

Textile industry critical of ministry's ineffectiveness

Heavy defaults in textile sector are on the cards with tight monetary policy of the State Bank of Pakistan, as the cost of money has skyrocketed to 17% to 19%, resulting in more defaults on the one hand and a cap on further industrialisation on the other.

The government has increased the discount rate to curb inflation (moving in an abnormal range of 25% to 30%), but the industry takes it as a futile exercise and a wrong diagnosis of disease, as it would do little on controlling inflation, but more on discouraging the industrialisation.

The industry circles are of the view that a cut of 4% in the mark up with a reduction in spread margin would ease down the pressure of cost of doing businesses. The KIBOR mechanism is another source of irritation for the textile sector, as the banking sector has been manipulating the situation for long in the past. In recent past, the discount rate was 14% against 16.75% KIBOR rate.

The business circles have been criticising the banking industry for extortion of industry on this very pertinent point. However, this difference is over with the latest increase in discount rate to 16% and both the discount and KIBOR rates are now running parallel. A disconnection of power and gas to the textile sector is proving last straw on industry's back.

181% surge in cotton export

The country's cotton exports registered a healthy growth of 181% during the five months of the current fiscal year mainly due to better quality and low prices, market sources said. Exporters are getting export orders of huge quantities on the back of on-time availability of cotton, low prices, slow demand by millers and expected better cotton crop as compared to last year.

Following international market rates, cotton prices in the country have also reduced by some 35 percent during last few months and at present average quality cotton prices stand at around Rs 3,100 per maund as compared to Rs 4,200 per maund in August.

As per crop assessment committee projection, the country is likely to get a cotton crop of over 12 million bales during current fiscal year as compared to 11.6 million bales in last fiscal year. Official sta-

tistics show that cotton export has increased by 181.32 percent during the July-November period of current fiscal year. During July-November of current fiscal year, the country has exported cotton worth \$48.943 million as compared to \$17.404 million during the same period of 2007-08, depicting an increase of 31.539 million dollars during the first five months of the current fiscal 2008.

At present Pakistani exporters and traders are market leader by offering lowest cotton price in the region and getting huge export orders from Brazil, Malaysia, India and other countries, they said. Exporters said that local textile miller are reluctant to procure huge quantity of cotton due to declining trend in the textile export and liquidity shortage, which is also a major reason of decline in the cotton price in the local market.

Wrong policies of government pushing textile mills into catastrophic crisis

Senior Vice Chairman of All Pakistan Textile Mills Association (APTMA) Muhammad Anis Khawaja has said that present regime's ill-conceived and ill-planned policies and wrong priorities have pushed the textile sector towards catastrophic crisis.

He said that 30 out of total 50 textile mills of Southern Punjab had so far been shut down rendering one lakh workers jobless. He suggested that Government should bring down the price of petrol and high speed diesel at the lowest level than CNG so that petroleum product prices could attract the motorists and Natural gas could be utilised by the industrial sector and power generating units.

He said that now Government was earning Rs 39 to Rs 41 per litre on petroleum products. If Government brings down their prices considerably to save the country from energy crisis then there would be unexpected growth in industrial sector and exportable items.

Anis Khawaja said that energy crisis had pushed the textile sector to the wall where an investment of 60 billion US dollars was made and now there is no utility of such a high investment.

He said that textile sector was undoubtedly a pillar of our economy and it earns more foreign exchange for the country than other sectors. He warned that Pakistan would not be able to meet

the export targets besides rendering one million industrial workers jobless if government does not make arrangement for constant supply of electricity and natural gas.

Role of PSF manufacturers slammed

Polyester staple fibre (PSF) manufacturers are allegedly exploiting the customers again by depriving them of their right to bargain, as these manufacturers are not entertaining the designated customers, Said sources of textile industry.

As Competition Commission of Pakistan (CCP) had warned PSF in June 2008, as a result of which they assured the Commission that they would not be authorised either fix or fluctuate the prices of the item on the request of manufacturers.

Moreover, in this connection the PSF manufacturers have given an undertaking that the association would not interfere into the price fixation, while the CCP, in its findings, has pointed out that there are some evidences that market forces have been impeded by collusive behaviour.

It was further pointed out that the Commission was not fully satisfied with the grounds and explanations offered on part of the concerned undertakings namely M/s Dewan Salman Fiber Ltd, M/s Pakistan Synthetics Ltd M/s ICI Pakistan Ltd, M/s Rupali Polyester Ltd, M/s Ibrahim Fibres Ltd.

The polyester staple fibre (PSF) industry in Pakistan, which started as an import substitution industry back in 1982 is considered to be a highly protected industry with the imposition of regulatory duty on import of PSF.

It may further be noted that the last decade has registered a constant and massive increase in the demand for PSF not only in Pakistan but an equally fierce one on world-wide basis.

Locally, the demand for man-made fibres has been propelled by uncertainties in the production of cotton. It has been said that successive shortfalls in the cotton crop were the main reason for greater use of synthetic fibres and the price surges have coerced the local spinners to switchover to more economical production of blended yarn (a mix between polyester and cotton). However, it is equally true that over the years there has been a gradual shift in consumer preference from 100% cotton fabric to blended fabric.

Need to diversify export structure beyond textiles stressed

To achieve a faster export growth and export diversification, Pakistan needs to make international changes, says a panel of economists, led by a former Finance Minister, Dr Hafiz Pasha.

The economists' panel in its report said that in recent years, in spite of trade liberalisation, the country's share in manufactured exports has not increased over the last four decades as a whole. The most important reason for this is failure to diversify the export structure beyond textiles in a situation where world trade in textiles is growing at a much slower rate than non-traditional manufactured exports.

The report said that the country's slow export growth and the consequent perennial pressures on the balance of payments constitute a structural constraint to sustaining high GDP growth.

Evidence shows that in sharp contrast to the export performance of other developing countries, Pakistan's share in world trade has historically been at a low level (0.15%), declining since the 1970s. Faster export growth in textiles sector can be achieved by providing better access over US markets through economic diplomacy, the report said.

At the same time, incentives can be provided to the textile industry to invest in new technologies for achieving exports competitiveness and linking up with marketing companies in key export markets to obtain large orders on regular basis. The current structure of rules discriminates towards non-traditional sectors, occurring in a number of ways including absence of standard concessions such as duty drawbacks and meaningful rebates.

Exports are facing lengthy and complicated procedures for exports, besides inadequate working capital support e.g. low interest export refinance. In addition, bureaucratic red tape, graft in governmental departments, weak contract enforcement, and lack of protection of private property rights (such as protection of export consignments from bandits during road transportation to the port) raise the cost of business across sectors, and limits the development of new markets overseas.

The economist's panel has suggested a number of changes in rebates, marketing, and other institutional structures, which can lower the costs of business and facilitate export growth and diversification. The report suggests selecting sectors and sub-sectors for targeted development over the

next 5 years through rebates, tax relief, and establishment of one-window export documentation board, infrastructure development, marketing and R and D support, and removal of import restrictions.

Textile mills cut one-third of jobs

All Pakistan Textile Mills Association (APTMA) has urged the government to utilise all power generating capacities available in the country and suspend duties on furnace oil to ensure cheaper electricity generation. Addressing a press conference, APTMA Chairman Tariq Mehmood said the entire textile chain was currently in deep trouble due to six to eight hour electricity load-shedding and suspension of gas supplies to textile industries in Punjab and NWFP.

Besides bearing billions rupees in production losses, textile mills have been forced to cut one shift and lay off one-third of staff rendering thousands of workers jobless.

APTMA Energy Committee Chairman Shafqat Elahi said practical solution to the problem lies in converting all WAPDA's thermal plants to furnace oil and providing saved gas to the textile sector. Elaborating this, he pointed out that thermal efficiency of WAPDA plants is only 18%.

Moreover, line and distribution losses are also very high, whereas thermal efficiency of textile units is 38%-50% which would ensure higher electricity supply from gas spared from WAPDA plants.

APTMA Punjab Chairman Akber Sheikh said all textile chains have put on hold their export growth plans because of uncertain supply of power and gas. He said with 30% production curtailed textile exports remain stagnant at \$10 billion.

Textile industry be exempted from gas cuts

Textile Industry is already struggling and running at almost 50% capacity, and cannot sustain further shocks, said Azhar Majeed Sheikh, Chairman, Khurrianwala Industrial Estate Association.

He said that textile has always been considered as an engine of growth as it earns \$11 billion precious foreign exchange for the country besides providing direct employment of over 40% of total work force, but unfortunately it has always been neglected when it needed any support whether financial or infrastructural.

He said that Khurrianwala Faisalabad has about 40% value added textile pro-

cessing units, which alone contribute about \$2 billion in foreign exchange and provide employment to over 200,000 families directly and 150,000 families indirectly. The local gas authorities closed Khurrianwala Industrial Zone gas supply for 15 days.

The foreign customers who placed Christmas orders besides other regular orders would force us to make air shipments or desert us being unreliable vendors and would also file heavy claims for non-shipments in time. The Textile Industry is already struggling and running at almost 50% capacity, and cannot sustain further shocks.

TCP entry may not sustain cotton prices

The Cotton Crop Assessment Committee has reduced crop estimates from 12.5 million bales to 12.1 million bales ex-farm which is equal to 11.6 million bales ex-gin against 11.35 million bales produced last year.

Initially, this season's first official crop estimate was 14.1 million 170-kg bales. The reasons for a lower cotton crop this season are switch over of cotton area to sugar cane and rice crops, heavy rains in Punjab and pest attack, shortage of fertiliser, shortage of irrigation water, high cost of inputs and poor quality seed. Reliable cotton circles estimate cotton production between 11.0 and 11.5 million running bales this season, which means almost equal to last season's production.

Every season Cotton Crop Assessment Committee fix higher production target but get a lower one. Against this, cotton consumption has been increasing steadily but this season, consumption would be much lower than last season's gross consumption of some 15.5 million 170-kg bales.

This season, Pakistan would have lower cotton consumption perhaps between 12.5 and 13.0 million 170-kg bales. As such, Pakistan may import cotton equivalent of some 1.5 and 2.0 million 170-kg bales against total imports of 4.6 million 170-kg bales last season.

This season, some cotton areas of Central Punjab produced some half a million bales of cotton in the months of June and July, quite earlier than normal season and got very good rate up to Rs2,200 per 40 kgs ex-gin for their seed-cotton beside getting higher yield and better quality.

This experience is encouraging the growers of this area to sow cotton crop in mid-January to February period and concerned quarters indicate such early pro-

duction around 1.5 million in next cotton season. Some quarters think this poor economic situation would deteriorate further, badly affecting the textile industry and thus reducing cotton consumption.

Cotton prices in the local market have remained depressed despite the intention of the government to procure lint cotton from ginners through Trading Corporation of Pakistan (TCP) at a fixed rate of Rs3,202 per maund of 37.324 kg ex-gin for Grade 3 staple 1-1/32 inches with prime micronaire values. Lint prices are ruling between Rs2,700 and 2,900 per maund ex-gin depending upon quality.

Finished textile products AUP declines in international markets

Country's finished textile products saw a sharp decline in average unit price (AUP) in the foreign markets during the current financial year, mainly on account of problems in scheduled shipment of these products along with some reasons. The infrastructure problems like port congestion and deteriorating law and order situation are the major cause for less demand of Pakistani finished products, said Zubair Motiwala, textile exporter and former President Karachi Chamber of Commerce & Industry (KCCI).

He said foreign buyers are interested to import the raw material from Pakistan instead of finished products because of inability of the local exporters to deliver the orders in time. Motiwala also cited the falling cotton prices in the international market and depreciation of rupee against dollar as the reasons for finished products to fetch less AUP.

However, he asserted that major reason is the uncertainty with the timely delivery of export shipments especially for the Christmas season in America and Europe, which is resulting in the low export price of local value-added textile products. The low average unit price deprived the country of the badly needed foreign exchange despite the fact that the quantity of these products was substantially higher during these months compared to the previous year.

The total export of textile products was \$6.4 billion during July-November period as compared to \$5.7 billion in the same period of previous year. However, Zubair Motiwala said that total export of these products during these months was still 4% low against the export target for the period under review.

Travel advisories hampering apparel exports

Pakistan's apparel sector is being hit hard by negative advisories from across the western world for travel to Pakistan. The travelling cost of the sector for marketing purposes has shot up to 300%, as no buyer is ready to visit Pakistan right now, said Pakistan Readymade Garments Manufacturers and Exporters Association Chairman Dawood Usman Jakhura.

He said small and medium enterprises (SMEs) are real sufferers of the situation, as they are not financially capable enough to bear the rising cost of marketing. It may be noted that a political and economic crisis has brought a negative impact on the apparel sector. All leading destinations across the globe, particularly those in western world, have issued negative travel advisories resulting in discouragement of buyers from travelling to Pakistan.

A leading exporter from Faisalabad, having presence of his brand in different parts of the world, said that he paid Rs 300 million extra, as air freight, when roads were blocked by the public. According to him, the marketing cost can be lessened with the

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extension of R&D fund for 2008-09, especially in the face of dull buying activity across Europe and the USA with strong fears of recession there.

Out of all textile sectors, garments is the only sector showing consistent growth from about \$2.2 billion in 2003 to about \$3.3 billion in 2008, but still Pakistan's market share in global apparel market is least among its competitive countries.

Pakistan has only 1.3% in global apparel market, compared to Bangladesh which has 2.8% market share, India 3.3% and China 31%. Apparel industry currently provides direct employment to over a million people and about the same number of people is employed indirectly through vendor industries.

Government to support textile sector

Adviser to Prime Minister on Finance Shaukat Tarin promised Pakistan Readymade Garments Manufacturers and Exporters Association that government would provide all out support to textile and garments sectors that employs 2 million workers in the garments sector only. He stated this during a meeting with a delegation of Pakistan Readymade Garments Manufacturers and Exporters Association. The Adviser noted that apparel sector performance during the period (June- September, 2008) comes to \$ 1157.29 million which needs to be enhanced to increase export-based foreign exchange earnings.

He also appreciated value additions made by domestic textile and garments manufacturers that help support consumption and exports in local and international market. Bilal Mulla, Chairman Pakistan Apparel Forum also informed the Adviser about industry's financial crisis relating to increased cost of production and other problems confronting business operations of the Association members.

Exporters earn Rs182 billion extra due to rupee devaluation

Pakistani exporters have earned Rs 182 billion worth extra money in five months of the current financial year mainly because of the devaluation of rupee. From July-November FY08, the exports showed 12.75% growth in the US dollars, but in Pakistani currency the exports reflected 41.57% growth that swelled the valets of the exporters.

From July-November period of this fiscal, the average dollar-rupee exchange rate had been calculated at Rs 76.30 as against Rs 60.40 exchange rate during the corresponding period of previous fiscal. As the textile sector is the leader in exports and exporters of this sector are the major beneficiaries of the depreciation of rupee value.

PRGMEA demands to set up regional task forces

Business community has urged the government to establish "Regional Task Forces" to overcome the problems being faced by readymade garments sector, said Farmer Chairman, Pakistan Readymade Garment Manufacturer and Exporters Association (PRGMEA), Ijaz Khokhar. He emphasised the need to set up "Value-added Development Board" for enhancing and strengthening the current value of those items falling under the category of industry.

Giving his opinion on setting up of modern "Garment City" he said it would surely facilitate and boost garment industry of Sialkot, adding that the provision of factory buildings to Small and Medium Enterprises (SMEs) and vendors on rental basis for the proposed garment city would help increase at least \$1 billion exports of garments.

At present Sialkot is fulfilling 30% world-wide demand and the martial art industry is earning about \$300 million. Ijaz Khokhar opined that there is great need of setting up "Technical Training Institute, Textile laboratory and Textile Development Centre" to redress problems confronted by the garment sector of the area.

Government to exempt dyeing units from gas load shedding

The government is likely to exempt the dyeing industrial units from the coming spell of Sui gas load shedding in the country. Federal Minister for Textile Industry Rana Farooq Saeed Khan, hinted out this

while addressing a seminar held at Sialkot under the auspices of Pakistan Readymade Garments Manufacturers and Exporters Association (PRGMEA).

He said that exemption of sick industrial units of garments and sports wear industry from Sui gas load shedding would inject a fresh blood to this industry, besides, enabling them to stand on their own feet and play their vital role in strengthening the national economy.

He said that all the stake holders were being taken into confidence over this important issue and this case would soon be presented before the coming meeting of Federal Cabinet for final approval.

Saifullah Khan seeks bailout package for textile sector

Member of the National Assembly (MNA) Hamayun Saifullah Khan demanded of the Federal government to announce a bailout package for textile sector on emergency grounds to save it from being collapsed. He said the governments in USA, UK, Germany and many other countries gave bailout packages for saving their economies. He also called for withdrawal of a raise on interest rate, saying our economy was in a very poor state while the textile sector was faced with the worst crisis.

He further said the country's 60% exports were related to textiles, warning this main source of earning foreign exchange would stop and millions of workers associated with this sector would lose jobs if the government failed in announcing a bailout package on emergency basis.

Italy to invest in textile, energy and marble sectors

Italian government expressed its interest in investing in Pakistan's various sectors including textile, energy, agriculture and marble. The Ambassador of Italy Vincenzo Prati said that despite the hurdles in Pakistan, there were a lot of investment opportunities in various sector of the Pakistani economy, but we want to initiate various projects in textile, energy, marble and agriculture sectors in Lahore, Karachi and Islamabad.

A Memorandum of Understanding (MOU) regarding the cooperation in different sectors of the economy has already been signed between the two governments as too boost bilateral investment. About the exact amount of foreign direct

investment (FDI), the ambassador said that not only one or two Italian companies were ready to come here for investment but also substantial numbers of companies would come along with modern machineries and equipments in Pakistan.

Changes sought in SBP circular on R&D

Exporters have taken strong exception to State Bank's decision to only allow Research and Development (R&D) support for shipments made between June 26 and 30, 2008. Pakistan Readymade Garments Manufacturers and Exporters Association Chairman Dawood Usman Jakhura said that the operative SRO allows R&D to all shipments made up to June 30, 2008.

These shipments, he said, could get the support of R&D within 90 days of realisation of export proceeds. However, the SBP's circular has created serious ambiguity by barring cases of shipments made prior to June 25, 2008, and their proceeds received after July 1, 2008. Furthermore, the State Bank has made no commitment towards payment of the R&D support and instead suggested it would only be disbursed once budgetary issues are finalised in consultation with the Ministry of Finance.

Delay in issuing R&D fund to apparel sector

Delay in implementation of issuing 6% Research & Development (R&D) fund to apparel sector has entered into the third quarter of the current fiscal year. It is worth mentioning here that the facility of 6% R&D fund was extended to the apparel sector in the fiscal year 2005-06 after the abolition of quota system under WTO regime.

It was agreed between the government and the apparel sector that this support would continue until 2006-07, followed by a 50% reduction (ie 3%) in 2007-08 and a termination of it in 2008-09, the current fiscal year.

However, the apparel sector not only convinced the government in extension of 100% R&D fund during 2007-08, but also lobbies from home textile and dying and finished fabrics also pursued the government and received 5% and 3% respectively last year.

Moreover, the sources in textile ministry said that the government has apprehension of a strong lobbying from rest of the stakeholders as once the government extends R&D fund to the apparel sector. ♦