

## Government to unveil Textile Policy-2009-10

The government is all set to announce new textile policy prior to budget for the next financial year 2009-10. The draft of the textile policy is ready and would be put up before the Federal Cabinet soon for approval. The government has set the textile exports target \$25 billion in the new policy for the next five years.

The government had received a number of recommendations, including zero rating on import of textile machinery, zero rating exports, tariff reduction, incessant energy supply to textile units. Issues relating to market access, quality products with timely delivery, single digit mark-up and special power tariffs for textile industry had also been recommended in the policy. It has been suggested that textile policy might include the issue like duty-free market access to the European Union and the United States.

The textile sector is the major contributor to the overall exports of the country and providing large number employment opportunities to the people but it is facing tough time at present as due to high interest rates and power shortage.

Due to high interest rates and prevailing energy crisis, the exports target of \$11 billion, set for the current financial year, for textile sector is unlikely to be achieved.

## 12.5 million bales crop forecast in 2009-10 seasons

New crop (2009-10 seasons) cotton sowing process is gaining momentum day by day while in early sown areas, cotton plants are developing well indicating its maturity. Deficiency in supply of irrigation water has been reported from some areas and also the supply of necessary fertilizer.

In Sindh, mostly cotton seed from second, third or even fourth generation is used while in Punjab, percentage of local origin seed is quite higher. The administration of Ghotki (Sindh) district has banned paddy cultivation in the district to encourage cotton cultivation as in 2008-09 season, paddy crop was sown on area over 40,000 hectares and cotton was sown on 72,000 hectares against targeted area of 105,000 hectares.

However, final size of cotton area would be known only after completion of sowing. As to the size of crop, it is too early to say except that expectations are for a 12.5 million bales crop in 2009-10 seasons.

## Pakistan likely to gain \$25 billion through textile policy

Textile policy will help Pakistan to gain \$25 billion during first five years through cultivation of Bt cotton and optimum value addition to cotton chain, said Federal Minister for Textile Industry, Rana Mohammad Farooq Saeed Khan.

The textile sector is converting one million bales of cotton into less than a billion dollar (\$0.94 billion) while it is \$1.94 billion in India and \$3.9 billion in China.

He said, 'Pakistan has huge potential to develop its cotton chain, but we failed to exploit it because of inconsistent policies.' Textile policy would cover the entire cotton chain rights from growers to the export of fashion garments. We are consulting with all stakeholders to make this policy a result oriented.

He said that Bt cotton has the potential to double the cotton production without any additional expenses or inputs and sugarcane crop, being water intensive, has become less profitable. Further, he said that growers should cultivate Bt cotton to get maximum financial benefit in addition to doubling our cotton production and the product has the potential to give yield per acre.

## Export of readymade garments decline

The decline in country's readymade garments export by 13% during the first nine months of the current fiscal year was attributed to the world economic downturn. The country's readymade garment export was \$919.22 million during July-March 2008-09 as compared to the export of \$1.057 billion during the same period of the last fiscal year, showing a decline of \$138.56 million. However, on monthly basis, the export registered a slight increase of \$2.86 million or 3% in March 2009 as compared to export of \$96.69 million in February 2009, according to the Federal Bureau of Statistics. On the positive side the average unit value of readymade garments increased by 7.78% as compared with the period last year.

Rampant electricity load shedding and abnormal gas disruption to the manufacturing units of value-added garments, besides other multiple problems pulled down the export of garments, said Javed Bilwani Central Chairman of Pakistan Hosiery Manufacturers Association (PHMA).

He said the manufacturers are unable to run their businesses with increasing financial burden amid global economic recession and continued power outages.

Bilwani urged the government to solve the problem of bill of lading and master bill of lading, pleading the former should be abolished to facilitate the exporters. Regarding the \$25 billion textile export target by 2013, which the government has recently set, he said that its achievement is possible with long-term and consistent policies.

## 7.58% decline in textile exports

Exports of textile products decreased to 7.58% during July-March period of current fiscal year to \$7.193 billion as compared to \$7.7883 billion of the same period of last year. The negative growth in all sub sectors of textile except cotton fabrics and towels, underlined the importance of evolving a strategy to address the core problem. The industry views the high cost of doing business due to rising mark-up and power outage as core reasons for the sharp decline in export growth of textile products.

The sector has also been asking the government to take up the issue of giving market access to Pakistani goods in European and US markets as a small relief to what Pakistan has been suffering economically as frontline state in global war on terrorism. The export growth was witnessed negative by all the other sub sectors in textile except raw cotton, cotton cloth and towel. The rest of nine sub-sectors of textile group witnessed negative growth during July-March 2008-09. The exports of cotton yarn with a negative growth of 15.51% dipped to \$823.036 million in July-March of current fiscal year as compared to \$974.202 million of the same period of last year.

Exports of cotton carded or combed yarn other than cotton and knitwear witnessed a negative growth of 5.62%, 53.39% and 4.80% respectively during the period under review. With this decline their exports dipped to \$11.219 million, \$17.884 million and \$1.317 billion respectively from \$11.887 million, \$12.207 million and \$1.384 billion over the same period of last year.

The export of bed wear declined to \$1.259 billion in the current fiscal year from \$1.425 billion from last year. Export of tents, canvas and tarpaulin went down by 19.29%; readymade garments by

13.10%; and art silk and synthetic by 32.50%. Other textile exports also went down by 16.37%.

### Financing for spinning machinery import

The State Bank of Pakistan has allowed financing for plant, machinery and equipment under LTFF to be used by the export-oriented projects in sub-sectors/processes of spinning sector including doubling, twisting, combing, slubbing, lycra, and yarn dyeing. According to a circular, SBP will refinance up to 50% of the financing facilities to be provided by the banks/DFIs to the eligible borrowers of above six sub-sectors / processes of spinning sector under LTFF scheme while the remaining 50% will be financed by the banks/DFIs from their own sources at lending rates of respective lending institutions as agreed with the borrowers.

### Government to bring best package for textile sector

The Governor, State Bank of Pakistan, Salim Raza has said that present government was trying to bring the best relief package to strengthen and rehabilitate the textile sector, particularly the spinning industry so that it could compete with India, Bangladesh, Sri Lanka, Thailand and other countries in the world market

The SBP Governor said, 'We are aware of the difficulties faced by the spinning sector, which is a backbone of industry and we are going to introduce a far-reaching package for them with the consultation of commercial banks.'

He assured that rate of interest would be cut, as soon as the rate of inflation will be reduced. He hoped that the country's exports during the current fiscal year are expected to yield \$18.5 billion to \$19.5 billion, much lower than the target of \$22.9 billion and export earnings were down due to lower prices.

### CCRI fails to produce virus-free cotton variety

All of the cotton varieties in Pakistan have come under the threat of virus, a warning that had been launched by the Central Cotton Research Institute (CCRI) in the market after years of research. The CCRI's 15-year long claims of producing virus free cotton have proved to be false, as only last year cotton crops spread over thousands of acres in about 53 tehsils were destroyed due to massive virus attack.

This year a record decline in the sale of seeds of CCRI is observed and farmers have also plainly refused to sow the seeds of the Institute. According to the sources, the CCRI is the largest department of the country to produce highest number of cotton varieties. Out of the 15 approved varieties of cotton by the government, seven are of Multan.

However, mealy bug and leaf curl virus, are posing severe threat to these varieties, a reason that made the farmers reluctant to cultivate these varieties of the CCRI. The Federal government has spent billions of rupees on research centres, but still the CCRI has failed to produce virus free variety even on its experimental farms situated at the CCRI fields.

Due to these harsh facts, Pakistan is unable to achieve its cotton target from the last three years. Textile sector has compelled to import cotton worth billions of rupees from India, while the neighbour has succeeded in achieving 10 times more cotton production because its government has legally accepted Bt cotton and included the variety in research.

### Export orders diverted from BD to Pakistan

Pakistani textile manufacturers have started receiving export orders for the supply of home textiles which were diverted from Bangladesh due to appreciation in Takka's value. This was stated by the Advisor on Textiles Dr Mirza Ikhtiar Baig while talking to media after inaugurating 6th Textile Asia at Karachi Expo Centre. He said that Pakistani rupee, on the other, has been depreciated, making textile exports cheaper than other countries in the region including Bangladesh.

He said that prices of yarn and towels have increased in the local market due to rising demand by the exporters. He hoped that more export orders will be received by Pakistani exporters. The Textile Ministry has strongly recommended the govern-

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ment to make textile sector as zero rated regime in true sense in the forthcoming federal budget to boost country's exports.

### Power tariff: 4% proposed raise a setback for textile

Pakistan Textile Exporters Association have apprehended that 4% proposed increase in power tariff in the next three months coupled with four hours electricity load shedding would spell disaster for textile exports of the country already declined by 7.58% in the first nine months of current fiscal.

Chairman Muhammad Yousaf and Vice Chairman Rehan Naseem Bharara said that the textile industry was already facing crisis of overburdening and the new proposed increase would shatter the productivity which has already come down by 40% due to indiscriminate load shedding. He said that regressive measures would have negative impact on textile exports, which are already showing a decline trend over the last few months. The matter is further compounded by irregular supply of electricity.

At present textile exporters are facing severe hardships in fulfilling their export commitments due to this shortage of power supply.

### Textile sector demands cut down of Kibor rate to 8%

Textile exporters have demanded to cut down Kibor rate to 8% and cap on bank spread at 2% to save the industry and exports from collapse, said Chairman, Exports Committee of Federation of Pakistan Chambers of Commerce and Industry (FPCCI), Azhar Majeed Sheikh.

He said that Kibor rate has gone up so high recently along with higher bank spread, moreover, the export industry is being overly burdened about 18% and such heavy mark up is not viable to sustain exports.

If the government is not going to take remedial measures to reduce the burden over textile industry the textile exports will not sustain long, that will be a disaster for the economy of the country. Furthermore, he said that world is passing through a phase of economic recession and there is tough competition in the international markets, and Pakistani textiles are unable to compete with its rival exporting countries. He urged the government that payment of principal and interest rate should be seized at least for the year 2009 to give some breath to the industry. Furthermore the defaults of 2007 and of 2008 should be converted in to deferred loans and recovery should be spread over 7 to 10 years with maximum mark up at 10%.

### Import of cotton from India: 50% orders may be cancelled

With the high price of cotton in Indian market, Pak exporters cancelled 50% import orders from India. Pakistan's importers had booked orders of 0.3 million bales of cotton, worth Rs 4.50 billion, from India. The Pakistani cotton importers, who had opened their LCs prior to the increase in the price of the commodity in India, would definitely get the imported cotton but those who could not open their LCs in time, would not be able to import it.

In the Indian market, the price of cotton is increasing by each passing day due to rise in demand from domestic mills, merchants as well as from ginners. The Indian government had purchased a record 8.8 million bales from the farmers in 2008-09, of which 6.1 million bales have already been sold in the domestic market.

The domestic consumption of cotton in India may reach 23 million bales by the end of the cotton year that was earlier estimated at 22 million bales. Sources said that cotton prices have sharply moved up in the Indian market and Indian govern-

ment had announced 5% rebate on export of cotton after its procurement of 8.8 million bales from the growers.

The availability of surplus cotton stock with the government forced it to provide 5% rebate on cotton export. But now, after the increase in the price of cotton in India, exporters are hesitant to export the commodity.

### Textile sector earnings grew 23% in first half of fiscal year 2009

Textile sector of Pakistan depicted strong earnings growth of 23% in the first half of FY09 as compared to the corresponding period last year. The composite sector, which accounts for approximately 67% of the entire textile sector market capitalization, posted remarkable earnings growth of 61%.

Moreover, weaving sector came back into profits whereas the spinning sector plunged into losses when compared to the corresponding period last year. In the analysis, 24 companies were taken from the composite sector - six weaving companies and 31 spinning units representing 92%, 95% and 80% market capitalization of their respective sectors.

Amid rise in export-based revenue due to depreciating rupee (21% in the first half of FY09), net sales of the textile sector jumped by 22% to Rs 127 billion. This resulted in improved margins, which rose by 377bps despite high cotton prices (up 21%) during the period, said Atif Zafar, an analyst at JS Global Capital.

However, a 100% increase in financial cost to Rs 12.4 billion brought down earnings to Rs 3.4 billion, still up 23% on year-on-year basis. Financial cost rose on the back of higher borrowing rates as 6-month Kibor during the period averaged 14.59% up 458bps.

The composite sectors impressive earnings growth of 61% was largely driven by improving gross margins, which increased by 451bps. Due to its export orientation, depreciating rupee boosted the rupee-based revenue of the sector, which increased by 26% to Rs 84 billion. Its impact on the bottom-line was however impaired by 105% increase in finance cost to Rs 8.5 billion. Weaving sector, which was in losses in the first half of FY08, recovered to post earnings of Rs 52 million? The sector was benefited the most from jump in gross margins, which rose by 538bps. Financial cost of Rs 485 million, up 43% from last year, however diluted the earnings of the weaving sector.

In the first half of FY09, spinning sector plunged into losses of Rs 783 million as against profits of Rs 343 million in the corresponding period last year. Though gross margins rose by 152 bps, 102% rise in financial cost dragged the earnings of the spinning sector into the red zone.

### National Assembly panel passes cotton standardization bill

The National Assembly Standing Committee on Textile Industry unanimously passed bill to amend "Cotton standardization (Amendment) Bill 2008." The Committee recommended that all the stakeholders along with representatives of concerned ministries and the members of the sub-committee may also be associated in the formulation of the textile policy. The Committee recommended that the Ministry of Finance may also provide assistance to the textile industry for boosting its exports as 65% foreign exchange is earned through the export of textiles which is backbone of the country's economy. The Committee recommended setting up of industrial training institute to reduce unemployment.

### Towel and bed-wear exporters reject 18% VAT

Towel and bed-wear manufacturers-cum-exporters rejected the proposed 18% Value Added Tax (VAT) on textile sector, saying that it will wreck the ailing industry amid the global credit crunch, which has already decreased the country's exports. Central Chairman Towel Manufacturers Association (TMA) Feroz Alam Lari, alleged the government for implementing the proposed VAT on textile exporting sector under its agreement with IMF, saying that the new tax is the replication of GST, which will hit the existing declining industry badly.

He feared the taxing of textile sector will open new doors for tax evasion, saying that instead of zero-rating the textile exports, the government is creating further financial turmoil for the exporters through taxes. The proposed VAT is being made part of the next fiscal years budget, which is unacceptable, they protested.

He further said that the textile manufacturers-cum-exporters are already losing the finances strength, the burden of VAT on them will make the remaining exports further dwindle. Country's total exports are based on about 60% of textile exports, while financial crunch and units closures will result in 40% textile related jobs cuts in the country.

About 25% to 30% textile units have already closed down for lack of finances with the industrialists. He demanded of the government to advocate their case with the EU and US governments for duty free access of Pakistani textile exports to their markets. The duty which the EU and US have imposed on Pakistani textile items is about \$400 million annual.

### Textile exports facing alarming decline

Textile exports are not generating enough revenue for millers, causing an alarming decline in exports both in terms of value and quantity since the exports peaked in 2006-07, said Chairman, All Pakistan Bedsheet and Upholstery Manufacturers Association (APBUMA), Syed Muhammad Aasim Shah.

He said that the fall in exports is across the board in all sub-sectors of textile, from yarn and fabric to clothing, bed wear, towels, tents and canvas, both in quantity and value. Towel exports experienced 10.30% decline in terms of quantity, while readymade garments suffered 42.71% low.

The decline in quantity, according to industry experts, is due to a drop in productivity and availability of surplus capacities. This is also indicative of the number of jobs that have been lost in the textile sector since 2006-07.

APBUMA Chairman said that the huge decline in quantity means that large number of lay offs and reduced value has definitely impacted the viability of weaving mills. Knitwear industry resisted bravely against export pressures, but has caved in since January 2009, as in the year 2006-07, average monthly knitwear exports were 7.85 million dozen.

However, readymade garments have recovered the loss from the 42.71% drop in exports in quantity terms since 2006-07 by increasing per unit value of exports. But, the reduction in quantity certainly means pruning of a large number of employees. In the meaning of value, exports of the readymade garment industry declined by only 3% since September 2008.

### TEA welcomes continuation of zero-rated sales tax facility on exports

Continuity of zero-rated sales tax facility will help restore the competitive edge in international markets for Pakistani Textile exports and boost exports of the country, said Muhammad Yousaf, Chairman Pakistan Textile Exporters Association (PTEA.)

He welcomed the statement of Shaukat Tareen, Advisor to Prime Minister on Finance and Economic Affairs about the continuity of zero-rated sales tax facility on textile exports and the governments aim to boost the textile sector.

He said that this facility was intended to save the textile exporters from sales tax refund regime hassles. Textile industry is already facing crisis of overburdening. Pakistani textiles are heavily burdened with protection and regulatory duties on raw materials, various taxes and levies rendering our goods uncompetitive in the international market.

The Chairman demanded that all the burdensome duties, levies taxes and overheads on textile exports be removed and textile exports should be actual zero rated and assisted to become competitive internationally as being done by our regional rival countries.

### DISCOs asked to ensure supply to textile units

Best way to overcome the energy crisis is written contracts between DISCOs (Distribution Companies) and the export oriented industries, which would ensure definite quantity of supply as well as making the companies chargeable for the loss to the units, said Federal Secretary for Commerce, Salman Ghani.

He was responding to a delegation of Pakistan Textile Exporters Association (PTEA), to apprise Ghani of the difficulties confronting the exporters. Pakistani exporters can not be internationally competitive unless they become domestically competitive and to achieve this cost of manufacturing will have to be cut, removing regulatory duties, providing cheaper inputs and exempting exports from all taxes and levies.

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For this purpose Ministry of Commerce have started inter ministerial co-ordination plan to forge out result oriented policies. Industrial, textile and trade policies were intrinsically financial involuntary and will be implemented successfully.

Further, in the context of world economic meltdown, the problems confronting Pakistan were comparatively lesser than our rivals like china and India, who were grappling with problems like economy of scale production and huge Silicon Valley based and outsourced dependent job market.

Regarding the energy crisis, Ghani elaborated that he was floating the idea of contractual responsibility of supply and chalking out specified contract between energy supply company and the industrial purchaser.◆

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