European Communities is prohibited from notifying any new restrictions or changes to existing and notified restrictions, except if adopted in compliance with the ATC or any other provisions of GATT 1994. Apart from these special cases the European Communities is not entitled to notify any increase of its MFA-derived restrictions …".[1]

[1]Panel Report, Turkey – Restrictions on Imports of Textiles and Clothing Products, WT/DS34/R, adopted on 19 November 1999, paragraphs 9.71 and 9.72

14. The TMB may wish to comment on the introduction of EC restrictions under reference and its bearing on the balance of rights and obligations under the ATC.

Carry-forward Quotas in 2004

15. The overarching purpose and objective of the ATC (as also that of the WTO Agreement, of which the ATC is an integral part) is to increase market access opportunities. Yet the restraining Members are denying the use of carry-forward facility in 2004, due to which access opportunities amounting to some 5-6 per cent are being curtailed.

16. The TMB may wish to bring this issue in its report, including, *inter alia*, with reference to Article 1.5 of the ATC which required Members to allow for continuous autonomous adjustment and increased competition in their markets.

Strengthening of GATT Rules and Disciplines

17. During the Stage under progress, anti-dumping activity in the EU has continued, especially involving the import of bed linen in one form or the other, turning it into an ongoing problem for exporters and the exporting countries concerned. Besides hampering the full utilization of quota access and thereby increasing the restrictiveness of relevant restrictions, these actions are in sharp contrast to the commitment under Article 7 of the ATC that "Members shall take such actions as may be necessary to abide by GATT rules an disciplines so as to ensure the application of policies relating to fair and equitable trading conditions as regards textiles and clothing in such areas as anti-dumping rules and procedures …".

Elimination of Quotas on non-WTO members while Maintaining Them on WTO Members

18. Article 1.6 of the ATC prescribed that "unless otherwise provided in [the ATC], its provisions shall not affect the rights and obligations of Members under the provisions of the WTO Agreement and [other] Multilateral Trade Agreements". In other words, all GATT rights remain unaffected, save to the extent provided in the ATC.

19. Contrarily, however, there have been several instances in which all EU quotas previously applying to non-WTO Members (Bosnia, Russia, Ukraine and Uzbekistan) have been abolished, while keeping them in place on WTO-Members; this in disregard of the fundamental MFN requirement that any advantage or privilege granted to any country must immediately and unconditionally be extended to all WTO Members.

Changes in Product Classification and Rules of Origin (Article 4)

20. As the TMB is aware, the US rules of origin relating to textiles and clothing products were substantially changed. These changes led to significant effects on trade.

21. In affecting these changes, the Unites States enlarged the coverage of certain cotton made-up products. Thus, it is now specified that these products would be deemed to be that of cotton even if they contained as little as 16 per cent of cotton by weight. (Prior to this, these products were considered to be that of cotton if they contained cotton as their chief weight).

22. Notwithstanding that a dispute panel ruled that the complainant in that case did not succeed in establishing that the changes had been effected in violation of obligations under the Agreement on Rules of Origin, it is submitted that the change in classification of cotton products enlarged the scope and incidence of restrictions on these products to the disadvantage of the exporting Members concerned.

23. Similarly, there have been instances of transfer of particular products from relatively unimportant categories (in which quota utilization rates were low) to high-demand tight-quota categories, thereby increasing the restrictiveness of relevant quotas. The TMB may wish to invite the restraining Members for information on such changes so as to enable it to include an assessment of their effect on the utilization of access opportunities during the stage under review.

Special Categories of Suppliers

24. As in previous stages of implementation, full regard has not been given by the restraining Members in Stage 3 to ATC provisions that envisaged special considerations for specific categories of suppliers, namely the small suppliers, the least developed countries, the cotton-producing

exporting countries; this despite reaffirmation, by the Council for Trade in Goods, of the importance of full implementation of those provisions in its report on the 'major review of ATC implementation during second stage of the implementation process' (cf. G/L/556, paragraph 22, indent 4).

25. Thus Canada and the United States did not implement the growth-on-growth for small suppliers and least developed countries in accordance with the object and purpose of Articles 1.2 and 2.18 of the ATC. They continued to apply a different methodology than the one used by the EU in implementing the same provisions.

26. It deserves to be recognized, however, that Canada notified (G/TMB/N/459 read with WT/COMTD/N/15/Add.1) the grant of duty- and quota-free treatment to imports from least developed countries under Article 2.15 of the ATC provided they met the necessary rules of origin criteria – although only from 1 January 2003 (the ninth year of ATC implementation).

27. For cotton-producing exporting countries, on the other hand, none of the restraining countries extended any specific treatment under Article 1.4 of the ATC, nor has any notification been made concerning any consultations with any of the cotton-producing countries concerned within the meaning of this provision.

28. In a nutshell, the relevant provisions of the Agreement have essentially gone un-implemented, rendering them to inutility.

Functioning of the TMB – Article 8

29. We recognize that the TMB findings and reports during the Stage under review have been well reasoned and added to the transparency of the implementation process. The Body may like to highlight, however, that in some cases the restraining Member concerned did not conform to its recommendations.

TABLE 1

PACE OF QUOTA ABOLITION

	US	*EU*	*Canada*	*Norway*
Total number of quotas at start of ATC[a]	937	303	368	54
Of which phased out:[b]				
(i) Stage 1 (from 1995):				
By integration under Article 2.6	0	0	8	0
By early elimination under Article 2.15				46
(ii) Stage 2 (from 1998):				
By integration under Article 2.8(a)	3	21	26	0
By Article 2.8(a) and Article 4	2			
By early elimination under Article 2.15	10[c]			8
(iii) Stage 3 (from 2002):				
By integration under Article 2.8(b)	69	57	42	0
By Article 2.8(b) and Article 4	2			
Under bilateral agreements		13		
Under AGOA	17			
Total number of quotas abolished as of March 2004	103	91	76	54
Quotas to be abolished on 1 January 2005	**834**	**212**	**292**	**0**

[a]Including specific limits and sub-limits notified under Article 2 of the ATC.

[b]Numbers do not include product categories on which quotas have been eliminated only partially.

[c]Eliminated only for Romania, not for any other restrained Member.

An observation:

It may be noted that the large bulk of quotas have been kept to be abolished only on the last day of the Agreement. So much about the progressivity of the process, contrary to what was envisioned in the Agreement!

(G/TMB/N/474, 13 May 2004).

ADDENDUM

The following communication, dated 22 June 2004, from the Delegation of India on behalf of several members of the International Textiles and Clothing Bureau, is being circulated to WTO Members for their information.

AMBASSADOR
and
PERMANENT REPRESENTATIVE

Permanent Mission of India
to the World Trade Organization
Geneva

Dear Mr Chairman,

Preparation of the TMB's comprehensive report on ATC implementation

1. I am pleased to acknowledge receipt of your letter referenced TMB/100 dated 28 May 2004 on the above subject, and to provide on behalf of the co-sponsors of our previous submission[1], the following specific instances to substantiate the points submitted in our communication dated 6 May 2004 under the heading "Changes in product classification and rules of origin (Article 4)".

2. First, as to widening of the scope of certain cotton made-up products pursuant to rules of origin changes: It may be recalled that on the occasion of the second major review, we offered a detailed account of changes introduced by the United States in its origin rules pertaining to textile and clothing products, especially those pursuant to Section 405 of its Trade and Development Act of 2000 enacted on 18 May 2000. Reference in this regard is invited to Annexes 6 and 7 of document G/TMB/N/403/Add.1, which reproduced the elaboration of our submission relating to rules of origin changes. A copy each of the two annexes is attached for ease of reference.

3. We wish to reiterate that no doubt a dispute panel ruled on the basis of a narrow legal consideration that the complainant had not succeeded in establishing that the changes violated the US's obligations under the Agreement on Rules of Origin. However, the issue that we seek to bring to the TMB's attention in connection with its present major review is specifically the one relating to the widening of the coverage of some cotton products in the context of the ATC.

4. In this connection, it may be noted that the US rules of origin changes altered the definition of some made-up products so that these are now deemed to be that of cotton even if they contain as little as 16 per cent of cotton as their component by weight. Prior to this change, these same products could be considered as those of cotton only if they contained cotton as their chief weight. Indeed this was the disposition under the pre-ATC bilateral agreements which were the basis of restrictions carried over from the MFA and notified to the TMB under Article 2 of the ATC.

5. It is apparent that the above change in the definition of these products led to more exports being classified and counted as those of cotton than was the case previously. Thus, for example, products which were exported under US Category 666 (Other man-made fibre furnishings) now came to be classified and counted under Categories 360, 361, 362 (cotton pillowcases, sheets and bedspreads respectively), etc., in which a number of exporting Members had high rates of quota utilization. Thus, the change resulted in effective diminution of access (or, to put it differently, in enlarging the scope and incidence of relevant restrictions) in violation of Article 2.4 of the ATC, and causing disruption to established trade and upsetting the balance of rights and obligations in the sense of Article 4.2.

[1] See G/TMB/N/474.

6. Second, as submitted in our communication of 6 May 2004, there have been instances of changes in the classification of certain product categories. In some cases, these changes involved transfer of particular products from one category to another and/or from non-category to category products. These changes have generally been effected unilaterally, without any consultation with or information to the affected exporting Members within the meaning of, and as required, under Article 4 of the ATC.

7. Aside from the above, the changes firstly created disruptive effects on trade, upsetting individual business plans and proper administration and utilization of quota access. Secondly, in instances in which products were reclassified to high-demand tight-quota categories, these led to increasing the restrictiveness of relevant quotas.

8. We appreciate that the TMB has requested information from the restraining Members about changes in classifications. We are confident that comprehensive information by these Members will facilitate the TMB's consideration of the issue and establish the point that we seek to bring to its attention.

9. In this connection, the Body may also like to recall that in our submission on the occasion of the second major review, we provided information with respect to changes effected by one restraining Member. Reference in this regard is invited to Annex 8 in document G/TMB/N/403/Add.1 quoted in paragraph 2 above. A copy thereof is again attached for facility of reference.

10. In addition, some further instances of changes by one Member, the United States, since the year 2002 coming to our notice are presented in a table attached to this letter. It may be noted that in several cases particular products were transferred from Categories 352, 359 and 459 (Underwear and other apparel) to some other categories. Included in the categories to which products were thus shifted were tight-quota Categories 341 (Women and girls' shirts and blouses), 634 (Men's and boys' coats), etc. What is more, some products that were not previously treated as belonging to any ATC category have now been classified to ATC categories. Thus, MMF carrying cases, polyester curtain tie-backs have now been included in Categories 670 and 666 respectively.

11. The information requested by the TMB from the restraining Members may bring further instances of similar reclassifications.

We hope that the above elaborations facilitate the TMB's consideration.

With best regards,

Yours sincerely,

(signed)
K.M. Chandrasekhar
Ambassador/PR of India to the WTO
and
Chairman, ITCB

Mr András Szepesi
Chairman
Textiles Monitoring Body
World Trade Organization
Geneva

ANNEX 6 OF G/TMB/N/403/Add.1

CHANGES IN US RULES OF ORIGIN FOR TEXTILES AND CLOTHING PRODUCTS

The US changed its rules of origin with respect to textiles and clothing products as part of its Uruguay Round Agreements Act. These changes became effective from July 1996 and introduced substantial alterations in the pre-ATC rules.

The EU challenged these changes. Following a bilateral deal between the two, the US rectified the situation mainly with respect to products of export interest to the EU through Section 405 of its Trade and Development Act 2000 enacted on 18 May 2000. Thus

(a) *For processed fabrics*, the origin reverted to the pre-1996 rule. Consequently, such fabrics are conferred origin of the country where they are both dyed and printed and undergo two or more of the following finishing operations: bleaching, shrinking, fulling, napping, decating, permanent stiffening, weighting, permanent embossing or moireing.

However the same rule does not apply to fabrics made of wool. In other words, for fabrics of wool, origin remains where the basic fabric is formed.

(b) *For made-up articles:* For 16 specified categories of made-up articles, the 1996 change established the origin as the country where the constituent greige fabric was formed by weaving or knitting, regardless of any further processing such as dyeing and printing of fabric, and subsequent conversion of fabric to made-up articles.

With respect to some of these 16 articles, the origin rule has been changed by the Trade and Development Act 2000. The products concerned are listed in an Appendix to this note. The new changes are summarized below:

(i) For non-cotton and non-wool made-up articles (i.e., only for those of silk, MMF or other vegetable fibres), the rule now recognizes dyeing and printing as origin conferring. Accordingly, the origin is the country where the constituent fabric is dyed and printed and undergoes two or more finishing operations (regardless however of where it may be further processed).

But, if these same products are made from cotton or wool fabric, the origin continues to be deemed the country where the basic cotton or wool fabric is formed.

(ii) What is more, the definition of cotton made-ups has been enlarged. Now an article containing 16 per cent or more by weight of cotton is considered as that of cotton.

(iii) And for all made-up articles, contrary to pre-ATC rules, the new rule continues to disregard processing operations such as designing, cutting, hemming, sewing, etc., that may be undertaken on the fabric to convert it to made-up articles.

(c) For apparel products, no further modification has been effected. Consequently, origin continues to be determined on the basis of rules as modified and implemented with effect from July 1996.

APPENDIX TO ANNEX 6 OF G/TMB/N/403/Add.1

CHANGES IN US RULES OF ORIGIN FOR TEXTILE AND CLOTHING PRODUCTS

US Rules of Origin

Treatment of 16 Specified Categories of Made-up Articles

Products for which rules were changed in 1996			Whether affected under the year 2000 changes
HTS No.		Brief Description	
1.	5609	Twine, cordage, ropes	No change
2.	5807	Labels, badges, not embroidered	No change
3.	5811	Quilted products	No change
4.	6209.20.5040	Diapers of cotton	No change
5.	6213	Handkerchiefs	Changed
6.	6214	Shawls, scarves, mufflers	Changed
7.	6301	Blankets, travelling rugs	No change
8.	6302	Bed, table, toilet, kitchen linen	Changed with respect to HTS 6302.22, 29, 52, 53, 59, 92, 93, 99
9.	6303	Curtains, bed valances	Changed with respect to 6303.92, 99
10.	6304	Other furnishing articles	Changed with respect to 6304.19, 93, 99
11.	6305	Sacks and bags	No change
12.	6306	Tarpaulins, tents, camping goods	No change
13.	6307.10	Floor and dish cloth, dusters, etc.	No change
14.	6307.90	Other made up articles	No change
15.	6308	Sets consisting of fabric and yarn for	No change making into rugs, tapestries, etc.
16.	9404.90	Quilts, cushions, comforters	Changed with respect to 940490.85, 95
—-	6117.10*	Shawls, scarves, mufflers, knit	Changed

* This HTS number has been included only in the 2000 legislation.

Note: These 16 product categories are those for which the 1986 rule established origin as the country in which the constituent fabric is made in its basic greige form.

ANNEX 7 OF G/TMB/N/403/Add.1

JOC online – 10 July 2000

RULES OF ORIGIN: THE TEXTILE MESS GETS MESSIER

by John Peterson

John Cleese once explained the rationale for Monty Python's Flying Circus thusly, 'A non-sequitur needs something not to follow from'. An exquisite statement.

It's a phrase that comes to mind after a recent examination of Section 405 of the new Sub-Saharan Africa/Caribbean trade bill, which amends, yet again, the United States' already bizarre rules of origin for textile and apparel products. Rules that were previously illogical are now virtually incomprehensible. The regulations needed to implement the new rules will need to feature twists and turns worthy of the Minister of Silly Walks himself.

It all started in 1996, when Congress, for the first time, decided to prescribe the rules of origin for a group of imported products, in this case, textiles and apparel. Section 334 of the Uruguay Round Agreements Act turned the former test of 'substantial transformation' on its head, as new and sometimes peculiar origin rules were laid down. Apparel products, formerly deemed to originate in the country where their constituent parts were out, were now deemed to originate in the country where the garment parts were assembled together by sewing, perhaps the most sensible of the changes. Other rule changes, however, spawned outrage, disbelief and trade disputes.

For example, the Section 334 origin rules deemed all fabrics to originate in the country where they were formed in the 'greige' state by weaving or knitting. That's all fine and well, but 'greige' fabric is not a useful article of commerce. Dyeing, printing and other finishing operations ordinarily performed to turn 'greige' cloth into commercially usable fabrics, were disregarded by the new rules. The change had a devastating impact on Europe's textile converting industry which for many years had converted 'greige' cloth formed in Asian nations into high quality fabrics used in many apparel manufacturing operations. These products, formerly considered to originate in Europe (and thus not subject to quotas), now were deemed products of the Asian countries where they were formed and subject to quota.

Equally outrageous was Section 334's origin rules for a wide range of non-apparel textile products, ranging from silk scarves and woollen blankets, to assembled products like pillow cases and down-filled comforters. Customs interpreted the law to require that these products also be deemed to originate in the country where their constituent fabrics were formed in the 'greige' state. This rule disregarded fabric finishing, cutting, sewing and many other operations which formed the imported good and which, in many cases (i.e. down-filled comforters), accounted for as much as 90 per cent of an article's cost.

The trade-distorting origin rules quickly aroused the ire of several US trade partners who challenged Section 334 before the World Trade Organization. The US anxious to preserve the rules, essentially 'bought off' certain of the complaining parties (mostly Asian countries) by increasing some of their quota allocations. The European Union, however, whose products are not subject to quota, was not so easily mollified. It pressed its case in the WTO, pointing, by way of example, to the damage which the Section 334 rules had inflicted on their fabric converting, silk-scarf producing and bedding industries. Facing a likely defeat in the WTO, US negotiators settled the matter by agreeing to change the most offensive of the textile origin rules.

Instead of focusing on an overall solution, however, the US concentrated on making selective changes, dealing only with the products that were the subject of the EU's most vocal complaints, and leaving the other origin rules intact. Section 405 of the recent African/Caribbean trade bill carries out the agreement with the EU.

And what a mess the rules are now! Lets look at a few examples. But before we do, check your sense of logic at the door. It won't be of much help to you.

Let's start with fabrics. Section 405 restores the pre-URAA rule of origin, under which fabrics are deemed to originate in the country where they are dyed and printed, and subjected to at least two other named finishing operations. This answers the complaints of the EU's textile converting industry.

Except, however, in the case of wool fabrics (that is, fabrics wholly or in chief weight of wool, such as a 55 - 45 per cent wool-polyester blend). Wool fabrics are excluded from the change. Thus, the origin of these fabrics will continue to be the country where they are formed in the 'greige' state. What makes the process of weaving wool yarns into fabric different from weaving cotton, silk or man-made fibre yarns into fabric? Politics, apparently. The difference certainly isn't a technical one.

Let's take a look at non-apparel textile articles. (Perhaps the reader should be sitting down before we do). Some of these articles, like blankets (which involve little assembly) and comforter shells (which involve extensive assembly) will continue to have their origin determined according to the country where their constituent fabrics are formed in the greige state. Other non-apparel products, however, like bed valances and quilts, can be deemed to originate in the country where their constituent fabrics were finished, that is, dyed, printed and subjected to two or more named finishing operations. Except in cases where the constituent fabric is wholly or in chief weight of wool or cotton, or contains more than 16 per cent by weight. Got that?

No? Maybe an example will help to explain. Let's assume that an 80 per cent polyester, 20 per cent cotton fabric is woven in the greige state in Country A and then sent to Country B, where it is dyed, printed and subjected to two or more finishing operations. The fabric, if imported into the US would be considered a product of Country B for tariff, quota and marking purposes.

Now, let's send that fabric from Country B to Country C, so it can be cut and sewn to form a bed valance, which is then imported into the United States. What's the country of origin of the bed valance? Well, because the fabric contains more than 16 per cent cotton by weight, the country of origin of the product would be Country A, where the fabric was formed in the greige state.

How, you wonder, can the origin of a manufactured product 'predate' the origin of its constituent materials? Hey, we told you to check logic at the door.

Now, of course, if the fabric used to make the bed valance had been an 85 per cent polyester, 15 per cent cotton blend, the valance would have been deemed to originate in Country B, where the fabric was finished. What, you may ask, is the difference between cutting and sewing an 80/20 blend fabric and an 85/15 blend fabric? A political difference, apparently. None of the textile industry experts we've consulted can think of a single practical difference. And of course, under either of the above circumstances, the country of origin rules give no credit whatsoever to operations performed in Country C, where the bed valance is actually manufactured.

With its crazy-quilt amendments to the textile rules of origin, the US may have dodged the bullet of the EU's complaint to the World Trade Organization. But the new rules certainly seem to be far more motivated by a desire to protect US wool and cotton producers, than by any desire to create genuinely logical changes to rules of origin. A WTO challenge to the new rules, from foreign producers of wool and cotton products, is almost certainly on the way.

Moreover, the adoption of such bizarre origin rules undermines other efforts at trade facilitation. The Uruguay Round Agreement on Rules of Origin called for a three-year study, to be performed by the World Customs Organization, aimed at devising uniform rules of origin for goods moving in international trade. The three-year study is now in its fifth year, and more than 500 technical areas of dispute on origin rules remain unresolved. The WTO has gotten directly involved, and will conduct an evaluation later this year to determine whether to continue the study, or abandon it. The implementation of even stranger textile origin rules by the US adds fuel to the fire of discord in perhaps the most sensitive industry area, and threatens the entire WTO effort to harmonize origin rules.

Section 405 of the Africa/ Caribbean trade bill shows once again the shortcomings of fashioning purely political responses to technical trade issues.

Monty Python once performed a marvellous spoof of British Parliamentary elections, in which the Silly Party opposed the Sensible Party at the polls. If the adoption of the new US textile origin rules was a political exercise, then the Silly Party appears to be the clear winner.

John Peterson is a partner with Neville, Peterson & Williams in New York.

ANNEX 8 G/TMB/N/403/Add.1

US CHANGES IN CLASSIFICATION OF PRODUCTS/CATEGORIES, AND TECHNICAL REQUIREMENTS EFFECTED DURING THE ATC TRANSITIONAL PERIOD

During the year 1995

1. US Customs modified its previous rulings to request the country of origin to be noted as the country where the fabric was woven for flat sheets. The product used fabric woven in country A, cut and hemmed, with piping or capping added in country B and shipped to the US. Previously, the origin was conferred to where the fabric was altered.
2. US Customs detained importer's goods (women's cotton boxer-style briefs) and determined it as women's woven cotton shorts in HTSUS 6204624055 and quota category 348 instead of HTSUS 61082100 and quota category 352 as declared by the importer in early 1995. Court of International Trade (CIT) upheld the declaration by the importer because of the physical characteristics of the product and the evidence educed at trial that they are designed and marketed as underwear.
3. 1995 Correlation amended to include 5 changes relating to textiles and clothing.
4. US Customs classified colour ink sheet rolls used in colour thermal transfer printers as typewriter and similar ribbons in HTSUS 96121090. Importer declared it as parts of printers in HTSUS 84733040. CIT agreed with the importer that the products are not typewriter ribbons.

During the year 1996

1. Committee for the Implementation of Textile Agreements (CITA) issued a notice reminding interested parties that shipments made in one year exceeding the quota level for that year are in violation of the terms of the agreements. It has been the practice of CITA to charge the excess to the quota for the immediate following quota period. CITA now says it reserves the right to deny entry permanently to these excess shipments.
2. CITA changed certain HTSUS classification numbers of all import controls for goods entered in categories 647W and 669P.
3. The US Customs changed its 1996 harmonized tariff schedule, affecting products under HS No. 6117, 6217 and 6307.
4. The Consumer Product Safety Commission is seeking to reinstate information collection requirements for regulations implementing flammability standards for rugs and carpets.
5. 1996 Correlation contained changes affecting categories 229, 611, 618 and 629.
6. The Consumer Product Safety Commission modified the flammability standards for children's sleepwear in September.

During the year 1997

1. US Customs implemented minimum bond requirement, for all companies importing textiles, of 2 per cent of the value of their world-wide imports of textiles.
2. 1997 correlation was modified affecting category 301. CITA amended the correlation effective 23 June 1997. The products affected are classified under HS No. 5205.

During the year 1998

1. CITA announced revision to the 1998 correlation for textile-covered cooler bags affecting categories 369, 670, 859 and 870.
2. Some HTSUS classification numbers were changed for products in part categories 369L and 670L.
3. CITA made change to 1998 Correlation affecting categories 222 and 362.

TABLE

SOME INSTANCES OF US CHANGE OF CLASSIFICATION OF TEXTILE AND CLOTHING PRODUCTS SINCE 2002

Series	Product Description	Previous classfication		New classification	
		Category	TSAUSA No.	Category	TSAUSA No.
1	Woven apron of cotton in barbeque set	359	6211420080	not in any	8215200000
2	Knit camouflage half-fingered gloves with PVC palm patch	not known	6116930800	not known	6116939400
3	Knit leg warmers, MMF/wool blend	459	6117809530	not known	6406991505
4	Women's upper body garment of cotton denim. Sleeveless	359	6211420070	341	6206302010
5	Knit cotton camisole	339	6109100060	352	6109100077
6	Women's cotton tennis briefs	352	6108210010	359	6114200060
7	MMF gloves with palmside coated with plastic	not known	6116004600	631	6216005820
8	Man's upper body garment of woven MMF	640	6211330040	634	6201933511
9	Men's woven MMF shorts with knit mesh lining	647	6203434030	659	6211111010
10	Boy's woven MMF shorts with a mesh liner	647	6203434030	659	6211111020
11	MMF carrying cases for notebook computers	not in any	8471300000	not known	4202128000
12	Textile tool bucket organizer	not known	6307909989	not known	4202929026
13	Polyester woven curtain tiebacks	not in any	6307909889	666	6304930000
14	Drawstring bags of non-woven fabric MMF. Intended for one time use for packing a down comforter	not known	4202923031	not known	6307999889
15	Decorative wire trim	201	5607503500	201	5605009000
16	Metallized polyester embroidery thread	201	5606000090	201	5605009000
17	Woven fabric of MMF, coated with cellular plastics	229	5903902500	229	5907006000
18	Man's jacket of knit fabric covered with a cellular PVC	not known	6113001005	not in any	3926209050

Please see paragraph 10 of this letter.

(G/TMB/N/474/Add.1, 30 June 2004)

Ministry of Commerce & Industry, Government of India

India, Bangladesh to Consider Strategic Alliance in the Textile Sector in Post-MFA Scenario

Bangladesh Delegation Meets Elangovan

INDIA and Bangladesh have discussed the desirability of forming strategic alliances in the textile sector so as to fully realize the potential in the post-MFA (Multi-Fibre Arrangement) scenario. The MFA comes to end on 1st January 2005. This was indicated in a meeting between Mr. Mahmudur Rahman, Executive Chairman of the Board of Investment, Bangladesh and Shri E.V.K.S. Elangovan, Minister of State for Commerce and Industry. Mr. Hemayetuddin, Bangladesh High Commissioner and the President of Dhaka Chambers were also present at the meeting along with a high-powered delegation from Bangladesh.

During the meeting, Mr. Rahman said that India has a very strong primary textile sector whereas Bangladesh has strength in the clothing and garment sector. "If both the countries have alliance in textile sector, then it will be a win-win situation for us", he said. The Bangladesh side raised the issue of difficulties in exporting cement to India on account of elaborate testing procedures for meeting the prescribed standards. Shri Elangovan assured them that India would help Bangladesh in upgrading their technical capacity and said that MRA (Mutual Recognition Arrangement) should be pursued by both the sides in the spirit of cooperation. Various other issues required to be addressed for enhancing trade and investment flows between the two countries were also discussed.

Bangladesh is India's largest trading partner in the region. The bilateral trade has increased from Rs 810 crore in 1991-92 to Rs 6,917.37 crore in 2003-04 (April-February). India's exports to Bangladesh increased by 40.07 per cent during April-February 2003-04 amounting to Rs 6,687.24 crore as compared to Rs 4,774.26 crore in the same period in the previous year.

(PIB release, 13 July 2004)

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