Pak textile industry has only 20% share in domestic market

The textile industry of Pakistan is more vulnerable to global recession than its competitors as its share in domestic market is limited to 20% although the local consumption of fibre is equivalent to over 40% of its production capacity.

The textile experts say that the industry's share in the domestic market has been eroded by free flow of used or worn clothing and rampant increase in smuggling of ladies fabrics along with readymade garments being brought in the country through personal baggage.

The All Pakistan Textile Mills Association (Punjab) former Chairman Akber Shaikh said that other major textile exporting nations like India and China are better able to withstand the pressure of reduced exports due to global recession or any other factor because they have larger shares in their home markets.

He said the only difference between these two countries and Pakistan is that they have better controls on their borders that effectively check smuggling of foreign fabric or other textiles. These countries discourage imports of worn clothing. The customs in China and India strictly monitor global rates and do not clear under invoiced goods.

Akbar Shaikh said there is a huge demand for Pak made ladies cotton fabric in India but its smuggling is checked and its import is subjected to high duty based on minimum duty payable per kg that makes the fabric costly.

On the other hand he added smuggled Indian and Chinese fabric is freely available in all cloth markets of Pakistan. A market study revealed that Pakistan imported 263.371 million kg of used (or worn) clothing worth Rs. 7.685 billion in 2008-09. This means that the per capita used clothing consumption in Pakistan is 1.62 kg. The Indians on the other hand imported only 43.640 million kg, which translate into per capita consumption of worn clothing in India to only 0.03 kg.

Another point worth noting is that the imports of worn clothing are rapidly rising in Pakistan, which stood at 174.592 million kg in 2007-08 and the per capita worn cloth consumption in the country was 1.07 kg. The quantum of smuggling can not be evaluated.

However a visit to any market in Pakistan would reveal that most of the blended ladies fabrics and children garments in Pakistan are smuggled in to the country.

The cumulative use of foreign processed fibre in Pakistan is 3.74 kg per capita (1.62 kg worn clothing 1.62 kg ladies blended smuggled fabric and 0.5 kg children wear). This is a little higher than the per capita consumption of the locally processed fabric in the country. This means that the consumption of local fabric could be doubled if the influx of foreign processed fibers is effectively checked.

APTMA slams restrictions on yarn import

All Pakistan Textile Mills Association (APTMA) said that government is interfering in free trade mechanism by imposing unnecessary restrictions on the yarn import that would put the spinning industry in quandary. Ministry of Textile has unilaterally decided to reduce the quantitative restriction on the export of yarn from 50,000 tonnes per month to 35,000 tonnes per month from March 2010. This move would damage the spinning industry in particular and the entire textile chain in general.

Imposition of quota on yarn export according to Secretary Commerce Zafar Mahmood is a temporary measure to ensure availability of cotton yarn for local value added textile industry.

He said, Committee is regularly reviewing the situation of cotton yarn in the country and taking decisions on the basis of demand and supply position. Bangladesh had recently imposed ban on the export of jute to ensure local value added sector gets the raw material. He pointed out that the international prices of cotton and cotton yarn have increased due to rising demand from China. Cotton prices have also recorded a historic rise in Pakistan, and therefore the price of cotton yarn has also increased. He further said yarn exporters had violated the quota restriction and exported 70,000 tonnes of yarn while the limit was 50,000 tonnes per month. However, the government has also shown concerns to the opinion of all the stakeholders including APTMA and is taking them on board regarding this issue.

High cotton prices result in higher yarn prices

The all time high cotton prices are adding salt to the Ministry of Textile (MINTEX) injuries as its effort to bail out the apparel sector by imposing quota restriction on cotton yarn export has fallen into abyss. Cotton prices have soared to peak of Rs 5,060 per maund in the local market, against Rs 3,300 in the beginning of the season.

In fact, reduction in cotton production on international level forced prices to go

Textile exports up 2.27% in seven months

Despite facing different internal and external challenges, textile's export had showed slight growth of 2. 27% in the first seven months (July-January) of current financial year against the same period last year, reported Federal Bureau of Statistics (FBS).

Textile sector that was in the hot water due to persistent power crisis since last couple of years as well as the global recession, has shown some positive growth in the overall exports of the country that have been declining since the start of ongoing financial year in July 2009.

According to the official data, exports of textile industry have increased to $5.946 billion in the period under review from $5.814 billion against the same period of previous year thus showing an increase of 2.27%.

Meanwhile, it showed a healthy growth of 23.85% in the month of January over the corresponding month of 2009. According to the figures, textile exports increased to $930 million in January from $751 million against same period of previous fiscal year.

The data revealed that export of following textile items in July-January increased as follows: raw cotton 142.07%, cotton yarn 30.78%, yarn 57.59%, readymade garments 3.24%, art silk and synthetic textile 85.61%, made up articles 3.30%, and other textile materials 38.41%.

Meanwhile, according to the figures the following items of textile group showed negative growth: cotton cloth 20.01%, cotton carded 62.72%, knitwear 5.95%, bed wear 4.95%, towels 1.23%, and tents 10.29%, in the July-January period of 2009-10.

up in the local market. Market sources are of the view that decline in stock and rise in demand at the end of the season is the basic reason of the sudden price hike. According to them, some 3.0 million bales are required to be imported to cater domestic needs, of which 800,000 bales have been imported so far.

The MINTEX imposed quota restriction of 50,000 tonnes a month on export of cotton yarn after surrendering to the pressure from the apparel sector. However, the prices of cotton yarn are yet spiralling upward despite this arrangement due to multiple factors, including unprecedented inflation, energy shortage and unchecked surge in dollar price.

According to the textile industry sources, the prices of cotton yarn could not be arrested despite imposing quota on export due to increase in cotton prices. They said that about 4.0 million bales are yet to be imported to meet the shortage on local front, which again would put pressure on cotton yarn prices. Industry sources said the prices of cotton yarn are not likely to come down soon due to rising demand in the outside world.

Yarn prices continue to rise; textile sector in trouble

Yarn prices continue hike and textile sector is already in trouble due to multiple factors, including security issues, energy crisis, high interest rates, squeezing credit facilities and dwindling exports while the further increase in petroleum products will add fire to the fuel endangering the survival of trade and industry in the country. Yarn price not decreases after capping on export and local yarn user still in trouble, said Chairman Pakistan Textile Exporters Association Khurram Mukhtar.

He said the steep hike in these fuels and electric will add to the strain on the industry and trade. Industrial sector is already facing negative growth and hefty hike in petroleum and electric prices will severely hit it due to increase in cost of production.

Government has taken an anti-people decision by increasing the prices of petroleum products and electricity at a time when the economic activities were already shrinking due to multiple factors and this hike will produce overall damaging impacts on the Pakistan economy. Entire industrial sector was already facing different internal and external challenges and the recent increase would further aggravate the economic situation.

Textile exports are facing tough competition in international markets on account of high production cost and this increase will make our products less competitive. It will also cause closure of more industries as industrial sector will not be able to absorb this shock leading to more unemployment and poverty in the country.

Textile sector suffering due to inefficiencies

The National Assembly Standing Committee on Commerce observed that the textile industry was suffering losses due to its inefficiencies and not because of the World Trade Organisation (WTO) regime.

The Committee members noted that not enough had been invested in the infrastructure and the development of human resources by the managements of the textile units and expressed dissatisfaction over the performance and preparations of the textile sector to meet WTO challenges.

Chairman of the Committee Khurrum Dastgir Khan, added that the textile industry players were of the view that Pakistan had not gained anything from the WTO.

He informed the Committee that major textile players said that Pakistan was losing its share in the international markets after entering the WTO regime. The Secretary Commerce Zafar Mehmood said that the textile industry did not upgrade itself as per the requirements of the time. This is the reason for growth of textile industry in China, India and Bangladesh and added the local industry was not even operating on economies of scale.

The meeting was informed that around 55% investment had been made in spinning sector followed by 35% in fabrics and rest was in value addition. The average spinning units in China have 200,000 spindles, whereas it was around 12,000 in Pakistan.

The Committee members also said that the textile sector was wilfully trying to evade the government's move to register all operating units in the sector. The meeting was informed by the secretary commerce that the WTO was only a mode of international trading and it would be a mandatory requirement to be a WTO member for external trade in future.

Textile sector loans cannot be converted to LTFF

The State Bank of Pakistan (SBP) has expressed inability to convert textile sector loans into long-term financing facility (LTFF) on the basis of an agreement between the GoP and the International Monetary Fund., said in a meeting between State Bank of Pakistan (SBP) Governor Salim Raza and Advisor on Textile Dr Mirza Ikhtiar Baig.

Sources said that Baig raised five issues, which include: mark-up rate support to textile sector; conversion of long-term loans into LTFF; relaxation on prudential regulations; working capital loans and LTFF facility for establishing new spinning units.

With regard to mark-up rate support to textile sector, the Governor said that as the SBP is only the executing agency for scrutinizing and reimbursing the claims to be filed by banks/DFIs under these schemes, necessary instructions would be issued to the banks/DFIs in this regard, after receipt of budgetary allocation from government/Ministry of Finance.

On conversion of long-term loans into LTFF, SBP Governor responded that as there are limitations on the level of borrowings from SBP under IMF's SBA (Standby Arrangement), these loans cannot be converted into LTFF. However, GoP has already announced mark-up rate support against such loans. Mark-up, to the extent of 5%, would be reimbursed to eligible borrowers, after receipt of budgetary allocation from MoF/Mintex under the textile policy.

Regarding relaxation of prudential regulations, the SBP argued that no SBP regulation/circular places any restriction on banks/DFIs for extending any financing facility to a borrower having overdue appearing against its record in CIB database. However, with regard to relaxation in current ratio, the SBP Governor said that through BPRD Circular No 06 dated March 7, 2009 the condition has already been removed.

Replying to another demand of Baig, he said that the banks are free to allow restructuring/rescheduling facilities to their borrowers on case-to-case basis, keeping in view their lending policies as well as prudential regulations. Therefore, borrowers may approach their respective banks.

On LTFF facility for establishing new spinning units, Raza said that the rationale for providing refinance under LTFF is to promote export-led industrial growth of priority sectors. However, six sub-sectors i.e., spinning, doubling, twisting, combing, slubbing, lycra/yarn dyeing have already been made eligible.

He said that the Minister for Textile, Farooq Ahmed claimed that first he had arranged approval of Rs 40 billion package in budget of 2009-10 for exporters, out of which Rs 27 billion is for the textile which means textile sector will face no problem in funding for smooth running of textile packages/policy.

Cotton production may touch 12.8 million bales by 2010

Latest seed-cotton arrival figures indicate that finally cotton crop (2009-10 season) may hardly touch the level of 12.8 million running bales and may finish some where between 12.7 and 12.8 million bales against 11.34 million running bales in 2008-09 season - an increase of about 12.5% over last season.

This season (2009-10), lint cotton prices increased by more than 60% from the present level of Rs 3,200 per 37.324 Kg to 5,300 per 37.324 Kg in the 2nd week of March month ex-gin.

The increase in cotton / lint prices has been almost quite steep and continuous so almost all stakeholders including growers, ginners, exporters, stock-holders and spinners earned fabulous profits. Those traders who maintained long position earned high profits comparatively. This phenomenal behaviour on increase in cotton prices was also witnessed internationally. Apparently, it was mainly due to larger shortage of world cotton production against world cotton consumption. As such, increase in cotton areas in prominent cotton producing countries like China, US, India and Pakistan appears quite certain.

There are reports that cotton growers in Pakistan may get Bt cottonseed indigenously developed for commercial sowing from 2010-11 seasons. Field results of Bt cotton on experimental or commercial basis have shown very promising results and the growers are increasingly interested in sowing Bt cotton through the country. General shortage of irrigation water is anticipated in coming years but recent heavy rains and snow fall in North Western areas of Pakistan have increased water level in dams and so the availability more particularly for summer cotton crop.

Non-implementation of textile policy measures hindering exports

Non-implementation of textile policy measures announced eight months ago is hindering the exports, causing sloth in industrial productivity and credit crunch for exporters. This was stated by Azhar Majeed Sheikh, Chairman Standing Committee on Exports, Federation of Pakistan Chamber of Commerce and Industry.

The policy was widely hailed by all sectors of textiles across the country as progressive and realistic providing incentives and support to textile sectors. Export refinance at lower rates at 5%, relief in existing long-term loans, restructuring and reorganisation of the textile sector, drawback of local taxes on, processing fabrics 1%, home textiles, 2% and on garments 3% of FOB value of exports were the main measures announced in the policy.

However the above mentioned policy decisions announced in the policy have yet to be implemented. Azhar Majeed said that Textile industry was facing depression and stagnancy since last three years continuously and this sector was now passing through severe crisis of its history and struggling for survival. Textile exporters are facing financial crunch due to high interest rates, blocking of huge funds in duty drawback and sales tax regime.

Deprived of the cash flow, the exporters were unable to sustain their export turnover resultantly the industrial production has significantly fallen down which in turn caused decline in exports of textile products.

World economic meltdown coupled with innumerable adverse factors, such as rising cost of doing business, shortage of gas and electricity and their escalating prices and worsens law and order situation in the country have also badly affected the industrial activities. Rival countries in the region realizing the world economic meltdown impact have buttressed their textiles with massive doses of subsidies and supportive measures.

Azhar Majeed demanded the government to set its priorities right and accord preferential treatment to textile sector and save the industry and the economy from collapsing.

Textile policy promises remain unfulfilled

Exports of most of value-added textile goods are declining and our competitors are capturing our share in the world market but there seems to be no realization or any sort of concern amongst the policy makers, said Shabir Ahmed, chairman Pakistan Bed wear Exporters Association (PBEA).

The much-appreciated textile policy had not been implemented in letter and spirit, while routine nature of benefits of the past policies such as payment against duty drawback or refunds against sales tax or income tax claims are also being withheld.

Shabir Ahmed said as a result exporters are faced with liquidity crunch and are unable to even meet export orders fast diminishing. The enhanced rates of duty drawback are not being made effective, while the difference against reduced rate of export refinance as committed in the new policy had not been paid so far.

KCCI demands tax relief to textile sector

Rasheed-ud-din Rashid, Senior Vice President of Karachi Chamber of Commerce and Industry (KCCI) has asked Federal Secretary Commerce to recommend Federal Finance Ministry to give some relief to the textile sector in the form of exemptions from heavy burden of taxes.

He said that the textile export is a main source of foreign exchange earning, as it contributes over 50% to Pakistan total exports, but unfortunately, high operational cost due to hike in the tariff of power and gas has declined the export activities.

Due to high operational costs exporters are unable to compete in the global market. Power and gas load shedding has severely hit the export-oriented industry and the highest-ever tariff leads to increase the cost of manufacturing, which has widely spread the discontentment and unrest in the business community, which may cause withdrawal of investment.

During the past few years Pakistan has witnessed that the raw material, which Pakistan used to export, has become scarce in the country and now Pakistan has to import the same material at higher price again. The same phenomena are for Pakistan bumper crops, when the crops are available in abundance they are exported, but after few months, the same crop is imported at higher price.

Federal textile board' to be set up

The government has decided to establish "Federal Textile Board" to take important policy decisions in future by taking onboard the private sector. Sources said that the decision was taken at a high level meeting chaired by Textile Minister Rana Muhammad Farooq Saeed Khan.

The draft of the Textile Development Promotion Act has been finalised and submitted to the ministerial panel in a meeting. The draft act would soon be presented to Prime Minister Syed Yousaf Raza Gilani before sending to the parliament. The motive behind setting up Federal Textile Board is said to take private sector into confidence while taking decision and chalking out policies that would help bring in foreign investment in textile sector. The textile sector is the main source of foreign exchange earning and increase in its export may result in bridging the widening trade deficits.

The new textile policy announced by the present government envisaged export target up to $25 billion by 2014 and the textile board will suggest measures to achieve the target. Currently, Pakistan's lucrative textile sector is bringing in a little over $10 billion foreign exchange per annum.

TMA terms VAT another form of GST

Towel Manufacturers' Association (TMA) has described VAT as "another form of GST which is currently enforced in the country, said Waqar Alam, Chairman, TMA, in a statement. He said that the exporters after experiencing difficulties and long deliberations were allowed zero rating to five sectors of industry. If similar zero rating is not given to TMA, it would spell disaster for the exporting industry.

He said that a huge amount of duty drawbacks and sales tax refund of exporters are held up at customs stage for the last several months.

He expressed fear that this would encourage massive corruption at various levels, and requested the government that same procedure as prevalent in GST scheme may be continued if VAT is imposed.◆