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REPORT OF THE
EXPERT COMMITTEE
ON
TEXTILE POLICY

MINISTRY OF TEXTILES
GOVT. OF INDIA

NEW DELHI

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PREFACE

The privilege of penning a preface to this Report of the Expert Committee on Textile Policy is overawing. It is difficult to believe, such a mammoth task has indeed been completed; and, it is daunting to decide how the efflorescence of the exercise can now be encapsulated effervescently.

2. The joy of being reunited with the textiles sector commenced with an unexpected meeting with the Minister for Textiles in May 98. Little did I know then that, at the end of the meeting, which was more in the nature of a brains picking, I would have the honour being offered the Chairmanship of this Committee. So it was; and, the Committee was constituted by a formal gazette notification on 24 July 98.

3. The Committee was composed of stalwarts some of whom were more knowledgeable on the subject than I was. It goes to their greatness that they accepted my stewardship of the Committee and gave their willing cooperation and support.

4. A relook at the 1985 Policy was in any case overdue: it had had a long run; many holes were coming to be picked in it; and, substantive changes relating to the WTO had taken place warranting a change. In fact, the 1985 Policy had become so outdated that it needed to be changed much earlier. At any rate, given the lead time required to brace up to the challenges being unleashed by the cataclysmic changes relating to the WTO, an exercise of the kind now undertaken should have commenced much earlier. Possibly, the country was lulled into complacency by the strident growth in textile exports. In the euphoria over such growth in absolute terms, the relativities were relegated; that we were steadily losing share of an ever-

increasing world market was lost sight of. Had this not happened, perhaps, we would have been well on our way by now to modernised restructuring. Nevertheless, it goes to the credit of Shri. Kashiram Rana, Hon'ble Minister for Textiles, for setting this process in motion on a very high priority at least now.

5. Governmental systems move more easily by precedents. Naturally, therefore, we looked for precedents of procedures adopted by earlier Committees – the Verma Committee of 1985 and the Abid Hussain Committee of 1988. But, all the relevant files of the latter had advertently or inadvertently been destroyed by the offices concerned; and, the questionnaire-approach adopted by the former was not appealing. Consequently, the Committee had to take appropriate leads on its own. While this did hamper initially the speed of operation, it also helped the Committee to have full manoeuvrability in devising its systems/procedures.

6.1. One of the first major decisions taken by the Committee was not to issue a questionnaire. The idea was to rely more on open-ended interactive sessions with a broad spectrum of interest-groups rather than restrict responses to rigidly structured documents.

6.2. Implied in this decision was the guidance that, instead of embarking on tight fisted clause-by-clause review of the existing policy to pick holes, it would be more rewarding to adopt a holistic and constructive approach in a futuristic perspective. In retrospect, we do realise the wisdom of this approach and value the wealth of material collected. The interactive sessions turned out to be treasure troves of ideas and suggestions. There can be an opinion that the focus of an expert committee on policy shall be narrowly limited and narrowly timed. But, taking into

account the context of preparing to face a free world-market, and bearing in mind the limited lead time available therefor, a conscious choice was made to chart out a comprehensive and constructive course. As a result, the endeavour was not only to identify the gaps in policy and performance but actually to understand the problems, ascertain their causes, suggest correctives and, bearing in mind the emerging trends and challenges, propose policy precepts, strategies and new initiatives.

7. The membership of a Committee like this can not obviously be large. And, the Government meant its composition to comprise subject-expert-wise and not segmental representation. That being so, the Committee had to evolve an arrangement for utilising the wealth of material received and for other in-depth analyses in the backdrop of segmental situations. Accordingly, ten Working Groups were set up as follows:

- (i). Working Group on Production and Processing.
- (ii). Working Group on Raw Materials.
- (iii). Working Group on Fiscal Policy and Structuring.
- (iv). Working Group on Financing Arrangements.
- (v). Working Group on International Trade.
- (vi). Working Group on Readymade Garments.
- (vii). Working Group on Handlooms.
- (viii). Working Group on Silk.
- (ix). Working Group on Wool.
- (x). Working Group on Jute.

8. Three features about these Working Groups are noteworthy:

- (i). They provided scope not only for involvement of segmental interests but also for participation in greater numbers of non-officials, with the added facility for co-option of members.

- (ii). Unlike on earlier occasions, a meaningful effort was underway to give holistic attention to the industry cutting across fibre-boundaries except for the lone exclusion of the jute industry.
 - (iii). Senior functionaries of the Government were made Convenors of the Working Groups so as not only to institutionalise integration of government perceptions of segmental concerns but also to clear the way for easier adoption of the recommendations of the Committee flowing from the Working Group reports.
9. (i). Even as we began to swim into the stream of our work, our spirits sank by a sad realisation that at least for some part we were swimming against the current: there was a sense of pervading negativism not only from the side of the bankers but, astoundingly, even in some governmental quarters. The argument was, if an industry could not withstand the onslaught of an open market, it must perish. While there could be no dispute with this logic, the disagreement was about the capabilities of the sector to withstand onslaughts. The inherent strengths of the textiles sector on counts of share in industrial production, share in gross domestic product, employment generation potential, and export earning capacity are too well known to need any reiteration in this context. Verily, therefore, it had to be likened to a case of an athlete needing genuine medication to get rid of a transient affliction rather than a shot of steroid for sudden stimulation. Our

conviction about the basic soundness of this sector was overpowering to press down the pernicious pessimism.

- (ii). But, how does one influence (much less control) the mindset of others? This was a problem in coping with the response of at least some of the participating banks. Many of them did not appear to consider the textiles sector worthy of credit-support. (The only ray of hope to dispel this dismay is in the fact that the financing institutions at least do not think so.) While it is not my intention here to suggest that banks must squander their resources, I certainly do wish to state that they shall not only be fair-weather friends. When the textile industry is in distress, with the economy in recession, banks have a role to play too to revivify. Concerns about their own credit-worthiness can not preponderate to the exclusion of running even reasonable risks. The mystique of 'NPA' gets so magnified as to mesmerise us about all other considerations. It has been impossible to get any details about 'NPA' to make any judgements, not even to know whether we are talking about 'gross' or 'net' 'NPA'. The problem is so acute that it has actually been represented as a case of 'NPA (non-performing assets) versus NPB (non-performing banks)!' This problem has been beyond our tackle; and, we single it out for specific attention by the Government.

10. The report runs into 18 chapters. As earlier stated, the attempt has been to complete as much as possible of the ground work so as to enable the Government speedily to get on with action. In this approach, relevant details have

been built into each chapter. Without embarking on a recapitulation of such details, I wish to spotlight some of the points here to stress their significance:

- (i). A brief vision statement has been made at the beginning to indicate the time perspective, the target prescription, and the thrust areas. It is our earnest hope that our present 3.11% share of the world market will be doubled in five years and trebled in ten years.
- (ii). Since we have increasingly to function in an open market situation on a global basis, to be globally acceptable we must pitch our quality standards to global benchmarks. With this end in view, we wished to annex a list of globally accepted standards. Unfortunately, we could not compile complete and authentic information in this regard. Although we have adequately stressed the quality aspects, therefore, this will admittedly remain a gap in our Report. The Government may like to get this information compiled for wide publicity to create the necessary climate of total quality awareness.
- (iii). In the context of our work, we had to consider many matters pertaining to the WTO and their implications for the textiles sector. In doing this, we were struck by an amazing lack of awareness about the impending changes and an incredible dearth of literature on the subject. We have dealt with this matter in our report. But, the seriousness of the problem warrants its mention here to spotlight attention and spur action.
- (iv). One striking feature that must temper our thoughts in anything that we seek to do about the textiles sector is the fact that it is the most

regulated sector of our economy. It will be incongruous to talk about its revival in the current context of liberalisation, especially in the backdrop of globalisation, without dismantling the regulatory regimen. With this realisation, our Report is replete with recommendations for deregulation, decontrol, dereservation, and liberalisation.

- (v). Modernisation/mechanisation in the textiles sector will increasingly be an inevitable proposition. It has to happen. The sheer compulsion of market forces will make it happen. In the overall national interest, it must be the endeavour of everybody to promote such developments. Such developments in other sectors have not been harmful to labour interests; they have only benefited them. There is, therefore, no reason why textiles labour will become an impediment to the developmental process. Even so, appropriate conditions must be established to motivate all concerned not only to accept such changes but adopt them as well. At the same time, however, care must be taken to avoid abrupt changes without giving sufficient time for the labour to make necessary adjustments to new situations.

In conformity with our overall approach of recommending (almost) wholesale deregulation, decontrol, dereservation, and liberalisation, in the chapter on Industrial Relations the Report also makes several recommendations for radical changes in the labour laws. In the context of the ongoing liberalisation process, these labour issues will be equally relevant to other sectors of the economy as well. For these changes to succeed and to smoothen the transition process, therefore,

it will be a good idea for the Government to spearhead an inter-sectoral national campaign to motivate the labour to accept changes and adopt them.

(vi). In the absence of a holistic approach, many inter-segmental inconsistencies and anomalies crept in over a period of time. This was particularly so in respect of many fiscal issues. In fact, there is an opinion that much of the sector's ills can be traced to this factor. An honest attempt has been made to adopt a holistic approach in this Report. The Chapter on Fiscal Policy and Structure deals with details to remove inconsistencies and anomalies and streamline the system. I raise this issue to emphasise that unless there is stability in fiscal arrangements, these changes may not amount to anything, and the industry may not be sufficiently encouraged and motivated to make the kind of massive investments required to modernise it.

(vii). The decline of the sector has been linked to the collapse of the mills which has been attributed to unrestricted emergence of sub-standard powerlooms. Whatever may be the legacy, we cannot but recognise the reality of the powerful presence of the powerlooms. Any strategy for a speedy turnaround of the textiles sector, therefore, will have to build upon the strengths of the powerloom segment. In line with this realisation, our Report makes many recommendations to build up the powerloom edifice. The process can be accelerated if concentrated developmental attention is given to this segment. This can be achieved by redefining the role of the Textile Commissioner and

reorienting and redeploying his (regulatory) field staff to work for the upliftment of the powerlooms.

- (viii). Another issue that must attract urgent attention is about proliferation of litigation on environmental considerations. We have heard representations to the effect that different High Courts have been adopting different norms/standards to evaluate the functioning of various processing (and, other) units. In the absence of a well informed and any coordinated defence, Courts apparently have not been able to get a proper feedback of relevant information. This has resulted in orders being passed for immediate closure of different processing units at different places. The situation is serious enough to require immediate governmental intervention. Otherwise, the textiles sector, which is already in a distress situation, is likely to face more desperate circumstances.

We have dealt with this matter in our report and suggested points for attention/action. But the seriousness of the problem warrants its mention here to spotlight attention and spur action.

- (ix). Under the WTO regime, what with the collapse of the tariff barriers, non-tariff issues will increasingly occupy centre stage as a concomitant of the emerging unrestricted and aggressive free market operations.

Besides the known and familiar disputes like anti-dumping, anti-duty drawback complaints, issues relating to environment, ecology, human health, human rights, and (even) civic rights will get to be agitated in a

no holds barred commercial warfare. It has not been possible for us as yet to build up a strong base of legal resources to cope with such a spurt in international litigation. In consultation with the Bar Councils, and in collaboration with the law faculty in different Universities, a massive Legal Resources Development campaign will have to be organised.

- (x). What with the fall of fiscal barriers, the world is entering into a fiercely competitive open market situation. To measure up to the aggressiveness of this onslaught of market forces we will need to gear up a lot in terms of collection, analysis, and application of (commercial) intelligence inputs.

Steeped as we are in quota-propped exports, and lulled as we have been in a tariff-based protection against import penetrations, never have we really felt the need for a strident set up for commercial intelligence. The Committee has not had the time to study in detail the requirements of such an operational arrangement. But, we certainly stress the significance of this proposition, spotlight the inadequacy of the existing ensemble, and project the need to promote professional expertise in this area.

- (xi). The bane of the textile sector has been its inability to move with the times. As technologies trundled along and fashions flourished, the industry stultified and stagnated. Any advancement of our positions would have been more in the nature of a journey from a Jurassic park! Happily for us, our gait has been galvanised by the globalisation

process. The resultant mood for modernisation is refreshingly vibrant. It shall be our endeavour to entrap this vibrancy for orderly progress.

Even as the sector readies to leap-frog and arrangements are ordered for the investments to materialise, care shall be taken to ensure that we make the right moves. As regards technological upgradation, the TUFs of the government stipulates safeguards; and, we have in this report specified further standards. But, it must be recognised that human resource has been rusting too and will require to be robustly refurbished.

The upgradation of the human material would have been a necessity even on absolute considerations. Going by the relativities released by the modernisation process, the magnitude of the task increases manifold. It will not be easy to comprehend the contours of the course to be charted. A cross-sectional, inter-segmental multi-level, multi-skill campaign will have to be mounted. Although we have tried to project the enormity of the effort involved and capture its essence in the chapter on Human Resource Development, I feel, I must flag this subject for further attention and urgent action. The WTO calendar casts a heavy time burden on us; and, if we have to adhere to difficult datelines, new arrangements have to be devised for installing new systems. As distinguished from the conventional technical education certification procedures, a sector-specific mechanism will be required for accreditation of institutions, framing of curricula, certification of courses, and award of accomplishments.

(xii). As we have stated in the body of the report, the textile industry is expected to be dominated by technical applications of various textile materials in different forms in the next millenium. The opportunities to be unleashed by this non-apparel emergence of textiles will truly have a cataclysmic impact on the sector. In a sense, one can liken it to the genetic engineering projects. Recognising the volatility of the vistas it is opening up, we have thought it fit to devote a separate chapter to this topic.

Astonishingly, so little is known in our country about so much that has happened on technical textiles! It is mind boggling to realise that textiles can actually cover fields like agriculture, automobile, aviation, environmental protection, furniture, medical, mining, pharmaceutical, transportation, and so on. Fortunately, much of the world is still waking up to these prospects. Any strident entry into this sphere by us even at this stage can, therefore, still get us a good head start against many other countries.

The volume (and, certainly the value) of trade to be generated can well surpass those on the apparel side. The 10% share of the global market in technical textiles that we have dared to raise our vision to is not unattainable. Only, we must appropriately position ourselves to exploit this opportunity.

The Chapter on the technical textiles outlines the scope of action called for. The various initiatives required, concessions to be granted, and

motivations to be generated have been detailed to spur action and not scare away the scarce resources. Our intention is to break the knowledge barrier and remove the fear of the unknown.

The glittering prospects of technical textiles are so exciting that I feel impelled to recommend establishment of a separate division in the Ministry of Textiles to organise its promotion. As it grows, very soon, I venture to say, we may need a separate department of Technical Textiles, under the Ministry of Textiles, to garner its growth. Most immediately, though, as we have stressed in the body of the report, there is need for a Nodal Agency, and a Technical Cell in the Office of the Textile Commissioner.

- (xiii). The report underscores the point that the sector needs deregulation, decontrol, dereservation, and liberalisation. Much of what happens in it, consequently, must also change. To start with, the governmental presence in it must diminish. Even of what will remain must also wear a developmental, facilitation look.

It was our intention to commission a study in this regard so as to be able to make precise recommendations in respect of each organisation/office. Unfortunately that could not be. As an alternative, we sought the organisations/offices themselves to introspect and indicate the changes. This did not yield much result either. In the event, to the extent possible, we have ventured on our own to make some recommendations, in the chapter on Administrative Set Up. But,

we do realise the inadequacy of inputs in this effort and leave it to the government to order appropriate alterations, with reference to the decisions taken on this report.

11.1. The Committee places on record its grateful thanks to the government in general and, in particular, to the Hon'ble Minister for Textiles Shri. Kashiram Rana for reposing confidence in it to tackle a subject of such substantive significance. We do hope, the comprehensive coverage given to the subject will come up to his expectations and serve his purpose in reviving the textiles sector and restoring to it its lost glory.

11.2. The Committee owes a debt of gratitude to all the representatives of various interest groups and other prominent representatives of the sector who have very generously devoted time to meet with us in different forums and advise us of their perceptions. We value their advice; and, to preserve their contributions for reference in future, we have decided to incorporate the various memoranda received in different volumes as Part – **III** of our report.

11.3. The Committee is also obliged to all those who kindly accepted membership of the Working Groups, and to the Senior Officers who functioned as their Convenors, for the hard work they put in to prepare excellent reports which formed the bases of this report. We salute their effort; and, to preserve their work for posterity, we have decided to incorporate the Working Group reports in different volumes as Part – **II** of our report.

11.4. As the Chairman of the Committee I am beholden to all the members for their wholehearted cooperation. The numerous meetings they have attended, the

number of field-trips they have undertaken, and the endless stream of interactive sessions they have participated in are all indicative not only of their interest in this work but also of their tolerance of the way in which I have organised the affairs of the Committee.

11.5. I must single out for specific gratitude the inestimable help and support received from Shri. B.C. Khatua, Textile Commissioner, who functioned as the Member-Secretary of the Committee. Being a born doer and an inveterate optimist, he was a veritable driving force for any action in the Committee. Not only did he take willing and complete charge of its Secretariat but, with his breadth of vision and depth of subject-knowledge, he also brought to bear upon our deliberations, and particularly our interactive sessions, an incisive influence to instill a wholesome sense of purpose and extract substance of distilled merit.

11.6. It will be an unforgivable lapse of mine if I do not single out Shri. A.N. Jariwala's name for special admiration. Having been a member of most of the Committees appointed in this sector, he was the bulwark of our bastion and the corner-stone of all our consultations. A technocrat by training, a weaver by profession, a sadhu by temperament, and a helper by instinct, he was present everywhere at all times to help everyone notwithstanding his old age, ill-health, and inconvenient location. I place on record my salutations to this great man.

11.7. Another person whose monumental contribution I can not adequately acknowledge is Smt. Shashi Singh, Director (Econ.) in the office of the Textile Commissioner. The unbounded energy of this human dynamo had an ethereal impact on all of us to put in tireless hours of work days after days. But for such sustenance, I am sure, this mammoth task could not have been accomplished in one

year. With her impeccable commitment to the cause and with her immaculate team-spirit, she was an ever present source of inspiration and harmony. Her knowledge of the subject, her understanding of the sector, and her flair for fiscal issues were of great value to us in our work. Her greatest contribution has of course been in assimilating with alacrity the disparate flow of thoughts and ideas to produce readable drafts of radiant chapters. I dare say, without her help, we could not have done what we have.

11.8. Shri. T.V. Bhavadas (Deputy Director), Shri. A.K. Toprani (Deputy Director), and Shri. K.R. Jakatdar (Assistant Director), of the office of the Textile Commissioner were of help throughout with their silent support from the sidelines. Shri. Omanand, a Section Officer in the Ministry of Textiles, deserves our special thanks. With his reservoir of memory and remarkable recall of relevant information, he has been a source of strength.

11.9. I must record a special thanks to Shri. K. Chandramouli, Costing Investigator in Smt. Shashi Singh's office, who put in a superhuman effort to type repeated versions of the draft chapters and turned out a neat document.

12. I am thrilled to have been a part of this exercise. It has been a very learning experience. And, I have the authority to say on behalf of the Committee that it has been a satisfying and rewarding assignment. Our joy will be unbounded if, irrespective of political vicissitudes, this report will be accepted and acted upon, and, if our recommendations can restore to the textiles sector its lost glory.

(S. Sathyam)

Mumbai,
30 July 99.

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VISION STATEMENT

- ★ Attain and sustain a global standing in manufacture and export of textiles and clothing by entering the top five bracket of competing countries. In realistic terms, this will mean doubling in five years and trebling in ten years of our share of the global export market.
- ★ Take imaginative initiatives to introduce technical textiles as a major component of our textile package so as to capture by 2010 a ten percent share of the global trade therein.
- ★ Achieve total liberalisation of the textile industry through further deregulation, and dereservation so that the inherent strengths of the industry and entrepreneurial enterprise can have full flow to flourish and face up to the challenges ahead.
- ★ Alongside improvement of the yield and quality of cotton, the traditional Indian fibre stronghold, to globally competitive levels, broaden and strengthen our fibre-spread, with special attention to man-made and speciality fibres, to develop a strong multi-fibre base with spectacular product diversification.
- ★ Erect an edifice of the textile and apparel industry with state-of-the-art technology, improved manufacturing processes, skilled human resources, best management practices, and IT applications for an optimum exploitation of the capacities available and the opportunities emerging.
- ★ Achieve international standards of quality and excellence to win global confidence in and world acceptance of the 'Made in India' label as an unassailable mark of quality in textile products.
- ★ Equip the industry to withstand pressures of import-penetration, and maintain a prominent presence in the domestic market to cater to consumer interests and provide increasing value-for-money to the Indian consumer.

CHAPTER – 1

OVERVIEW OF THE TEXTILE INDUSTRY

1.1 Introduction

1.1.1 The textile industry occupies a unique position in the Indian economy. Its predominant presence in the Indian economy is manifested in terms of its significant contribution to the industrial production, employment generation and foreign exchange earnings. Currently, it adds about 14 percent to the industrial production and about 4 percent to the GDP. It has immense potential for employment generation, particularly in the rural and remote areas of the country on account of its close linkage with agriculture. It provides direct employment to about 35 mn. persons including substantial segments of SC/ST and women. In fact, the textile industry is the second largest provider of employment after agriculture. The contribution of this industry to the gross export earnings of the country is about 37 percent while it adds only 1-1.5 percent to the gross import bill of the country. It is the only industry which is self-reliant and complete in value chain, i.e., from raw material to the highest value added products, i.e., garments/made-ups. As a consequence, the growth and development of this industry has a significant bearing on the overall development of the Indian economy.

1.1.2 Indian textile industry is extremely complex and varied with hand-spun and hand-woven sector on one end of the spectrum and the capital intensive sophisticated mill sector at the other, with the decentralised powerloom and knitting sectors coming in between. This industry uses a wide range of fibres from natural fibres like cotton, jute, silk and wool to synthetic/man-made fibres like polyester, viscose, nylon, acrylic and the multiple blends of such fibres and filament yarns. The complex and varied structure of the industry coupled with its close linkage with our ancient culture and tradition provides it with the unique capacity to produce, with the help of latest technological inputs and design capability, a wide variety of products suitable to the varying consumer tastes and preferences, both within the country and overseas.

1.1.3 The Indian textile industry has also significant presence in the world textile economy by virtue of its contribution to world textile capacity and production of textile fibres/yarns. This industry contributes about 20 percent to the world spindleage of 166.36 mn. spindles and 3 percent to the world rotorage of 7.81 mn. and has the second highest spindleage in the world after China. With almost 5.7 mn. looms (including handlooms), this industry has also the highest loomage (including handlooms) in the world and contributes about 64 percent to the 8.9 mn. world loomage. Even excluding handlooms, this industry contributes 42 percent to the world loomage of 4.38 mn. The contribution of this industry to the world production of textile fibres and yarns including jute at about 6.0 mn. tons is about 12 percent. In the world textile scenario, it is the largest producer of jute, second largest producer of

silk, third largest producer of cotton and cellulosic fibre/yarn and fifth largest producer of synthetic fibre/yarn. It is also the third largest producer of cotton yarn. (Table-1.1). The Committee has observed that despite the textile industry's strong presence in world textile economy in terms of production of fibre/yarn and fabrics, its share in world trade is a meagre 3.11 percent as against a share of 6.13 percent and 8.3 percent of even small countries like Germany and Italy respectively, which don't even have any worthwhile fibre/yarn production base. China, which has a comparable raw material base enjoys a textile trade share of 13.75 percent. (Table-1.2). The primary reason for our low share in international trade is the predominance of low value items in our export basket and our insignificant presence in man-made textiles which predominate world textile trade with a 70 percent share.

1.1.4 The Indian textile industry has inherent strengths in terms of rich legacy of textile production, strong multi-fibre raw material base, large and expanding production capacities, very low import intensity, vast pool of skilled workers and technical and managerial personnel, flexible production systems, large and expanding domestic market, dynamic and vibrant entrepreneurship etc. However, these strengths have been diluted to a great extent due to severe disadvantages suffered by the industry in certain other areas affecting its productivity, quality and cost competitiveness. Such factors are technological obsolescence, structural anomalies, poor productivity of labour and machine, lop sided fiscal policies, multiplicity of taxes and levies, high cost of capital, redundant and outdated controls/regulations, restrictive labour and industrial laws, lack of aggressive marketing, poor perception of Indian products abroad, procedural problems in exporting, poor infrastructure relating to transport, communication and banking, high power tariff etc. The technological obsolescence which is pervading almost all the segments of the textile industry has placed it far behind its major competitors in the world textile economy and is threatening its very existence. The reasons for technological obsolescence are structural anomalies created due to lopsided fiscal policies, high interest cost, excessive controls and regulations and restrictive provisions in the Industrial Disputes Act relating to closure, retrenchment etc., denying the entrepreneurs their basic right to make decisions based on techno-economic norms and also social obligations imposed on the organised sector in the form of hank yarn obligation etc. All these factors have created negative environment stifling investment in technology upgradation. The consequential impact has been sickness and closure of mills on a large scale.

1.1.5 Such adverse factors have led to the failure of the Indian textile industry to exploit its distinctive advantage in terms of strong multi-fibre raw material base to the optimum level. It is worth noting that among the top 6 textile exporters, i.e., China, Hongkong, Italy, Germany, South Korea and USA, only the first and the last have a raw material base comparable to India's while others have built up their competitiveness sheerly on the basis of technology-driven and cost-controlled value addition to a strong import base of input stage textiles.

1.1.6 The setting up of WTO has accelerated the process of gradual phasing out of the tariff barriers and the lowering of the quantitative restrictions on imports aimed at integration of the world textile trade by the end of the year 2004. As a consequence, competition in domestic and international markets has intensified and is expected to reach the level of 'survival of the fittest' in the next 3 – 4 years. While free market offers unlimited opportunities, it is also replete with threats, particularly from "export led" economies, to destabilise our local market. The threat of import penetration, the signs of which are already visible will further intensify in the years to come and has the potential of wiping out indigenous industry, particularly the decentralised segments if timely and adequate measures are not taken to strengthen the industry. For this purpose, it is imperative to identify the 'strengths' and 'weaknesses' of the Indian textile industry to take effective steps in 'dynamic mode'. The strengths need to be converted into competitive edge to exploit the opportunities offered by the free market economy while weaknesses hindering its growth have to be eliminated or their impact minimised through a well defined 'policy package' to emerge as a strong international cost- and quality-competitive textile economy. One possible question arises as to when the future of the industry in the liberalised scenario is going to be decided by the market forces in the economy, what is the role of the Govt. sponsored policy, especially when increasingly interventionist role is no more relevant or desirable. However, it has to be recognised that Govt. will have to increasingly assume a role of 'facilitator' and 'catalyst' to promote the balanced around growth of the industry. For this, an appropriate policy framework is both desirable and necessary. Even in the developed economies, viz., US and EU, policy for textiles is very carefully drafted.

1.1.7 The Committee has analysed in detail the problems and handicaps of the different segments of the textile industry and recommended appropriate policy prescriptions in the relevant chapters to provide the Indian industry the much needed 'competitive edge' essential to face the challenges of the liberalisation process in terms of import penetration and to substantially improve its share in global textile trade commensurate with its basic strength.

1.2 **Salient features of the Textile Policy of 1985**

1.2.1 The Textile Policy of June 1985 had enunciated the main objective of the policy "to increase the production of cloth of acceptable quality at reasonable prices to meet the clothing requirements of a growing population". The policy has also mentioned that in the pursuit of this main objective, the employment and export potential of the industry shall be kept in view. The salient features of the present Textile Policy are:

- Doing away with the fibre specific and sector specific compartmentalisation of the industry and re-structuring it according to the stages of its manufacturing process, viz., spinning, weaving and processing.
- Providing fibre flexibility in the use of various fibres.

- Pragmatic policy regarding creation or contraction of capacities by units in order to increase competition and promote healthy growth.
- Augmenting the availability of raw material for the spinning sector.
- Preservation of the distinct and unique role of the handloom sector as also ensuring higher earnings for the handloom weavers and improvement in their working conditions.
- Equal treatment of powerlooms and composite mills to enable them to compete on the basis of their inherent strengths and capabilities.
- Allowing for treatment of independent processors and the processing houses in the mills at par, with special consideration only for small hand processing units.
- Augmenting availability of man-made fibre/yarn at reasonable prices by creation of capacities, reduction in fiscal levies on such fibre/yarn and their inputs.
- Re-formulating role and functions of Cotton Corporation of India to include price stabilisation operation.
- Emphasis on modernisation of all segments of the textile industry and provision for setting up of a textile modernisation fund for providing soft loan to the industry.
- Reviewing, eliminating and phasing out redundant regulatory control.
- Revival of potentially viable sick units and closure of non-viable units.
- Making available inputs for export production including capital goods at or near global prices so as to give a thrust to exports.
- Expansion of the role of the TRAs so that they also cater to the needs of the handlooms and powerlooms.
- Establishing more number of Powerloom Service Centres to enable the powerloom weavers to improve their skills.
- Emphasis on the development of sericulture and development of technology in reeling, weaving and processing for improving the quality of silk fabrics.
- Promotion of the growth of the woollen sector, liberal policy regarding imports of quality wool as well as shoddy.
- Strengthening, modernising and development of knitting and apparel manufacturing sectors.

- Encouragement to indigenous textile machinery manufacturing industry to reduce its cost, upgrade its technology and improve the quality of machinery, and liberal import of such machinery which are not manufactured indigenously.

1.2.2 It is noted that during the 14 years of the operation of the 1985 Textile Policy, barring the composite sector of organised mills, by and large the textile industry has achieved growth in terms of production, consumption, availability and exports of different items of textile industry, primarily on account of measures enunciated in pursuance of the Textile Policy of 1985. However, the weaknesses as outlined in preceding para 1.1.4 have also become more apparent. In fact, the technological gap has widened further and sickness and closure of mills has increased.

1.2.3 The Govt. had appointed in May, 1988 a Committee under the chairmanship of Shri Abid Hussian to review the progress of the implementation of Textile Policy of 1985 to assess as to how it has affected the various sectors of the textile economy. This Committee submitted its report in Jan., 1990. The said Committee has pointed out that though the 1985 Policy was anchored on the right principles, it did not address itself adequately to the institutional, financial and other means required to achieve the objectives it had set itself. The Report of the Committee was based on appreciation of three key factors. Firstly, the modernisation and restructuring of the textile industry is inevitable; therefore, programmes must be formulated to manage the process in an effective and humane manner. Secondly, a clear need for area-based approach since each kind of activity in the textile industry is concentrated in and around a few identifiable geographical areas. Thirdly, desirability of going beyond mere protection and legislation to aggressive promotional and professional marketing, particularly for handloom weavers. All the recommendations made by the Committee were guided by the above three factors. The Committee had also, inter alia, recommended closure of non-viable sick mills, sale of surplus land, liberalisation of the labour laws, and decontrol and deregulation of the industry. But such recommendations were not acted upon. Some of the recommendations of the Committee which are still valid have been recommended again by this Committee in the concerned chapters.

1.2.4 In this chapter, the growth pattern of the industry has been traced. Firstly, in brief the overall growth scenario during the five decades of post-independence era and thereafter, detailed segment-wise growth analysis of the last 14 years, i.e., since the enunciation of the Textile Policy of 1985 are discussed. The areas of concern in each segment have also been outlined.

1.3 **Growth pattern of the industry**

1.3.1 The analysis of the growth pattern during the five decades of post independence era reveals that growth of the textile industry during the first two decades after independence had been rather slow but steady which became considerably slower during the third decade. The growth, thereafter, picked up

significantly during the fourth decade in each and every segment of the industry. The peak level of growth has, however, been reached during the 5th decade, i.e., during the 1990s. The Textile Policy of 1985 and Industrial Policy of 1991 focussing in the direction of liberalisation of economy and trade had, in fact, accelerated the growth during the later part of the 1990s.

1.3.2 The growth of the textile industry during the last about 14 years is spear-headed by the spinning and man-made fibre industry in the organised sector and the weaving/knitting segments of the decentralised sector. The increase in production of raw cotton, independent spinning capacity and the phenomenal growth in the man-made fibre/filament yarn sector provided the platform for the accelerated growth of the decentralised weaving and knitting sectors. The segment-wise growth of the textile industry during the last 14 years is discussed below:

1.4 Spinning activity

1.4.1 The cotton/man-made fibre textile industry is one of the largest industries in the country in terms of employment and number of units. The textile mill industry has witnessed significant growth during the last 14 years in terms of installed spindleage, yarn production and exports. The number of cotton and man-made fibre mills rose from 955 in 1985 to 1788 as on 31st Dec., '98. The growth has been more significant in case of spinning mills which rose from 674 in 1985 to 1540 by the end of Dec.'98. With substantial expansion in the spinning capacity during the period, the spindleage increased from 25.57 mn. in 1985 to 33.93 mn. in Dec.'98. The liberalised industrial and trade policy of July 1991 spurred the pace of setting up of textile mills. The significant features of growth in spinning industry during the period are the installation of open end (OE) rotors (3.17 lakh no.) and setting up of Export Oriented Units (EOUs) mainly for production of cotton yarn, which now number about 82. In the small scale sector, there are 861 spinning units with an installed capacity of 1.62 mn. spindles and 37,700 O.E. rotors.

1.4.2 Technology-wise also, spinning industry has been able to keep pace with the international technological trends to a fair degree through its own efforts and also by taking due advantage of the concessional loans under the Textile Modernisation Fund Scheme (TMFS) which was in operation during the 7th Plan period.

1.4.3 Consequent upon the phenomenal growth in spinning capacity, the production of spun yarn (cotton, blended and 100 percent non-cotton) has also commensurately increased from 1382 mn.kg. in 1984-85 to 2973 mn.kg. in 97-98 registering a compound annual growth rate (CAGR) of about 6.1 percent. However, during the just concluded year, i.e., 1998-99, for the first time in many years, there is an estimated decline in production of spun yarn to the extent of about 5.5 percent. The spinning industry has, in fact, not performed well during the 1998-99, primarily because of recession in the global market, due to the financial and consequential economic crisis

in the South East Asian region which accounts for about 50 percent of our cotton yarn exports, coupled with slow down in the domestic economy and short fall in the cotton crop and consequently scarcity of good quality cotton. Such a sudden reversal of fortune has in a way brought into sharp focus the inherent distortions and disadvantages suffered by the Indian textile industry in terms of structural anomalies, high cost of credit/interest, high rate and poor quality of power and technological obsolescence etc. All these factors resulted in downturn in performance of the spinning industry. However, the downward trend in production of spun yarn which started from Feb'98 has been restrained and a turn around in spun yarn production is visible from Feb.'99.

1.4.4 The production of cotton yarn has somewhat fluctuated in tandem with cotton crop during the period but cotton yarn continues to be the predominant spun yarn, although with increased availability of man-made fibres, its share in total spun yarn production has declined from 86 percent in 1984-85 to 75 percent in 97-98. One of the significant features of the cotton yarn segment during the last 14 years was its spectacular performance in the export arena. The percentage share of India in cotton yarn exports which was a modest 9 percent in 1985 is risen significantly to about 19 percent in 1997, replacing Pakistan for the first time as the largest exporter of cotton yarn in the world. Notwithstanding the temporary setback suffered by it in 1998, the cotton yarn exports are showing signs of bouncing back. (Table-1.3).

1.4.5 Apart from cotton yarn, blended yarn and 100 percent man-made fibre spun yarn have also registered a significant growth, at about 12 percent CAGR during the last 14 years, primarily because of enhanced availability of its raw material, i.e., man-made fibres at reasonable prices. The rationalisation of fiscal levies, and augmentation of capacity are the primary factors responsible for moderate price trend of man-made fibres and spun yarn in the recent years.

1.4.6 In spite of significant increase in production capacity and production and exports of spun yarn, the fact remains that there are many areas of concern in the spinning sector which need to be tackled to enable it to face the challenges of the next millenium. The first area of concern is the level of modernisation. Though the spinning sector is more modern than other segments of the Indian textile industry, a study conducted by SITRA clearly indicates that a large number of mills are still using obsolete technology. The technology obsolescence has led to deterioration in operational efficiency and profitability of such mills making them prone to sickness. Another area of concern is the excess capacity in terms of installed spindleage. In the wake of the liberalised industrial policy of 1991 and aided by the once booming export market, the pace of setting up of spinning units increased phenomenally. Now that the recession in the domestic and global markets has set in, the spun yarn market has become the 'buyer's market', exerting tremendous pressure on the margins of the mills. It is estimated that about 28 mn. quality spindles at 85 percent capacity utilisation are adequate to produce the present level of spun yarn output. Out of the

approximately 35.5 mn. spindles installed in the spinning sector, about 7 mn. spindles are lying idle in the closed mills out of which not more than 1 mn. spindles may be good, while another 4 mn. spindles are dormant in working mills. Considering the spindleage imported during the last ten years and spindleage added from domestic production net of exports during the same period, it is estimated that about 11 mn. spindles are non-viable and hence fit for scrapping. Reportedly, a significant portion of the dormant, non-viable and obsolete capacity gets reactivated during the periods of buoyant market conditions, thereby destabilising the established market as well as the better performing, quality-driven mills. Another problem faced by the spinning industry is in the form of hank yarn obligation scheme. The production of hank yarn is uneconomical, wasteful, very much labour oriented and impacting adversely on the economic viability of the spinning units. Though supply of yarn to the vulnerable handloom sector is no doubt necessary but it should not be done at the cost of the spinning sector, more so in the context of the ongoing integration of world textile market. Remedial measures need to be taken on an urgent basis to remove or minimise the impact of the above mentioned adverse factors.

1.5 **Weaving/Knitting activity**

1.5.1 Cloth is produced in the country by different sectors, i.e., organised mill sector and the decentralised powerloom, handloom and knitting sectors. In tandem with the increase in production of yarn, the fabric production has also increased significantly during the last 14 years from 13,548 mn. sq.mtrs. in 1984-85 to 37,436 mn.sq.mtrs in 1997-98, registering a CAGR of 8 percent. There has been significant change in inter-sectoral pattern of production during the period. In 1984-85, the mill sector produced about 27 percent of the total cloth production while share of the decentralised sector was about 73 percent. Gradually, with the decline in weaving capacity of the mill sector from 2.10 lakh looms in 1984-85 to 1.24 lakh looms in 1997-98 and emergence of the decentralised powerloom sector now estimated at about 16 lakhs, the share of mill sector in cloth production also steadily declined, being replaced by the powerloom sector while share of the handloom sector also declined, though to a lesser extent. The knitting sector has also emerged in a big way in the last 14 years. Currently mill sector contributes about 5 percent of the cloth production while powerloom, knitting and handloom sectors contribute about 63 percent, 17 percent, 14 percent respectively. Wool, silk and Khadi fabrics contribute the remaining 1 percent.

1.5.2 Over the years, the fibre mix pattern in cloth has also undergone change. In 1985, cloth was mainly cotton based (70 percent) while at present, cotton cloth accounts for only about 53 percent of the cloth production. The balance 47 percent is contributed by blended and 100 percent non-cotton cloth. (Table-1.4). The quality of fabrics has also improved significantly over the period, mainly due to installation of automatic and shuttle-less looms which now number about 40,000 and 10,000 respectively as against an insignificant number in 1984-85.

1.5.3 Undoubtedly, there has been tremendous increase in the cloth production in the country over the years and even the quality of fabrics has also improved to some extent. But the condition of the sectors producing fabrics, i.e., mills, powerlooms, knitting units and handlooms is nothing more than pathetic, requiring immediate attention of the govt. for necessary policy input for enabling them to face the challenges of the free market economy. The weaving activity in the mill sector has been continuously declining inspite of the fact that this sector has intrinsic strength in terms of economies of scale, better technical and managerial man-power and integrated working to produce high-value added, superior quality goods both for domestic and export markets. The stumbling blocks in the progress of the mill sector are technological obsolescence, outdated controls and regulations, restrictive industrial and labour laws denying them the right to make decisions based on techno-economic parameters. The inward looking approach and lack of vision of the managements has also contributed towards negative growth of the weaving activity. The sickness and closures have increased in the mill sector and most of the closures are illegal due to restrictive provisions of the I.D.Act. The I.D.Act requires permission of the State Govt. for lay-off, retrenchment and closure of the mills, which is more or less denied. The mills are also not able to sell their surplus land to generate cash to take up modernisation programme. The sickness has also increased due to lack of effective institutional mechanism to revive the potentially viable sick mills. The only mechanism available to the mills is BIFR which has not succeeded in its objective of either closing down the non-viable mills or reviving the viable mills. If anything, it has acted as a perfect shelter for unscrupulous managements to accumulate further debts and make the mills more sick.

1.5.4 The problems of the powerloom sector are multifold. However, the most critical one is the prevalent low level of technology. The technology level in most of the powerloom units is so primitive and production process so inefficient that they have no future in the integrated competitive world market and are most vulnerable to the threat of imports. This situation calls for an urgent action plan to upgrade the technology of this segment of the powerloom sector to a minimum benchmark level which will enable them to face the onslaught of cheap imported fabrics. The fragmented nature of the units also deprives them of the benefits of economies of scales and credit facilities from banks. The consolidation of such units will certainly improve their position. The pre-weaving and post-weaving facilities available at present are also very poor, affecting the quality of the fabrics. There is need to encourage co-operativisation of the looms or at least setting up of common service facilities for better input sourcing and output marketing. There is also need to create a quality culture to improve the quality of the powerloom fabrics.

1.5.5 Though the knitting sector has shown tremendous growth in the last about two decades because of the expansion of hosiery into fashion knitwear arena, the major constraint of this sector is SSI reservation policy which not only impedes its technological progress but also denies them the benefit of the economies of scale. It is

also observed that there are no service centres on the lines of PSCs and WSCs for the knitting segment inspite of its decentralised small scale nature.

1.5.6 The handloom sector is the most vulnerable to the threat of import penetration. Till now, this sector has been sheltered and protected by the Govt. from outside world and more competitive powerloom and mills sectors. But in the era of liberalised economy and integrated of world market when there will be no restraint on imports, it is imperative to strengthen the handloom sector, particularly the handloom weaver enabling him to stand on his own. There is need to categorise the handloom weavers depending on their capabilities to face the challenges of free market economy. The category of handloom weavers which cannot face such challenges and which produces cheap cloth replicable on powerlooms in more cost effective manner should be converted to either the highest level of value adding handlooms or benchmark technology level of powerlooms or other alternate employment avenues. In fact, there is also need to strengthen the handloom weavers who are producing unique high value items which cannot be replicated on other means of weaving, through provision of design inputs, marketing and other infrastructure support to improve their cost competitiveness and marketability. The technology for pre-weaving and post-weaving processes, which is very low at present, also requires upgradation to ensure quality production in the handloom sector. The apex co-operative societies and handloom corporations can be given the responsibility of providing market intelligence and marketing support - pre-requisites for the aggressive marketing of high value handloom fabrics.

1.6 **Processing activity**

1.6.1 The processing of fibres, yarns, fabrics and garments/made-ups is one of the primary design aspects which contribute to the significant value addition in terms of the colours, motifs, geometrical designs etc. The Committee wanted to analyse the growth pattern of the processing activity in terms of its capacity, production etc. to assess the impact of the 1985 Textile Policy on the processing segment but was unable to do so in the absence of authentic data with regard to capacity and production during the year 1984-85 and the other relevant details. It is noted that currently, there are about 12,600 process houses in the country comprising 133 in the composite mill sector, 2066 independent processing units and about 10,400 hand processors. The technological level of most of these units is very low with the exception of about 100 hi-tech and medium-tech process houses in the composite sector and independent processors. Consequently, share of processed cotton fabrics in our fabric exports is a mere 46 percent with value addition of barely 100 percent, while an average value addition of 300 percent to 500 percent in a high-tech processing house is quite feasible.

1.6.2 As already stated, the processing stage is the most significant process in the value chain of various textile products contributing to the maximum value addition in

terms of the colours, motifs, essential user requirements etc. In the international scenario, the value addition at this stage is perhaps the maximum while in the Indian context, it is the weakest link in the textile production chain, which results in loss of potential value addition and also valuable foreign exchange earnings. Due to the lopsided fiscal policy and the structural anomalies in the textile industry, investment in the processing sector has not been found attractive by the entrepreneurs. The Govt. has also not given the attention in terms of incentives or encouragement which it deserves considering the fact that the development of this sector is closely linked to the overall growth, profitability and health of the textile industry. The technology level of this segment is abysmally low, leading to problems relating to environmental and health issues also, which have assumed significant importance in recent times. The recent Supreme Court/High Court judgements in a number of cases with regard to pollution control have also created disturbance and disorientation in this segment. Incentive and encouragement is the crying need of the hour to attract fresh investment to build up a strong and vibrant textile processing and finishing capacity in the country, capable of producing eco-friendly, quality textiles of world standards.

1.7 Per capita availability of fabrics

1.7.1 The per capita availability of fabrics measured in terms of domestic availability of fabrics (excluding exports and including imports) has increased from 17.19 sq. mtrs. in 1984-85 to 30.92 sq. mtrs. in 1997-98. While our fabric imports for domestic consumption are only nominal, this improvement in per capita availability has been possible due to accelerated growth in availability of blended and 100 percent non-cotton fabrics. The per capita availability of cotton fabrics which was 12.53 sq. mtrs. in 1984-85 has increased only marginally to 15.94 sq. mtrs. in 1997-98 while that of 100 percent non-cotton and blended fabrics has increased substantially from 4.62 sq. mtrs. in 1984-85 to 14.98 sq. mtrs. in 1997-98.

1.7.2 The Textile Policy of 1985 has laid down the primary objective of increasing the production of cloth of acceptable quality at reasonable prices to meet the clothing requirements of the growing population. The per capita availability figure for the year 1997-98 indicates that the per capita availability has registered an annual growth of 4.6 percent since 1984-85 despite the steady increase in the population during the period. The Committee is, however, of the view that the improvement in the quality of fabrics has not been commensurate with the increase in per capita availability in terms of quantity. There has been some improvement in the quality of the fabrics no doubt; but the overall quality of fabrics still leaves a lot to be desired.

1.8 Clothing sector

1.8.1 Largely concentrated in the decentralised sector and started mainly as an export oriented effort, it has made rapid progress during the last 14 years. Apart from contributing the highest foreign exchange earnings (15 percent of the total exports), it produces about 2 to 3 times as much for domestic market also. The export of clothing

in value terms which was only Rs.948 crore in 1984-85 has surged to Rs.18,390 crore during the year 1997-98 registering a CAGR of 26 percent. Since the clothing industry is predominantly concentrated in the decentralised sector, the data base of this sector is very weak. In the absence of authentic details with regard to production and capacity etc. of the clothing sector over the last fourteen years, the Committee was unable to assess the impact of the Textile Policy of 1985. However, the growth in export, the data for which is available makes it amply clear that there has been significant growth in the clothing sector during the last fourteen years.

1.8.2 The clothing sector continues to be plagued by many problems which are mainly responsible for production of cheap, low quality garments. The major problem area relates to industrial reservation policy which has impeded technology upgradation and denied the benefit of economies of scale to this dynamic segment. The poor productivity is also very much in evidence in the clothing sector as compared to our major competitors. Non-availability of raw materials, i.e., quality fabrics and trimmings and embellishments also evidently affects its value addition efforts. The restrictive labour laws have been reported as one of the major reasons impeding the growth of this sector. This industry is predominantly cotton based in contrast to the trend in the world trade where majority of the garments are synthetic fabric based. The need of the hour is to shift the emphasis to non-cotton and blended garments. Our export base is very narrow in the sense that about 75 percent of the exports is confined to five products, while quotas for some high value garments literally go abegging due to our lack of capabilities in those areas. This requires change in the mindset of the entrepreneurs and assured provision of necessary inputs through appropriate policy measures. The export market of our clothing segment is also restricted to a few markets, viz., USA and EU where new trends in terms of trading blocks have emerged having the potential of devastating our export performance. The need of the hour is to widen the export market base by increasing its presence in emerging markets like South Africa, Latin America, Russia etc.

1.9 **Raw material**

1.9.1 It is observed that the Textile Policy of 1985 has rightly laid great emphasis on augmentation of availability of raw material at reasonable prices to the textile industry to ensure its around growth and development. The policy measures initiated by the Govt. as a consequence of Textile Policy of 1985 have, in fact, resulted in augmenting the availability of raw materials. A major factor contributing towards growth in the textile industry is the augmented availability of major raw materials, i.e., cotton and man-made fibres. Though cotton continues to be the pre-dominant fibre for the textile industry, its share in total textile fibre availability and consumption declined from 73 percent in 1984-85 to 66 percent at present. Given our cotton advantage, while our cotton to non-cotton fibre ratio need not be in alignment with the international scenario where the ratio of cotton to non-cotton fibres is 44:56, the fact remains that in a global trade dominated by non-cotton textiles by 70:30 ratio, we can hope to garner a more respectable share than our meagre 3.11 percent only if we increase our non-

cotton textiles capabilities significantly, both in quantity and quality. To that extent, a healthier shift in the ratio towards man-mades is a desirable objective.

a) **Raw Cotton**

- (i) In 1984-85, the cotton crop was 101.50 lakh bales of 170 kg. each. However, with concerted planning and efforts, we have been able to increase our cotton crop to 177.90 lakh bales in 1996-97 though it declined again to 158 lakh bales in 1997-98 due to unexpected late climatic and disease factors. Over a period of time, India has achieved self-sufficiency with regard to cotton and has also started exporting cotton. Our acreage has jumped substantially from about 7.8 to 8.0 mn. hectares to about 9.0 mn. hectares. In addition to the overall enhanced availability of cotton, we also grow all staple varieties of cotton from coarse to superfine.
- (ii) Currently, though India is the third largest producer of cotton contributing about 15 percent to the world cotton production, the yield/hectare is among the lowest in the world, i.e., ranging between 300 and 330 kg as against the world average of over 580 kg. As a matter of fact, the world average net of India is a much higher 650 kg. The average degree of contamination in Indian cotton is around 12 percent as against world average of only 4 to 5 percent. Low yield per hectare and fluctuation in the production of cotton from year to year have been largely due to the fact that almost 65 percent of the acreage under cotton is un-irrigated and depends on the vagaries of monsoon. The bad quality of cotton is also having adverse impact on the productivity and quality of cotton yarn. In the liberalised economy when the mantra for competitiveness is 'quality', it has to be ensured that quality parameters are maintained at each level of 'production' from raw material to finished products to achieve the internationally comparable quality standards at finished goods stage. The price fluctuation of cotton was another area which was mentioned by the spinning industry as one of the problems. With appropriate policy formulation, planning and mounting of the proposed Cotton Technology Mission, the cotton quality and yield can improve considerably in future.

b) **Man-made fibre/yarn**

- (i) The man-made fibre/filament yarn industry comprises fibres and filaments of both cellulosic and non-cellulosic origin, generally called rayon and synthetic fibre/yarn respectively. Currently, the contribution of this industry in raw material consumption of textile mills is about 34 percent. The full fibre flexibility enunciated in the June, 1985 Textile Policy envisages increase in the indigenous availability of man-made fibres and yarn by creation of additional capacity as also by necessary imports. The measures taken in accordance with the textile policy have propelled the growth of the man-made fibre industry, particularly

polyester segment of the industry. Between 1985 and 1998, installed capacity for production of man-made fibres/filament yarns grew more than six fold from 292 mn. kg. to 2097 mn. kg. as a result of which the domestic output also increased from 285 mn. kg. to 1640 mn. kg. The most significant growth in production has been in the case of polyester staple fibre and polyester filament yarn.

- (ii) In spite of phenomenal growth in production, the man-made fibre/yarn segment is not able to achieve international price parity. The contributing factors are non-availability of fibre intermediates at international prices and high rate of fiscal levies. This segment also lacks R. & D. facilities, forcing it to confine its production to only regular or standard fibres/yarns and it is not able to exploit the opportunities available in production of specialised, high value fibres/yarns. There is considerable scope for improving the consumption of such fibres/yarns in technical textiles and non-apparel usage, both in the domestic and export markets.

c) **Wool**

- (i) Wool is the only major raw material of the textile industry for which India is depending on imports to meet its requirement. Out of the total production of raw wool of about 44 – 45 mn. kg. in the country, over 90 percent is that of carpet grade. Thus, the industry depends on import of apparel grade wool to a great extent. Even though indigenous carpet grade wool is of top class, substantial quantum of carpet grade wool is imported by the industry, particularly from New Zealand to augment the supply and improve the lustre/texture of carpet which is a major export earner for the country. There has not been any significant growth in the production of raw wool in the country since 1985. In 1984-85, production of raw wool was only 35 mn.kg. which increased marginally to 44.50 mn.kg. during the year 1997-98. Due to the constraints in raw material availability, the production of woollen yarn, worsted yarn and fabrics has also not shown any significant growth during the last fourteen years.
- (ii) The productivity of wool per sheep per year is very less, i.e., about 0.9 kg. per sheep as against the world average of 2.75 kg. per sheep while in developed countries like Australia and New Zealand the productivity per sheep is more than 5 kg. Given the lack of infrastructure and other technology factors, we may not be able to produce an adequate quantity of apparel grade wool in the foreseeable future. Thus, there is a need to concentrate on increasing the production and quality of carpet grade wool for which we have the resources. There is potential to develop highland wool in the hilly tracts of the country. Import duty structure of raw wool is also very high, impacting adversely on the availability of wool in the country.

d) **Silk**

- (i) India is the second largest producer of silk in the world and produces all the 4 varieties of silk, i.e., Mulberry, Tasar, Eri and Muga, though there is a wide gap in the production level of China which is the largest producer and India. The production of raw silk in the country has increased from 7.6 mn.kg. in 1984-85 to 15.24 mn. kg. during the year 1997-98, registering a CAGR of 5.4 percent. The silk industry has, however, not achieved much progress in its performance during the last fourteen years. The Committee is of the view that there is immense potential and scope for increasing the production, productivity and quality of silk in the country for which appropriate policy measures are recommended in the chapter on raw material.
- (ii) The mulberry segment of sericulture is characterised by a diverse range of practices leading to wide range of productivity and quality, generally poor accent on quality consistency in production, poor transfer of technology to the decentralised sector both due to poor technology absorption and poor/inadequate follow up on laboratory findings. Other areas of concern relate to inadequate emphasis on quality in the commercial seed sector and neglect of marketing linkages. As regards non-mulberry sector, this sector has been neglected so far and is in the dire need of separate R&D focus and external funding.

1.10 **Textile machinery manufacturing industry**

1.10.1 The textile machinery industry (TMI) has progressed along with the development of the domestic textile industry. Over the last five decades, with an investment of over Rs. 1500 crore, TMI has built up an annual production capacity of about Rs. 3600 crore including capacity of Rs. 350 crore for components and accessories. The textile machinery industry produces virtually the entire range of textile machinery for cotton, blended and man-made fibre textiles. There are over 600 units in the industry, employing directly about 50,000 workers and exporting 15 to 20 percent of its annual production to over 60 countries including some industrially advanced ones. The TMI has also set up turnkey/semi-turnkey projects, in Sudan, Tanzania, Malaysia, Indonesia and Sri Lanka.

1.10.2 The textile machinery industry exhibits a mosaic of multi-layered production capacity and technological capability levels. The strengths and constraints of the different sectors of the textile industry have a direct bearing on the trend of capacity creation and utilisation in the TMI. Over the last 4-5 decades, the composite textile mills have declined due to a host of reasons including lack of modernisation and policy restraints on their capacity expansion. While the handloom sector could not fulfil the objective of being clothier of the nation inspite of restrictive policy towards mill sector, resultant vacuum was filled up by the stand-alone spinning mills, and the

decentralised powerloom and processing sectors. Hitherto, restrictive import policy provided the perfect backdrop for production of obsolete technology and primitive cost/quality-indifferent production processes, particularly in the decentralised powerloom weaving and processing sectors. Only the spinning sector kept the modernisation process on. The reservation of knitting and garment sectors for the SSI sector again stifled induction of high technology in these segments. Consequently, demand for domestic capital goods generally and hi-tech ones specifically has been almost non-existent except in the spinning sector. This, in turn, skewed and influenced the capacity creation and technology levels in the TMI. The entire range of machinery required for spinning is manufactured by indigenous textile machinery manufacturers. However, in the absence of economically viable effective demand, the TMI has not built up capacity to produce hi-tech weaving, knitting and processing machines. Some units which have invested in state-of-the-art technology to manufacture hi-tech looms and knitting machines find themselves constrained by the lack of even break-even demand. However, recently in the processing sector, joint ventures have been established to produce latest generation machines. Nonetheless, there is an urgent need for TMI to upgrade their technology for producing hi-tech machines, particularly for downstream segments, i.e., weaving, processing, knitting and clothing segments of the textile industry. Due to lack of economically viable demand, production capacities for jute machineries have also not been built up in the country.

1.10.3 The major impediment of the TMI relates to the lopsided import duty structure which is tilted heavily in favour of import of complete machinery as against imports of raw materials for such machinery, thereby encouraging import of complete machineries. The liberal second-hand machinery import policy has also effected the fortunes of this industry. However, the Govt. has recently changed the policy to stop the OGL import of second hand machinery and put it in the restricted category.

1.11 **Exports**

1.11.1 The textile exports increased substantially from 1704 mn. US dollars in 1985-86 to 12532 mn. US dollars during 1998-99. The readymade garment sector is the biggest segment in the India's textile export basket contributing about 40 percent. Exports of cotton - based items continue to pre-dominate, which is natural in view of India's competitive advantage in the area of cotton.

1.11.2 Though India was the first among the developing countries to establish a full fledged textile industry, it rapidly lost out in international competitiveness to other developing countries. In fact, in 1947, India stood second in the world in terms of production of cotton textiles next only to the United States of America and fifth in the world in terms of exports. During 1948-50, India accounted for more than 11 percent of the world trade in cotton textiles. However, subsequently during the late 1950s and 1960s India lost its ground in the increasing world trade in textiles. The reason for this could be India's accent on domestic market as compared to the outward oriented

strategies of development - normally termed “export-led growth” - followed by many developing countries, most notably China and the South East Asia.

1.11.3 In the overall world scenario, India had a share of 1.85 percent in the world trade in 1985 (1.84 percent in respect of textiles and 1.86 percent in clothing), which kept on fluctuating between 1.70 percent to 2.27 percent during 1986 to 1989. However, from 1990 onwards it steadily increased and reached 2.80 percent in 1994 (2.97 percent in respect of textiles and 2.65 percent in clothing). Currently, India’s share in the world trade is only about 3.11 percent (3.5 percent in textiles and 2.85 percent in clothing). As against increase in India’s share in textile & clothing exports from 1.85 percent in 1985 to 3.11 percent during 1997, China’s share has increased from 5.83 percent to 13.75 percent, Hong Kong's from 9.24 percent to 11.36 percent and USA's from 3.13 percent to 5.38 percent during the corresponding period. During recent years, some small countries like Mexico and Bangladesh have increased their exports of clothing in a significant manner. Though such countries have still not come under the league of top 15 exporters of clothing, Indian clothing industry has to watch carefully the impact of increase in exports by these countries, particularly to USA which is the major market for clothing.

1.11.4 The integrated world market requires more aggressive export promotion measures to sustain and improve our market share in the international trade. The areas of concern in export trade apart from quality aspect, inter alia, include : narrow base of export basket which is characterised by product concentration, fibre concentration, region concentration and market concentration. The emergence of trading blocks and increasing use of non-tariff barriers by the developing countries are other problem areas.

1.11.5 Though the WTO has been in existence since 1st Jan., '95, there is almost total dearth of literature relating to the WTO in general and literature about the various implications of the WTO for the textiles sector in particular. Even the Ministry of Commerce does not seem to have very much to offer and readily available at that. There is also almost total lack of awareness about the impending changes. The lack of awareness is not only at the ground level. Officers at the state govt. level and even senior officers at the Govt. of India level are equally unaware of many of the significant implications. Some officers do have an idea about the substantive character of the changes in the offing and about the seriousness of their implications, but their knowledge is quite incomplete/inadequate. Even some of those who do know something about the WTO do not seem to realise that the changes taking place are irrevocable. There is an apparent complacency flowing from a facile perception that worse coming to worst, the 'Govt.' can always be approached to (continue to) provide a protective cover. The widest perception is limited to the context of liberalisation in the backdrop of which the changes are taking place. But here again, the perception is warped by an irrational focus on expanding the export opportunities almost to the total exclusion of any concern for threats of unrestricted import penetration into the domestic market.

1.11.6 The integrated world market calls for a strident set up for commercial intelligence. What with the fall of fiscal barriers, the world is entering into a fiercely

competitive open market situation. To measure up to the aggressiveness of this onslaught of market forces, we will need to gear up a lot in terms of collection, analysis, and application of commercial intelligence inputs. Steeped as we are in quota-propped exports and lulled as we have been in a tariff-based protection against import penetration, there is a strong need to provide an operational framework to alert the industry to the real implication of the changes taking place in the world textile trade and to take necessary steps in time. The Committee has not had the time to study in detail the requirements of such an operational arrangement. But the Committee would certainly like to stress the significance of this proposition, spotlight the inadequacy of the existing ensemble, and project the need to promote professional expertise in this area.

1.12 **Jute industry**

1.12.1 Jute industry occupies an important place in the national economy. It is one of the major industries in the eastern region, particularly in West Bengal. It supports nearly 40 lakh farmer families besides providing direct employment to 2.5 lakh industrial workers and livelihood to another 20 lakh people in secondary and tertiary sectors. The principal outlet for jute goods is in the packaging area. Jute meets all the standards for 'safe' packing in view of its inherent advantages of being a natural renewable, biodegradable and eco-friendly product. The production of jute and mesta, which was 126.47 lakh bales (180 kg each bale) in 1985-86 declined to 86.26 lakh bales in 1986-87 and continued to decline steadily till 1988-89. Thereafter, it started increasing again and reached the level of 110.82 lakh bales in 1996-97. In 1997-98, it is again estimated to decline marginally to 108.44 lakh bales.

1.12.2 In recent years, the problems of jute industry have multiplied and it is struggling hard for survival. Such problems include high labour cost, instability in the production of raw jute, demand erosion, obsolescence of machinery, uneconomic working and competition from synthetic sector. All these factors/handicaps have led to large scale sickness in the industry, so much so that out of 73 jute mills, 29 units have been identified as sick and many more are hurtling towards sickness. This dismal scenario calls for an urgent action plan to remedy the situation. Such measures may include increase in productivity and upgradation of quality of raw jute and stimulation of additional demands for jute goods, both in domestic and international markets. It should also aim at development of new generation, cost competitive and performance-effective jute and jute blended products through upgradation of spinning and weaving technology to achieve higher rate of productivity and value addition. Steps may also be taken for encouraging product improvement, modernisation and diversification of product mix towards value added items. Besides, attention may also be directed towards promotion of packaging material for conventional and new end uses with emphasis on bio-degradable and eco-friendly attributes of jute as a natural fibre so that the jute industry does not depend primarily on mandatory packaging regulations which are violated with impunity.

CHAPTER - 2

RAW MATERIAL

2.1 Introduction

2.1.1 The indigenous textile industry consumes diverse range of textile fibres/ yarns from natural, viz., cotton, wool, silk, jute to artificial, viz., synthetic, cellulosic and multiple blends of such fibres to produce fabrics of different varieties catering to the needs of the different segments of the society both in the domestic and overseas markets. The raw material is the major constituent of a textile product having significant bearing on its price and quality aspects. In terms of production base of various textile fibres/yarns, India has a comparative advantage in the international textile economy. The only other country which has a comparable base of production of textile raw materials is China. But unlike China, we have not been successful in exploiting this advantage to improve our share in international textile trade. China's share in the textile trade is about 14 percent as against our meagre share of 3.11 percent. The reasons are not far to seek. We are the 3rd largest producer of cotton in the world, but in terms of productivity per hectare we are one of the lowest. Similarly, our cotton is among the most contaminated in the world. With regard to man-made fibres/yarns, production of such fibres and yarns has spurred during the last five years to the extent that we are now the 5th largest producer in the world but in terms of quality, price competitiveness and innovative product range, we are nowhere in the picture. The man-made fibres/ yarns are produced in the country as a 'commodity' and not as a 'product'. We are the 2nd largest producer of silk in the world, but the quality and productivity leave a lot to be desired. Likewise, we have adequate production base of high quality carpet grade wool, but for finer wool, i.e., apparel grade wool, we are completely dependent on imports. (Table-2.1).

2.1.2 Considering the significance of raw material to the finished textile product, be it spun yarn, fabric, garment or made-up, it is imperative to augment the availability of different varieties (from standard to specialised) of textile fibres/ yarns of internationally acceptable quality at reasonable prices to provide the platform to the value added textile products to acquire 'world class' status. The emphasis has to be on building up necessary capabilities including R. & D. facilities for improvement of fibre quality and for development of 'specialised' fibres/yarns, especially fibres/yarns required for manufacture of technical textiles.

2.1.3 Indian textile industry is predominantly cotton based. In contrast to the consumption pattern of textile fibres in the world, which is tilted heavily in favour of non-cotton fibres with a ratio of 44:56 of 'cotton' to 'non-cotton' fibres, the consumption ratio in India is 66:34 in favour of cotton. The Textile Policy of 1985 has stated that the predominant position of cotton will be maintained though the consumption of man-made fibres/yarns will be augmented. The Committee is of the

view that the time has come to attach equal importance to cotton and non-cotton fibres. It may not be possible or even necessary for India to reach the consumption pattern of world which is heavily in favour of non-cotton fibres, due to the climatic conditions and cotton advantage that India enjoys. It would be reasonable to provide additional thrust for consumption of non-cotton fibres, particularly in value added blended textiles and technical textiles, to release the demand pressure on cotton and make it more cost competitive. More importantly, it will release high value cotton for value added textile exports. In the final analysis, the market forces should determine the relative fibre balance.

2.2 **Cotton**

2.2.1 Notwithstanding the impressive improvements achieved in the cotton economy in terms of production and productivity, Indian cotton is still beset with a number of serious problems. While the acreage has increased from around 7.5-8.0 mn. hectares in 1985-86 to around 9.0 mn. hectares now, the yield has increased from 241 kg to 304 kg per hectare over the same period. The highest average yield reached so far is only 332 kg. in 1996-97 as against the world average of 580 kg. and rest of the world (excluding India) average of over 650 kg., not to speak of the very high averages of 750 kg to 1600 kg recorded by leading cotton growing countries like China, USA, Uzbekistan and Australia during the same year (Table-2.2). Another cause for concern is the wide annual fluctuations in production which depends to a great extent on the vagaries of weather, ranging from 138.50 lakh bales in 1994-95 to 177.90 lakh bales during 1996-97 to 158 lakh bales in 1997-98 (Table-2.3). Another problem associated with fluctuations in annual cotton production is fluctuation in cotton prices (Table-2.4) which has severe adverse impact on the functioning of the weaving and knitting sectors, particularly the decentralised sector which accounts for almost 95 percent of our fabric production. The cotton policy should, therefore, primarily aim at improvement of production, productivity and quality of cotton with a stable price structure while ensuring remunerative prices to the farmers. The strengthening of the farmers, enabling them to take care of their own interest, should also be one aspect of the long term objective of the policy. The policy with regard to cotton should be guided by the following considerations :

Recommendations

2.2.2 Some industry associations are of the view that cotton being a primary raw material for the textile industry should be handled by the Ministry of Textiles to promote its growth. The Committee, however, feels that cotton being an agricultural commodity where production base varies from year to year unlike plantation crops, Ministry of Agriculture which has adequate infrastructure base to handle the agricultural commodities is the appropriate Ministry for cotton. However, closer involvement of the user Ministry, i.e., Ministry of Textiles, user industry and Cotton Corporation of India is essential in all aspects of cotton, particularly R. & D. on

existing varieties and release of new varieties. This would ensure market-driven production pattern and hence beneficial to the producer as well as consumer. For this purpose, a joint Coordination Committee of the Ministry of Textiles and Ministry of Agriculture may be set up on a permanent basis for handling all aspects of cultivation of cotton, particularly release of seed varieties. Needless to say, the user industry, the Textile Commissioner and the Cotton Corporation of India must be a part of this Committee.

2.2.3 **Improvement in productivity and quality**

There is considerable scope for improvement of production, productivity and quality of cotton in India. Since there is very little scope for increase in cotton area due to competition from food and other crops, increase in production can be achieved through increase in productivity only. The main reason for low productivity is the fact that almost 65 percent of cotton area is rainfed. Added to the problem of erratic rainfall in rainfed cotton growing areas is the menace of high incidence of pest arising in adverse climatic conditions. These factors, coupled with lack of proper technology transfer, inadequate availability of quality seeds, multiplicity of varieties, and poor economic conditions of marginal farmers result in lower yield in India. The task of increasing productivity with available hectareage and improving cotton quality needs to be taken up on a war footing without any further loss of time. This will not only facilitate in augmenting the farmers' net returns but will also strengthen India's position as a reliable supplier of world class cotton textiles. Besides, this would also encourage the Indian exporters to explore new markets and establish new niches in the existing markets. Recommendations for improving productivity, production and quality are given below:

a) Raising share of irrigated cotton

Presently, only around 35 per cent of the total cotton area in the country is irrigated. It is the dominance of unirrigated cotton area that acts as a drag on the national average yield. Stepping up the share of irrigated cotton to atleast 50 per cent will raise production substantially and also provide greater stability to it, minimising the present wide annual fluctuations. For this purpose a concerted campaign may be launched for increasing the irrigated area under cotton through wider adoption of drip and sprinkle irrigation systems. Alongwith increase in the area under irrigation, judicious use of irrigation water is also important to avoid the experience of Punjab where excessive water usage had led to water logging with salinity along with pest attacks and consequential decline in yield in recent years.

b) Farming co-operatives

One of the root causes of the present low productivity is the small holding size of a vast majority of farmers, which does not facilitate the adoption of modern farming practices. Since this situation cannot be changed, the only method by which

farmers can go in for mechanised cultivation and adoption of improved technology on a large scale is by taking to co-operativisation. Small and marginal farmers should, therefore, be encouraged to organise themselves into co-operatives at the village, taluka and district levels. This will enable them to make arrangements for supply of good quality seed and other inputs like fertilisers and pesticides in bulk, resulting not only in price advantage but also in timely and assured supplies which may not be the case if purchases are made by individual farmers. They can also commonly own costly implements for resorting to mechanised farming. Further, this will promote the concept of one-village-one-variety and other beneficial practices like synchronised sowing and simultaneous adoption of plant protection measures. Such co-operatives are functioning in some parts of Gujarat and can be emulated elsewhere.

c) Farm – Corporate linkage

The problem of small holdings and low yields can also be tackled by encouraging the corporate sector to take to cotton farming in a big way. This, however, is not feasible now mainly because of the land ceiling laws and other restrictions. In order to overcome this hurdle and still achieve the desired result, it will be desirable to encourage links between groups of farmers and textile corporate bodies. Thus, corporates can engage a large number of individual farmers in a common programme aimed at improving both yield and total output. Mill gates can be notified as market yards for purchase and sale of cotton. This would avoid contamination due to mixing of varieties which is possible in the market yard. The success of this approach has already been demonstrated by some corporate bodies in the case of a few oilseed crops. The close linkage between sugar factories and sugar cane farmers in their operational area can be cited as another example. The greater involvement of corporate sector would bring modern management practices to cotton farming and promote a more focussed approach to solving problems of low productivity, varietal deterioration etc. and farmers will be able to obtain good inputs, technical advice and an assured market. This would work to the mutual advantages of the producers and the consumers. Ownership of land should remain with the farmers. Corporate bodies should not venture to own land for this purpose since that will lead to increase of landless labourers. However, corporate bodies can take wasteland and reclaim them for cotton cultivation.

d) Extension network

There is a substantial gap between yield potential and actual yield at farm level. This gap can be bridged by an efficient delivery system. The vast majority of the farming community is illiterate and therefore, transfer/adoption of modern technology is a little difficult in the Indian context and the distribution of handouts and other technical literature does not make the necessary impact. The Committee is of the view that the best way of taking modern technology and scientific farm practices to the farmers is through rigorous extension network. Due to apparent lack of interest on the

part of state level machinery, the extension services have remained neglected. The Committee feels that cotton does not attract as much priority as food grains and some other crops in the eyes of the field level extension staff. Besides, most of them do not have adequate exposure to latest cotton farming technology or training. This calls for better linkages between Indian Council of Agricultural Research (ICAR) system and State Departments of Agriculture. In order that the extension work is undertaken in a more effective manner, incentives to the supervisory level staff engaged in the extension work may be provided either through Technology Mission on Cotton (TMC) or through initiatives of the industry and trade bodies such as Indian Cotton Mills' Federation (ICMF) and East India Cotton Association (EICA) who have a direct stake in a vibrant cotton economy. Equally important is the exposure of extension staff to latest technology, inputs and farm practices through training, seminars and workshops. Demonstration farms may also be set up by the extension agencies to demonstrate to the farmers improvement in yields through new methods of cultivation. Frontline demonstrations of ICAR should be expanded. Even wasteland can be used to demonstrate the Israeli method of cultivation.

(e) Availability of certified/standard seeds

Seed is the basic requirement for increasing the yield per hectare as well as the quality of cotton. Hence, it is a matter of utmost importance that the farmers are supplied certified seed timely and at affordable prices. Unfortunately, this is the weakest link at present with pure, certified seed being available to cover just about 30 per cent of the cotton area under all varieties excluding hybrids. Even in the case of hybrids, a sizeable share of the area under them is covered by only truthfully labelled seed and not certified seed. For the rest of the cotton area, growers buy seed from the open market because of non-availability of certified seed. The Committee is convinced that if the seed quality problem is solved fully, the cotton productivity and quality will improve dramatically. Therefore, 100 percent supply of certified seed ought to be the single most important component in the Cotton Technology Mission. Therefore, the present situation has to be radically improved by providing the needed support for sufficiently enlarging the production base of certified seed in the case of all major varieties and hybrids. Here, an integrated approach involving all concerned agencies like the Govt., agricultural universities, state seed corporations, private seed producing organisations and associations' of trade and user industry is essential because of the complexities involved in producing certified seed in cotton as compared to food grains and oilseed crops. All these agencies are now engaged in seed production work in a limited and uncoordinated way. But what is needed is a coordinated and much bigger effort and pooling of resources and expertise so that the demand for good quality pure seed from farmers is fully met. Further, the farms available with the SFCI or the NSC or the State Directorates of Agriculture could be leased out to private seed producing companies of long standing and high repute for large scale production of high quality seeds. It is also recommended that until full requirement of certified seed is met, all out efforts should be made for the supply of

atleast good quality "truthfully labelled seeds" to the cotton growers. There is also an overwhelming need for evolving a mechanism with strict legislative backup to regulate the seed production, selection and marketing to ensure supply of only quality seed to the growers. For this purpose, state seed certification agencies may be strengthened. Such agencies may be made accountable for ensuring compliance of quality standards by the seed producers. Seed Control Order, 1983 issued under the Essential Commodities Act, 1955 could be used to provide for and ensure such quality and distribution norms apart from display of stock & price by dealers. In case the present provisions are not adequate, they may be suitably amended to ensure production and distribution of certified seed only. It is also necessary that the Seed Act, 1966 should be amended to bring the private seed producers also under control and no private seed producer be allowed to market seed of any variety/hybrid until the same is recommended/approved by the All India Co-ordinated Cotton Improvement Project (AICCIP) of ICAR. Suitable Cotton Seed Rules under the Seed Act, 1966 to cover such issues may be framed. The Cotton Seed Control Order (amendment) and Cotton Seed Rules may be framed by the Ministry of Agriculture in consultation with the Ministry of Textiles.

f) Cotton varietal imbalances

A large number of varieties and hybrids in excess of 80 or perhaps 100 are grown in India. Although the area under cultivation of cotton in India is quite large, i.e., about 9 mn. hectares and the varied agro-climatic conditions in which cotton is grown in India warrants more number of varieties than other countries growing cotton, still the number seems to be unnecessarily and deliteriously high. The Committee was told by various experts that only about 20 varieties contribute almost 97-98 percent of the cotton production while the remaining 60-80 varieties contribute the balance 2 to 3 percent. They also opined that the country does not need more than 3 to 4 varieties for each agro climatic zone and not more than 18 to 20 varieties as a whole representing various staple lengths and other quality parameters. In fact, some experts in the field have given specific recommendations for pruning down of the different varieties grown in various agro-climatic zones and the zone-specific desirable varieties and hybrids for future.

g) Denotification of varieties

(i) The reasons for undesirable multiplicity of varieties are: indiscriminate release of new varieties, which may not always have the desired superiority in yield and quality over the existing varieties, inadequate seed supply of the existing recommended varieties and release of hybrids known as "Research Hybrids" from the private sector. Private seed producers release hybrids to farmers in the name of research hybrids without reference to the 'Variety Release Committee'. Breeders do not always pay attention to the fibre quality parameters while releasing varieties, with the result that some of the released varieties are not acceptable to the trade/end-users.

Multiplicity of varieties also results in admixture of varieties and deterioration in quality. To overcome this problem, steps should be taken to denotify varieties which have deteriorated in quality and productivity or are grown in very insignificant areas except speciality varieties like Suvin. The existing good varieties whose quality has gone down with the passage of time due to creeping deficiency in some quality parameters should be improved and their original quality parameters should be restored.

(ii) Although the denotification process is on, it is rather painfully and damagingly slow. The Committee is of the considered view that the process of identification of obsolete/unwanted varieties and denotification of such varieties has to be expedited to eliminate scope for mixing of varieties and improve the cotton seed supply scenario. The Committee feels that it should be done within one year.

(iii) An Empowered Committee under the AICCIP may be constituted for fixing of norms for quality parameters which should be strictly adhered to while considering as to in which direction and with what quality parameters the new varieties are to be developed or existing varieties to be improved. This will save considerable amount of money and resources by not concentrating on research of such varieties which are not beneficial to the industry and even to the growers because they may not realise good price for such varieties. The aforesaid Empowered Committee should include representatives from Ministry of Textiles (Textile Commissioner), CCI, EICA, ICMF etc. This Committee should be made permanent to advise on all R. & D. activities, with particular reference to release of varieties to be taken up under Mini Mission I of TMC. It is necessary that representatives of the Ministry of Textiles (Textile Commissioner), CCI, EICA, and ICMF should be members of the Varietal Identification Committee of All India Co-ordinated Cotton Improvement Project of ICAR as well as Central Sub-Committee on Crop Standards, Notification and Release of Varieties of Ministry of Agriculture, Govt. of India.

(iv) As far as 'research hybrids' are concerned, there should be strict regulation for their restricted release under strict supervision and control. They must come through AICCIP and Central Varietal Release Sub-Committee. In order to avoid multiplicity of varieties and duality of decision making on varietal release, the State Varietal Release Committee should have only a recommendatory jurisdiction while the Central Varietal Release Sub-Committee under the Central Seed Committee (formed under the Seed Act) should have the authority to take a final decision. If necessary, the Central Seed Committee and its varietal release sub-committee may be made more broad based by including more state govt. representatives in order to impart greater credibility and acceptability to its decisions.

h) R. & D. for improvement of varieties

Fibre parameters should receive emphasis at the R. & D. stage when the varieties/hybrids are developed. Breeders should have close inter-action with fibre

technology laboratories of CIRCOT which are located in almost all cotton research centres of the country so that the varieties developed do not suffer from poor quality parameters. Besides, research should be concentrated on improving deficient parameters of otherwise good and popular varieties and eliminating the obsolete/negligible varieties. Further, research in new varieties should be done only in a very limited but focussed manner, and that too, with a long term objective in mind, to meet the felt needs of the industry as also to fill regional varietal gaps. Besides, research should also subserve the objective of strengthening the hybrid varieties, i.e., maintaining good parameters and at the same time improving the fibre attributes, so that cotton quality becomes more acceptable to the industry. In nut shell, the R. & D. efforts should be focussed towards commercial acceptability of the variety in addition to the variety being high yielding, early maturing and pest resistant. Further, fibre properties of cotton can be improved to match the quality of polyester. Fibre properties like strength, elasticity etc., can be improved with the aid of biotechnology. Certain US based multi-national companies have already made some progress in this regard.

i) Judicious application of fertilisers and pesticides

There is a lack of attention to correct application of the recommended dose of fertilisers and pesticides and adoption of appropriate practices, particularly by farmers growing hybrid cotton. Majority of the cotton growers resort to application of either less than the normal dose or excessive dose of fertilisers and pesticides. As a result, the realisable cotton yield considerably comes down. Besides, quite a sizeable quantity of spurious pesticides are marketed to the cotton growers. The Committee was told that as much as 53 percent of national consumption of pesticides is accounted for by cotton alone and that over-application of pesticides leads to an inflated demand which, in turn, gives rise to marketing of spurious brands. Improper application of fertilisers and pesticides is not generally advisable from the angle of maintenance of soil fertility and negative externalities associated with pesticide use. There is, therefore, an urgent need to make farmers aware of the impact of the injudicious and over-application of the fertilisers and pesticides. The Committee is of the view that a study may be carried out for estimation of reasonable requirement of pesticides per hectare on agro-climatic zone basis and national average basis, taking into consideration the scientific norms and historical time series of consumption data. This exercise should spell out as to which areas/varieties were prone to what type of diseases. This would help to identify the extent of the problem both variety-wise and location-wise and find out the quantum of pesticides used vis-à-vis the genuine optimal needs, although there may be seasonal variations. Based on such diagnosis of the problem in a scientific manner and analysis, indicative standards for consumption of pesticides could be prescribed. Efforts should also be made for encouraging use of bio-technology instead of chemical based technology in the production of cotton.

j) Integrated pest management

There has been considerable loss in yield in recent years due to persistent pest attacks throughout the cotton growing regions of the country, but more markedly in the northern zone. There is, therefore, a need to develop pest-resistant varieties and

hybrids and follow IPM practices to overcome the pest problem and increase the net return of the farmers. Transgenic cotton with resistance to boll-worms will be able to solve the bollworm problem to a great extent and increase the yield of cotton. It is also recommended to launch a mass ‘insecticide resistance management’ (IRM) programme synergising all the ‘integrated pest management’ (IPM) efforts carried out so far, both in public and private sectors to cover major cotton growing states. Such a programme is essential due to the danger posed by the increased levels of resistance displayed by major pests to insecticides because of their excessive and indiscriminate use.

k) Credit

Rural banking and co-operative credit system has expanded considerably over a period of time. However, the cotton growers, more particularly small and marginal growers, continue to be indebted to village money lenders, traders and commission agents on account of their availing of loans for meeting their immediate cash needs either for raising cotton crop or for meeting family expenses. Thus, more often than not, such cotton growers hardly have any option while disposing of their seed cotton which stands virtually pledged for such loans in advance. Often the money-lender is also the supplier of inputs like fertilisers and pesticides including spurious ones. Thus, the farmer may end up as a double loser. This state of affair is likely to continue till such time the rural banking system acquires greater strength and spread, enough to take care of the credit requirements of such farmers. In order to take small and marginal cotton growers out of the clutches of the village traders and commission agents, the rural credit system needs to be streamlined and strengthened. In this context, a model scheme for issue of Kisan Credit Cards to farmers needs to be formulated by NABARD expeditiously so that they may use them to readily purchase the inputs and draw cash for their production. The State Govt. of Rajasthan has introduced a scheme called “Krishak Mitra Sahakari Rhun Yojana”. The scheme has been initiated with the objective of meeting the financial requirements of the farmers through the co-operative sector under the scheme. Under the scheme, farmers of various crops including cotton will get loan facility upto Rs.75,000 through Gram Seva Sahakar Samiti. Thus, farmers need not depend on other financial institutions or money-lenders to meet their credit needs. The scheme could also be emulated by other state governments. Crop insurance scheme announced by the Govt. of India will hopefully induce cotton farmers for using better ingredients when risk of crop failure will be compensated.

l) Contamination of cotton

In the context of producing high quality yarns and textiles, there is an urgent need to bring down the contamination level in Indian cotton. Contamination of cotton takes place at two major points : seed, and seed cotton handling. According to the latest survey by the International Textile Manufacturer’s Federation (ITMF), the

average degree of contamination in Indian cottons is around 12 percent as against the world average of 4 to 5 percent. Contamination starts at the seed stage itself when varieties are mixed up. Some amount of contamination in seed cotton occurs at the farmer's and market yard stage due to poor handling and storage practices. But maximum contamination occurs at the ginning stage. The major sources of contamination in Indian cotton include (i) fabrics made out of jute/hessian and woven plastic, (ii) strings made out of woven plastic and jute/hessian, (iii) organic matters such as leaves, feathers, paper and leather, (iv) inorganic matters such as sand, dust and plastic, and (v) oily substances and chemicals such as grease, stamping ink etc. Most of the important Indian cotton varieties like S4, S6, H4, DCH32 and MCU5 are listed as the "most contaminated" categories in the survey report. Indian cotton is also known to contain excessive seed coat fragments (due to poor ginning) to the extent of up to 5 percent and this is responsible for the high level of thick blemishes in the yarn produced from them. DCH 32, S4, and S6 are found to be most affected by seed-coat fragments. The high incidence of trash in cotton reduces yarn realisation on the one hand and causes high levels of yarn imperfections on the other. The problem of contamination could be tackled by deploying extra labour to remove foreign matters such as coloured threads, jute twine, plastic pieces, leather pieces, etc. But more importantly, there is a need to improve the work culture and increase the awareness levels among market yard/ginnery workers about the contaminants. It is also beneficial for the mills to encourage pre-gin and post-gin cleaning by adequately compensating ginners for cleaner lint.

(m) Ginning practices

More than outdated and obsolete ginning machinery, antiquated ginning practices are responsible for contamination of cotton. It is said that Indian cotton entering gin house is one of the cleanest by virtue of it being hand-picked but the cotton leaving the ginnery is one of the most contaminated. In fact, we end up adding more trash at the ginning stage because of obsolete machinery and out-dated ginning practices. There are an estimated 3200 ginning units and 800 pressing units in the country. A large number of these units are equipped with obsolete machinery, which results in low productivity, poor ginning and pressing quality as well as contamination of cotton. All these considerably reduce the value and acceptability of cotton as a raw material. It is estimated that 5 percent of the cotton valued at Rs. 800 crore is wasted annually on account of outdated ginning and pressing machinery. The Textile Policy of 1985 had focussed specific attention on the poor quality of the cotton processing and had stated that the performance of the cotton ginning industry will have to be improved by providing concessional finance for undertaking modernisation and renovation/replacement of existing gins. The ginning & pressing units serve as a vital link in the textile industry. Textile producers will be increasingly required to adhere to the highest quality standards for export and domestic markets, which makes it imperative that from the stage of cotton sowing to the ultimate fashion market, desired quality standards are maintained at every level. If ginning and pressing of cotton is of

sub-standard, then fabrics and garments made out of such raw material cannot meet the global standards. In order to instill a sense of quality, it is desirable that ginning & pressing units attain a minimum acceptable level of quality standards. The Committee recommends that the two Mini Missions III and IV under TMC must address the problem of contamination of cotton at the market yard/ginning stage and develop appropriate models for implementation. CCI's role may also be expanded in the area of decontamination of cotton. The spinners should undertake a 'village adoption programme' and adopt one or more villages for extension support and subsequent purchase of the produce. They can pay higher price to the farmers for better quality, which may also result in reducing the level of contamination. There is also need to educate the farmers and the spinners about the cost benefit aspects of the quality cotton. A study by SITRA has indicated that benefit in terms of additional value addition in the downstream segments surpasses the premium paid for the quality cotton. The Committee is of the view that the improved practices at the ginning stage, which may not cost much and may not even involve additional capital, could improve the quality of cotton significantly. After detailed discussions with the industry experts, the Committee has evolved a concept of 'ideal ginning', indicating precautions to be taken by the farmers and ginners at each stage. The concept of ideal ginning is given below :

1. At farmers' stage

- Farmers should be educated to insist on certified seed only, even if it is costlier.
- Plucking should be over before sun set.
- Unopened cotton boll which is immature should not be plucked.
- At the time of plucking, hair of all workers should be tightly covered.
- Raw cotton should be stocked in cotton bags only.
- Raw cotton should be covered and stored in a clean place.

2. At the time of heap making

- The yellow cotton as and when visible should be removed right from the farm and transport stage to heap making in the ginning factory after auction.
- Heap should be made on well-constructed (pucca) platform atleast one ft above ground level. Covered platforms should be encouraged.
- Tobacco and smoking should be prohibited during all operations.
- Heap should be covered during the non-working hours.
- Use of "Chhalana" to remove unopened, immature cotton bolls.

3. At ginning stage

- Moisturiser/Moisturising fan should be provided in ginnery to maintain desirable humidity level in cotton at the pre-ginning stage.
- Ginning machine should be cleaned after every one hour.
- Proper house keeping of the ginnery.
- Workers' hair should be tightly covered during working at ginning and pressing. Face masks should also be provided.
- Double roller or saw gins only should be used. Single roller gins should be banned.

4. At pala house

- Pala house (pre-pressing lint storage hall) should be constructed as near as possible to the ginning site.
- Ginned cotton from ginnery to pala house should be conveyed by pneumatic suction pipes. Alternately, approach road from gin house to pala house should be made pucca or be kept cleaned and covered by thick polythene sheets.
- Pala house should be well constructed with RCC.
- No water should be used in pala house.
- Pressing should be started when sufficient stock of atleast 50 bales is ready at pala house.
- Proper arrangements for humidification of ginned cotton should be made.

5. At pressing stage

- All area should be cleaned before pressing so that mixing of jute, hair, etc can be avoided.
- Hair of all workers should be tightly covered.
- Fully pressed bales should be packed in cotton bags and stitched in cotton twine only and not in jute or polypropylene twine.

6. General precautions

- Spittoons should be put at all appropriate places.
- Working areas of ginning should be clean at all times.
- Awareness programme among workers about contamination should be conducted from time to time.

- Pre-cleaning and post-cleaning facilities must be installed.
- Cotton conveying from heap to gin house, gin house to pala house and pala house to press house should be done through pneumatic automatic suction system or conveyor system to minimise contamination through human handling.

2.2.4 **Organic cotton**

There is growing concern in various countries including India about the excessive use of toxic chemicals by way of fertilisers and pesticides in cotton production and processing, and high environmental pollution and reported hazards caused by the presence of toxic chemicals in cotton products, affecting the health of human beings. Thus comes the need for producing organic cotton. Organic cotton production through use of organic inputs is also expected to reduce the cost of cultivation and increase the income of the cotton growers as buyers abroad are willing to pay for such eco-friendly and user-friendly cotton textiles. Organic coloured cotton can also eliminate the use of toxic dyes which cause environmental pollution and reported hazards to human health. However, coloured cotton needs to be grown in demarcated areas to avoid cross-fertilisation with white or other coloured cotton. While it is not envisaged to totally convert to production of organic cotton, nevertheless, it is desirable to identify specific or isolated areas where such cotton can be grown on commercial scale under fully organic conditions to the extent required to meet the internal and export demand without detriment to our white linted cotton production. It is, therefore, recommended that the Govt. may notify and demarcate certain areas by proper notification for growing eco-friendly cotton, wherever it is possible, looking to the agro-climatic conditions. For certification of organic/coloured cotton, govt. may set up an internationally accredited certifying agency. This will help in increasing the income of cotton growers as also increasing exports of such cotton and cotton textiles from the country. Cottons like Jayadhar in Karnataka and V797 in Gujarat, which are almost grown organically may be certified as organic cotton so that farmers get a suitable premium for their produce.

2.2.5 **Reducing production cost**

Along with raising productivity, it is also necessary to reduce production cost so that cotton may bring in higher net returns to the farmers while at the same time retaining its competitiveness with other crops and man-made fibres. The following measures, among others, can be taken for reducing production cost and increasing the net returns to the farmer : (i)Emphasis may be shifted to organic manures and bio-fertilisers from chemical fertilisers to reduce the cost of nutrition; (ii) Intensification of IPM to reduce dependence on costly chemical pesticides or over use thereof; (iii) Introduction of shorter maturity varieties to bring down crop cycle to about five months from the present 5 1/2 to 7 months of the existing varieties; (iv) Hybrid technology may be further exploited by developing new high yielding hybrids for areas not covered by them now; (v) More prolific varieties need to be evolved and emphasis shifted from longer fibre to higher productivity and overall fibre quality; (vi)

Transgenic cottons with in-built resistance to major pests/diseases may be developed for reducing the cost of plant protection measures; (vii) Ginning outturn of commercial varieties/hybrids may be stepped up from the present range of 30-40 per cent to 35-42 per cent so that seed cotton may fetch higher price per quintal owing to higher lint content; and (viii) Breeding work for raising oil content in cotton seed may be intensified so as to enhance the seed cotton price.

2.2.6 **Strengthening marketing infrastructure**

(a) Support for parking of cotton

While cotton production during the last two decades has made remarkable strides, commensurate enlargement and improvement in the storage facilities have not taken place. Consequently, storage of cotton is done in a haphazard and undesirable manner. There is, therefore, urgent need to provide adequate parking facilities for cotton by considerably strengthening the storage and warehousing facilities. These have to be provided at strategic locations like the main producing, marketing and processing centres, main consuming centres and near major ports from where the commodity is exported.

(b) Marketing infrastructure for cotton

For cotton marketing by farmers in India, market yards have been established, where the farmers can sell their produce in the open auction to get competitive and remunerative prices. However, in many states, market yards are functioning unsatisfactorily or not at all. In many states, although the market yards are functioning, still large scale village sales are taking place with the connivance of commission agents, a practice which needs to be curbed. Further, commission agents functioning at market committees charge commission for sale of cotton in the market yards. These commission agents mostly do not render any worthwhile service for sale of cotton to the farmers. The commission charged by these commission agents increases the marketing cost of cotton thereby affecting the net returns to the farmer who gets a reduced price. The Govt. of Madhya Pradesh has already abolished the commission agent system. Other states may also be directed to do so. The state governments need to take prompt steps to activate or upgrade the non-functioning and malfunctioning market yards in the interest of the farmers and the export-oriented cotton textile economy.

2.2.7 **Need for an umbrella organisation**

Cotton textile industry has many segments. Although these segments are inter-dependent, such inter-dependence does not necessarily foster a spirit of healthy co-operation. They do not act in unison because of perceived clash of economic interests. Generally, the tendency of each segment is to take a one-sided view with only its own interests in mind. Any weightage or advantage given to a particular segment and policies exclusively framed for its protection may sometimes recoil on

other segments. If matters relating to different segments of the cotton textile industry in India are to be effectively handled in the larger interest of strengthening the cotton textile economy and thereby the national economy, it is desirable that a national body on the lines of National Cotton Council of America may be set up. In the scenario of increasing consumption of man-made fibres and perceived threat to the cotton segment, the above Council was set up in the USA to strengthen the cotton economy. The Committee has also projected increased consumption of man-made fibres in the years to come. Therefore, given the fragmented nature of the cotton textile economy, it is recommended that a national non-governmental body which can be called National Cotton Council of India with representation from all the stake holder segments of the cotton textile industry can function as an umbrella organisation to bring about the needed co-ordination and foster a healthy spirit of co-operation between them for their common good. It is accordingly recommended that Govt. may facilitate setting up of such a National Cotton Council to make cotton economy of India more cohesive, stronger and more competitive to face the challenges of an integrating global market.

2.2.8 Maharashtra monopoly procurement scheme for cotton

The system of monopolistic purchase of cotton is not in conformity with the policy of liberalisation of the Indian economy. In a free economy and particularly in a commodity like cotton which is traded freely all over the country, the existence of the monopolistic system in a single state does not appear to be logical or even economically desirable. Further, ever since the introduction of the scheme in the state, a number of deficiencies have been noticed in its working, which are briefly enumerated below :

- (i) Inherent shortcomings in the monopolistic nature of the scheme, like inefficiency, corruption etc.
- (ii) Wastage of scarce resources - wastage of diesel/oil due to transportation of cotton from the state for ginning elsewhere in trucks and back.
- (iii) Damage to the cotton stock due to mass handling, compounded by lack of adequate infrastructure.
- (iv) Malpractice of upgradation of seed cotton for better price realisation by farmers, leading to mixing up of good and bad cotton, and thereby affecting the yarn quality and value.
- (v) Distortion in cotton prices due to predetermined procurement price affecting the sentiments in markets outside the state.
- (vi) Higher processing expenses as compared to private trade and other public sector institutions like CCI.

- (vii) Incurring heavy expenses for ginning and pressing at long distances.
- (viii) Sales policy not in tune with operations.
- (ix) Heavy losses in many years due to competitive populist pricing policy as against the presupposed no-loss-no-profit philosophy.
- (x) The scheme creates artificial shortage at times due to with-holding of large stocks by the monopoly agency and escalating benchmark prices during the times of scarcity.
- (xi) Acting almost as a national buffer stock during years of good crop, it tends to depress market sentiments in other states, and thereby reduces the returns to the farmers in other states.
- (xii) Most important, it acts as a distinct disincentive to the farmer for improving his productivity and quality since he is assured of a good price, thanks to competitive populism, irrespective of yield or cotton quality.
- (xiii) The price announced in Maharashtra determines whether clandestine cotton movement is from or to Maharashtra. This distorts the production and productivity estimations apart from causing loss of revenue to the affected state and causing avoidable and unnecessary transport cost.

In the final analysis, the success or otherwise of the monopoly procurement scheme has to be judged by the productivity of cotton in the state. Since the overall yield of cotton is still quite low in Maharashtra, in fact, the lowest in the country, a feeling persists that the expectation of the scheme as originally perceived has not been achieved. If anything, the scheme acts directly against the interests of cotton farmers of other states and the cotton economy and indirectly against the long term interests of the state farmers as well. Therefore, the Committee strongly recommends that the Monopoly Cotton Procurement Scheme of Maharashtra may be done away with.

2.2.9 **Minimum support price**

The Govt. is operating the minimum support price (MSP) scheme to ensure a minimum return to the farmer even in a depressed market. At present, the support prices are fixed by the Govt. for two basic varieties on the recommendation of the CACP. Based on the support prices of these two basic varieties and taking into account the normal price differential and other relevant factors, the MSP for other varieties of seed cotton of fair average quality are fixed by the Textile Commissioner. However, it is noted that MSP has not been operated for more than 12 years due to the buoyancy in demand and relatively higher market prices. The Committee has observed that the MSP has been increased by 30 percent during the last 3 years though the general inflation and input price escalation do not seem to be so high. The rationale behind the increase was, therefore, not clear to the Committee. The

Committee feels that MSP, in order to retain its credibility, ought to be fixed on more transparent logic. The Committee, therefore, recommends that the methodology for fixing the MSP by CACP should be more open and transparent and productivity of cotton should be considered as one of the parameters for fixation of price to provide encouragement for improvement in productivity.

2.2.10 Technology Mission on Cotton (TMC)

The TMC which aims at improving almost the entire gamut of activities in the cotton economy should be launched immediately and implemented in a time-bound manner to achieve the desired objectives. ICAR should give proper direction to R. & D. under TMC, keeping in mind the need of the user industry. The emphasis on Research & Development in Technology Mission on Cotton is expected to improve the production and productivity of cotton alongwith reduction in cost of production, resulting in better net return to the cotton growers. The world cotton prices are continuously coming down for the past more than four years, and in the coming years also the cotton prices are not likely to go up. The cotton growers, in such a situation, can maximise their return only by increasing the yield and reducing the cost of cultivation. The Technology Mission on Cotton is expected to achieve the objectives of yield improvement and cost reduction. Further, by improving the market yards and modernising the ginning & pressing factories through this Mission, the quality of cotton will also be improved which will be beneficial for not only the cotton growers but also the endusers, resulting in higher realisation from value added cotton textiles.

The Committee also recommends that since two Ministries are involved in the implementation of TMC, it will be highly appropriate to designate one officer for co-ordination of all the four Mini Missions to achieve time bound results. An Inter-Ministerial Coordination Committee should be constituted for consideration of policy issues arising in the course of implementation of the Mission as well as for monitoring implementation of the various programmes under the four Mini Missions. Definite responsibilities should also be delineated and assigned to different implementing authorities to ensure better performance and accountability.

2.2.11 Export policy of cotton

In a liberalised market economy, producer and consumer both should have freedom of choice in selling and buying. But the newly liberalised Indian economy which still has many shades of protectionism in view of the vulnerability of certain sections of the society, perfect market economy does not obtain. To ensure supply of yarn to the vulnerable handloom sector, the mill industry has to bear the burden of hank yarn obligation and restrictive export policy with regard to their finished product, i.e., cotton yarn, though they are permitted cotton import freely. The cotton farmers and traders aggressively demand that if textile mills have the freedom to import cotton under OGL, the same option should also be available to Indian cotton producers as well to sell their produce at the best price. The Committee's thinking is

towards further liberalisation of the economy as far as possible and particularly to remove the controls/impediments adversely effecting the competitiveness of any segment of the textile economy. The Committee has accordingly recommended in the chapter on 'Spinning' for discontinuation of hank yarn obligation scheme and removal of ceiling on cotton yarn export. To follow the consistent policy approach towards full scale liberalisation, the Committee recommends that cotton exports may also be placed under OGL. It is, however, expected that in view of the international prices of cotton which are currently lower or at par with indigenous prices of cotton, large scale export of cotton may not occur. However, psychological impact of the placement of raw cotton exports under OGL will encourage the farmers to produce quality cotton in the expectation of internationally competitive prices.

2.3 Man-made fibres/yarns

2.3.1 The man-made fibre and yarn industry comprises of fibres and filaments of both cellulosic and non-cellulosic origin, generally called rayon and synthetic fibres/yarns respectively. While rayon is a regenerated fibre wholly or mainly of cellulose and includes viscose, acetate and cuprammonium, synthetic fibres or filaments are produced from polymers of chemical elements or compounds and include acrylic, nylon, polyester and polypropylene. The Textile Policy of 1985 has made the following recommendations with regard to man-made fibre/yarn industry :

- (1) Fuller fibre flexibility between cotton and man-made fibres/yarns;
- (2) Adequate availability of man-made fibres or yarn at reasonable prices shall be ensured by increased domestic production supplemented, as necessary, by imports;
- (3) Setting up new units for production of synthetic fibres and expansion of capacity of existing units would be so determined as to realise economies of scale and reduce costs of production;
- (4) Fiscal levies on man-made fibres and on the intermediates used as inputs for the production of such fibres or yarn shall be progressively reduced to bring down prices.

2.3.2 The 1985 Textile Policy, which promoted a multi-fibre approach, provided the much needed thrust to the production of the man-made fibre/yarn industry. The Abid Hussain Committee has also recommended for increasing the production/consumption of man-made fibres/yarns, international price parity and imposing credible threat of imports on indigenous manufacturers. The continuing reduction in fiscal levies on man-made fibres/yarns and their intermediates initiated after the 1985 Textile Policy and various programmes to promote exports, fostered greater domestic demand and export competitiveness of man-made fibre/yarn industry. This, in turn, spurred greater investments in capacity creation in the industry and ensured increased availability of such fibres/yarns to the textile industry. Sharp and continued decline in the prices of

PSF and PFY spurred by a decline in the prices of raw materials of polyester in the last 3 / 4 years saw a quantum jump in the production capacity, production and consumption of PSF and PFY. Between 1985 and 1998, installed capacity for production of man-made fibres/filament yarns grew seven fold, from 292 mn. kg. to 2097 mn. kg., as a result of which the domestic output also increased six fold from 285 mn. kg. to 1640 mn. kg. (Table-2.5). Before 1984-85, the availability of man-made fibres/yarns was not adequate and the requirements of the user industry were being met partially through imports. However, in the subsequent period, the increased indigenous production ensured adequate availability to meet the increased demand of the user industry.

2.3.3 The textile industry in India has historically been dominated by cotton, and it was only after 1985-86 that the man-made fibre and yarn industry started making inroad into the cotton domain. Although cotton continues to be the predominant fibre, its share in total textile fibres/yarn consumption has declined from 75 percent to 66 percent. The Committee is of the view that consumption of man-made fibres/yarns may be encouraged to reduce the pressure on cotton supply and improve the competitiveness of the Indian textile industry. The man-made fibre/yarn products contribute to the competitiveness of the cotton textile industry in several ways. Firstly, man-made filament yarns serve as cotton substitutes. The increased consumption of man-made filament based products would help meet rising domestic textile demand, ease the demand pressure on cotton products, and reduce the upward pressure on cotton prices. Secondly, man-made staple fibres are important cotton supplements. Blends of cotton and man-made fibres combine the easy wear properties and durability of synthetic fibres with the comfort associated with cotton and therefore are growing in popularity in both domestic and international markets. The increased use of man-made staple fibres in blends would, therefore, permit increased volume of textile output with the available supply of cotton. Thirdly, because blends are needed in the production of high quality textile products, increased use of man-made fibre would facilitate India's access to the high quality segments of the export market and improve India's competitiveness, enabling it to improve its share in the international textile trade.

Cellulosic fibres/yarns

2.3.4 In the cellulosic group, it is viscose staple fibre and viscose filament yarn which are being manufactured in India. Though units for production of other cellulosic fibres/yarns were set up in the country, however, owing to demand constraints, their operation could not be sustained. It is observed from the consumption trend that the share of cellulosic fibres/yarns in the total man-made fibre/yarn consumption has dropped from 47 percent in 1984-85 to 15 percent in 1998-99. (Table-2.6). The key factor which contributed to the decline of cellulosic fibres had been the suitability of synthetic fibres, either pure or in blends, as a better alternative to cellulosic fibres in a sizeable number of new applications of textiles that were found in the eighties. Also a variety of new applications were developed where textile fibres had not been used before and in which non-cellulosic (synthetic) fibres were preferred. Another important factor which affected the consumption of

cellulosic fibre is the inter-fibre price equation which has changed dramatically because of (i) sharp decline in synthetic fibre prices due to over capacity and lower cost of production, and (ii) increase in cost of production of cellulosic fibres due to higher input costs and pollution control measures. In view of these adverse factors, cellulosic man-made fibres/yarns had been retained only in certain specific applications because of their high absorbency and cotton substitution properties etc.

2.3.5 Viscose, as an attractive fibre for blending, seems to have good future both in clothing as well as the non-woven sectors. In blended yarns, viscose staple fibre is popular in polyester blends. This is mainly because of the hygroscopic property of viscose and its clean nature and lustre. It also has the advantage of staple cut length and ease in spinning on cotton spinning system. Hence, viscose will serve as a major complementary fibre to cotton and other fibres like PSF. Although the non-woven segment is in its infancy in India, it is expected that there will be noticeable demand for absorbent fibres in various non-woven segments like personal hygiene, wipes, medical applications, disposables and in filter industry. A good deal of market development effort aimed at promoting the use of VSF in such non-woven segments is likely to further improve the prospects for this product.

2.3.6 The production of viscose filament yarn has been stagnant during the past few years. However, currently there is a rise in exports of viscose filament yarn from India. Viscose filament yarn fabric manufacturers have been able to produce shrink and crease-resistant clothing by using advance finishing technology. Moreover, the unique dyeability and colour fastness, drape, lustre and softness of these fabrics match current fashion trends.

2.3.7 Presently, India has a strong viscose manufacturing base and produced 188 mn.kg. of viscose staple fibre and 57 mn. kg. of viscose filament yarn in 1997-98. India's export of viscose based yarns and fabrics is growing and is observed to have significant potential for further growth in the future. However, the major problems facing this industry are - (i) inadequate availability of its raw materials, mainly rayon grade wood pulp; and (ii) obsolescence of production technology. As regards the availability of pulp, while there is an overall shortage in the availability of indigenous rayon grade wood pulp, soft wood pulp is not being manufactured at all indigenously due to non-availability/accessibility of required species of soft wood and therefore, indigenous production of rayon grade wood pulp is confined to short fibre, hard wood pulp. To enable production of acceptable quality of VFY and VSF for the downstream consuming industries, it is necessary to blend 25 to 30 percent long fibre soft wood pulp with indigenously available short fibre hard wood pulp. The entire requirement of long fibre, soft wood pulp for blending has to be met by imports, besides bridging the gap between the rayon industry's requirement and availability of hard wood pulp from indigenous sources. During the years 1996-97 and 1997-98, the deficit in supply of indigenous rayon grade wood pulp has been to the extent of 51,562

tonnes and 55,100 tonnes respectively. For the year 1998-99, the shortfall of pulp to the viscose industry has been estimated as 80,000 tonnes.

2.3.8 The Committee feels that the policy guidelines in the context of cellulosic industry may be guided by the following aspects:

- (i) The availability of wood pulp may be augmented by further liberalising the import policy of rayon grade wood pulp.
- (ii) To improve the availability of indigenous rayon grade wood pulp, Govt. may permit raising of plantation of eucalyptus, which is most suitable for rayon grade wood pulp, on unproductive, marginal/sub-marginal lands through farm forestry route.
- (iii) Adoption of bio-technology and tissue culture for softening of hardwood pulp into softwood pulp for wider adoption by cellulosic fibres/yarns manufacturers.
- (iv) To improve consumption of cellulosic fibres/yarns, the excise duty on cellulosic fibres/yarns and the blended yarns of such fibres may be further reduced to bring it at par with cotton yarn.
- (v) To facilitate technology upgradation in the cellulosic sector, the fiscal policy of machinery required for the manufacture of cellulosic fibres/yarns needs to be further liberalised.
- (vi) Market development efforts aimed at promoting the use of VSF in non-woven segment may be launched by the viscose industry expeditiously.
- (vii) Viscose is the only textile fibre the export of which is restricted, perhaps because of historical reasons to supplement the cotton availability. With the increased availability of synthetic fibres to supplement the available cotton, which is also steadily growing, there is no need or rationale to restrict the exports of VSF. As such, its exports should be allowed freely.

Synthetic fibres/yarns

2.3.9 The main end use for synthetic fibres in India is in the textiles. The overall consumption pattern of synthetic fibres is 86 percent for apparel, 2.4 percent for household textiles, 7 percent for industrial application and the remaining 4.6 percent for other miscellaneous applications. This shows that most of the synthetic fibres are used in apparels, which is quite different from the world consumption pattern where only 37.5 percent of the total synthetic fibres is used in fabric and hosiery sector for apparel usage and the remaining in non-apparel usage.

2.3.10 In the synthetic fibre/yarn industry, the polyester segment is predominant and this segment has shown phenomenal growth while other synthetic fibres/yarns have either shown moderate growth or declining production trend. ASF, PPSF, PPFY have shown moderate growth in production while NFY has shown continuously declining trend in production over the last 5-6 years. Polyester segment has achieved spectacular growth during the last decade, particularly due to the entry of bigger capacity plants. The installed capacity of PSF and PFY increased phenomenally from 87 mn. kg. in 1985-86 to 1548 mn. kg. in 1998-99. Consequently, production also increased from 94 mn. kg. to 1264 mn. kg. From the present market structure of polyester industry, it seems that in the coming years, only the larger players will be dominating the industry. The small players will be able to survive only if they produce speciality fibres.

2.3.11 The polyester industry has not faced the problem of sluggish demand during the recent period like other industries. The polyester based fabrics which were hitherto considered to be rich man's fabric have gradually gained acceptability as fabric for the masses due to steady and steep decline in their prices. The price of polyester staple fibre for the first time during last year had gone below the cotton price, with the result that there is perceptible shift from cotton to polyester. Even in blended segments, the popular 35:65 polyester cotton blend has reversed in favour of polyester with 65 percent polyester and 35 percent cotton.

2.3.12 Despite the significant decline in price of polyester, the prices of polyester fibre and yarn are still higher as compared to prices of such items prevailing in the international market. The price differential is in the range of about 20-60 percent. (Table-2.7). The prices of polyester can be reduced further in case the raw material required for manufacture of polyester, i.e., DMT/PTA/MEG are made available to the polyester manufacturers at international prices. It is essential to reduce the price of polyester fibre/yarn to make our polyester based textile items competitive in the international market. India is likely to face its biggest threat from the petroleum producing South East Asian countries in the globalised textile economy, which are extremely price competitive in the petro-based synthetic fibres and textiles. We have to make all out effort to make our synthetic items cost competitive to face the challenges of free economy in the home turf and also in the international market. Besides, reduced prices will induce higher production and per capita availability of cloth for the masses, which at around 30 sq. mtrs per capita is quite low by world standards.

2.3.13 The main raw materials required for the manufacture of polyester are DMT, PTA and MEG. Till a few years back, the industry was heavily dependent on import of these items since the indigenous availability was very limited. However, with the commissioning of additional capacity, the industry is now more comfortably placed with regard to its raw material position. The existing capacity of PTA and MEG, coupled with the envisaged commissioning of additional capacity, will make the

Indian polyester industry self-reliant for its raw materials. However, the prices of PTA, DMT and MEG, inspite of a steady decline over the years, are still about 20-50 percent higher than the international prices of such items.(Table-2.8). This has the impact of increasing the prices of polyester fibre and polyester filament yarn in the domestic market. Consequently, the prices of polyester-based value-added products like fabrics and garments also are considerably higher, making them uncompetitive in the international market.

2.3.14 Acrylic staple fibre is one of the synthetic fibres which has not shown significant growth over a period of time, probably because of non-availability of acrylonitrile, the basic raw material required for the manufacture of ASF. The acrylic fibre is mainly used in the hosiery and wool sector for the manufacture of hosiery, blankets, carpets etc.

2.3.15 Another important synthetic filament yarn is nylon filament yarn, the production of which has been stagnant with declining trend for a very long time, hovering between 37 mn. kg. to 42 mn. kg. All over the world, the production of NFY is increasing; but in India, it is indicating a declining trend, particularly after emergence of PFY which, due to its greater acceptability and relative price advantage, has replaced nylon filament yarn in the dress material segment. The world over, NFY is predominantly used in industrial fabrics, tyre cord and carpet industry, but in India, NFY producers have made no effort at such user diversification. This industry has, however, been facing the problem of inadequate availability and high price of its raw material, i.e., caprolactum. Since there are only two manufacturers of caprolactum in the country, that too in the public sector, and with no credible threat of import, the prices of caprolactum have been steadily firming up. Nonetheless, nylon is maintaining its hold elsewhere in the world inspite of its relatively higher price than polyester due to its variety of end usage from fine apparel to sports wear, and from tyre cords to carpets. In the context of Indian textile industry, the prospects can improve only if the end usage gets diversified.

2.3.16 The policy initiatives with regard to synthetic fibre/yarn industry could be guided by the following considerations :

- (i) The polyester segment of the industry would continue to be dominated by the big players. The small players should, therefore, focus their attention on the development of speciality fibres to carve out their own niche market in order to survive in the competitive environment.
- (ii) To internationalise the cost of polyester staple fibre and filament yarns in the fiercely competitive international scenario, it is essential to facilitate their access to fibre intermediates, i.e., DMT/PTA/MEG at international prices. This could be done by liberalising the import policy of such items to create 'credible threat' of imports and also

stressing upon indigenous manufacturers of such items, which are a few in number, to supply the same at international prices. Likewise, caprolactum and acrylonitrile may also be made available to manufacturers of NFY and ASF respectively at international prices.

- (iii) At present, the indigenous availability of synthetic man-made fibre and filament yarn is adequate for production of ordinary/regular varieties but focus on R. & D. facilities for production of new or specialised textiles is missing. It is observed that in the past, weavers have imported the specialised yarns like fully bright yarn, micro filament yarn and developed the fabric successfully, and when the market is created for such type of specialised yarn, then only the spinners had started production of such yarns. The man-made fibre manufacturers world over have developed and are continuously developing varieties of fibres and yarns which enable the weavers to manufacture fabrics of desired characteristics of cool, soft and dry touch, best drapability, crispiness, natural bulkiness, shadowy appearance, crease resistance, required elasticity etc. These properties are obtained by developing fibres and yarns of different shrinkages, dyeability, blending inorganic and organic ingredients etc., Biodegradable polymers are also being developed from the view point of environmental protection. In Japan, some spinners are developing such thermoplastic polymers such as Poly-Lactic Acid (PLA) Poly-3-Hydroxy Butylate (PHBIV), Poly-Butylene Succinate (PBS), Poly-Caprolactone (PCL) etc. Their properties are more or less akin to those of PFY fibres. In future, these fibres may pose stiff competition to synthetic fibres of today. Therefore, the manufacturers of synthetic fibres/yarn may pre-empt such an eventuality by setting up R. & D. facilities for development of better varieties of fibres/yarns.
- (iv) The synthetic fibres are at present predominantly being used in apparel applications. However, numerous other applications for cellulosic and synthetic fibre could be found in non-apparel sectors, particularly in technical textiles. Synthetic sector should be encouraged to produce specialised fibre/yarn required for the production of technical textiles.
- (v) The process of gradual lowering down of the fiscal levy structure of the synthetic fibre/yarn sector be continued till status of uniformity in duty structure of all textile fibres/yarns is reached.
- (vi) Raw materials for Technical Textiles - There are certain varieties of fibres/yarns such as nylon 66, nylon 11, high tenacity PFY, Kevlar, Aramide which are not manufactured indigenously. The imports of such fibres/yarns, which have no indigenous angle, may be permitted with 'zero' rate of customs duty to encourage/facilitate weavers to produce

high-value added fabrics out of such imported fibres/yarns. Likewise, to incentivise indigenous production of such fibres and yarns for technical textiles, these items may be exempted from excise duty.

- (vii) At present, there is no system of standardisation of man-made filament yarns and spun yarns with regard to deniers and counts as applicable in other countries. Therefore, weavers find it difficult to meet the standards for export orders which are of specific standards with particular denier/blend/count in warp and weft and reed, picks along with weight per sq.mtrs, as deniers/counts produced in our country are different from the world standards of deniers and counts of blended yarns. It is, therefore, recommended to prescribe standards for man-made filament yarn and spun yarn in line with the world standards in order to improve the quality and competitiveness of our synthetic/blended fabrics.
- (viii) A Man-made fibre/yarn Advisory Council may be set up immediately to take an integrated approach to solving the problems of man-made fibres/yarns and man-made/blended textiles and accelerate their growth. The Ardhanareeshwaran Committee¹ has also recommended setting up of such a council. It is understood that a proposal is already pending with the Ministry of Textiles in this regard. This may be expedited.
- (ix) It is essential to improve the physical parameters of synthetic fibres/yarns to make them suitable for blending with cotton.
- (x) To encourage integrated policy approach for around development of the synthetic fibres and filament yarns and their optimal linkage with downstream textile products, the synthetic fibres/yarns may be transferred from the administrative control of the Department of Chemicals and Petrochemicals to the Ministry of Textiles. Just because their raw materials happen to be chemical based items, there is no logic to continue textile fibres/yarns in the Department of Chemicals and Petro-chemicals. The cellulosic fibres/yarns are already under the Ministry of Textiles.

2.4 **Raw Wool**

2.4.1 Raw Wool is the only textile fibre the production of which is deficient in the country. We produce about 45 mn.kg. of raw wool out of which only about 5 mn.kg. is of apparel grade and the remaining 40 mn.kg. is of carpet grade. The worsted woollen sector, therefore, entirely depends on import of raw wool for meeting its raw material requirement. The Textile Policy of 1985 has provided that programmes

*Ardhnareeshwaran Committee : A Committee under the Chairmanship of Shri K.N.Ardhanareeshwaran, Ex. Secretary (Textiles), as a one man Committee was appointed by the Ministry of Textiles in April, 1995 to carry out a comprehensive reappraisal of the functioning of the office of the Textile Commissioner.

would be undertaken to augment the indigenous raw wool productivity in terms of both quantity and quality. In spite of this provision, the production of raw wool in the country has not made any significant progress and production has increased by only 4-5 mn. kg. since 1984-85. The shoddy sector is also entirely dependent on import of synthetic and woollen rags for meeting its raw material requirement. Apart from raw material availability, another serious problem faced by the woollen sector is the lack of modernisation.

2.4.2 The policy with regard to the woollen sector could be guided by the following considerations :

- (i) In the foreseeable future, since we may not be able to produce adequate quantity of apparel grade wool in the country, given the lack of infrastructure, absence of huge pasture land as in Australia and New Zealand, climatic conditions and other technological factors, the import duty in respect of apparel grade raw wool may be further reduced.
- (ii) We have the potential and as such, should concentrate on increasing the production of carpet grade wool to reduce our dependence on imported wool. At present, around 30 percent of the demand for carpet grade wool comes from New Zealand to add lustre and otherwise augment availability of such wool. Selective breeding farms should be encouraged to be set up, preferably in the private sector or as joint ventures towards improving the production and quality of carpet grade wool. The state governments, particularly of Rajasthan and Gujarat, the major wool producing states should make land available at reasonable cost for such projects. Concerted efforts should be made for increasing the per sheep productivity in the country, which is way behind the position obtaining in other wool producing countries, particularly Australia and New Zealand. Productivity per sheep per annum is more than 5 kg. in Australia and New Zealand while in India it is a mere 0.9 kg. per sheep. R. & D. support could continue to be the thrust both from the state governments and/or the central govt. agencies, viz., Central Sheep & Wool Research & Training Institute (CS&WR&TI) and Central Wool Development Board (CWDB).
- (iii) Presently, Iranian carpets are preferred over Indian carpets for the reason that the Iranians have been using what is called highland wool in production of their carpets. This kind of wool can be developed in the hilly tracts of the country such as Ladakh, hills of Uttar Pradesh and West Bengal, Sikkim, Arunachal Pradesh and Himachal Pradesh, etc. Collaborative research in development of highland wool in the Himalayan region should be undertaken by the Govt./CWDB in collaboration with the industry.

- (iv) In the absence of organised system of marketing of wool, the sheep breeders do not get remunerative prices for wool. It is recommended that a pilot project be set up with private sector participation on marketing of wool. The project could take into consideration various aspects for improvement of quality of wool, such as scouring, carding, deburring, etc. so that better quality wool becomes available to the consumer. An experiment as in the case of dairy development (Amul) could be explored through a co-operative network.
- (v) Collaborative research tie ups should be taken up with Australia and New Zealand in the fields of research, selective breeding, testing and training as these countries have done reasonably well in the development of wool production.
- (vi) In the shoddy sector which utilises synthetic/woollen rags which are basically mutilated cloths and rags, the govt. should recognise the fact that the raw material for this sector will be mainly through imports. Thus, import duty for such items should be further liberalised and kept at par with raw wool.
- (vii) Acrylic blending with wool should be encouraged to reduce our dependence on imported wool. Such blending is also suitable for our climatic conditions. Likewise, silk and wool blending should also be encouraged to produce high value added items for the 'elite' market segment.
- (viii) The constitution of the CWDB is such that it is not possible for it to perform appropriately the task assigned to it. Therefore, the mandate and the role of the Board needs to be reviewed and redefined in the changed scenario in close collaboration with the wool producers and the user industry to make it more effective. There should be closer collaboration and co-operation among the CWDB, CS&WR&TI, WRA, Office of the Textile Commissioner, State Govts. and the industry in formulation of development strategies and their implementation.
- (ix) To encourage technology upgradation in the woollen sector, the import duty on woollen machinery may be further reduced.
- (x) Wool processing is the most important activity for improving the quality of wool fibre. Pre-loom and post-loom processing facilities like carbonising, scouring, deburring, carding, dyeing etc. are not available adequately to the wool growers and wool users, with the result that utilisation of indigenous wool in the decentralised sector has been affected adversely. The Committee recommends that govt. may direct

their attention towards this activity for improving the quality of wool fibre.

- (xi) India has some presence in the production of angora wool in the World. However, we have not been able to increase its production. The major problem in its promotion is the lack of firm marketing tie up for the wool growers who naturally tend to lose interest in the project. A stronger extension support for marketing is a sine qua non for promotion of this promising high value fibre which could have a good export potential. Another major problem is the processing of the angora fibre which is very difficult and care is needed to control the waste percentage as the fibre is very costly. The processing of this fibre needs special type of machinery which is not available or manufactured in the country. The Committee recommends that the Govt. may take up angora wool development plan under UNDP with proper marketing and processing tie ups.

2.5 Silk

2.5.1 India is the 2nd largest producer of silk, contributing about 18 percent to the total raw silk production in the world. India has the unique distinction of being endowed by nature with all four varieties of silk, namely, Mulberry, Tasar, Eri and Muga. Still we have not been able to exploit fully this advantage to make our presence felt in the international silk scenario which continues to be dominated by China, the run away numero uno.

2.5.2 While finalising any policy initiatives for future development of sericulture, it is important to bear in mind the strengths and weaknesses of each segment of this sector. The strengths of the sector are related to its wide base, the sustaining market demand pull, especially from the Indian handloom weaving sector, the infrastructure that the National Sericulture Project has created, and the research and training capabilities. The Committee has identified the weaknesses of the mulberry and non-mulberry sectors and also recommended policy guidelines to minimise the impact of such 'weaknesses' in order to overall strengthen the silk sector of the textile economy.

Mulberry sector

2.5.3 Its weaknesses are related to a poor data base, diverse range of practices leading to a wide range of productivity and quality, generally poor accent on quality consistency in production, poor transfer of technology to the decentralised sector both due to poor technology absorption and poor/inadequate follow up on laboratory findings, poor market linkages barring Karnataka, a thriving and often unfair trade in the post-yarn sector, low end technology use and reluctance to absorb technologies which would improve quality but which may not fetch the price required to meet the higher overheads and perceived risk due to the higher investment. Other weaknesses are the inadequate emphasis on quality in the commercial seed sector (more

pronounced in non-mulberry where even adequacy of quantity is a major issue), neglect of marketing linkages, need for a basic perspective for development of the sector which clearly defines the relative roles of the central and state agencies in a federal set up.

Non-mulberry sector

2.5.4 Among non-mulberry silks, Tasar is mostly practised by the tribals by rearing silkworms on nature grown forest plantations. India is the largest producer of Tasar silk after China and alone produces the golden yellow Muga silk. India is also a major producer of Eri silk. Unlike mulberry, the production of non-mulberry silk has not been steady and production varies from year to year. Non-mulberry sericulture is a poor man's avocation and most of the rearers belong to weaker sections of the society. The CSB has not given adequate attention to the R. & D. and extension activities in the area of non-mulberry sericulture inspite of having the potential to directly help the poor. Presently, Eri and Muga are produced almost for self-consumption. But with their uniqueness to India, they have great potential for value added exports. Govt. must give these silk varieties the importance that is their due and facilitate focussed R. & D., targetted extension and innovative product development for value added exports.

Tasar

2.5.5 Areas of weakness of Tasar are as follows :

(a) Rearing is done out-door on trees; natural food plants are dispersed over large areas. Thus, comprehensive extension support would entail a large number of extension agents to cater to the farmers beyond possible resources; (b) weavers are normally also reelers and exploited by traders/mahajans; (c) Oak Tasar culture has not yet been properly adopted as the people are new to the culture and the economics are yet to be established; in Oak Tasar, the present stock is a hybrid between *A. roylei* and *A. pernyi*, and stability is in doubt and also suffers from poor fecundity (100 to 200 eggs) and low hatching; (d) lack of disease monitoring and control measures.

Eri

2.5.6 Eri culture is domesticated like mulberry culture. Eri silkworms are multivoltine and as such are reared almost throughout the year. The culture has a close link with the culture and tradition of the people of North East where it is grown. The rural folks take up Eri rearing primarily to meet the domestic demand of warm clothing. In addition, the pupa forms a major source of protein. Apart from the North East, the culture is practised in the States of West Bengal, Bihar and Orissa, primarily for production of castor seed for oil and as such pay little importance to Eri rearing. Eri silk has specific thermal properties. It can also be blended with wool, other silks,

cotton, ramie, jute and synthetic fibres for greater exploitation. Products like quilts, lining etc can be made from Eri after degumming and opening the cocoons.

2.5.7 Areas of weakness in Eri include: (a) lack of systematic plantation for regular supply of adequate quantity of foliage; (b) production of laying at private level without any scientific method to check diseases; (c) poor management during rearing; (d) inadequate rearing appliances and non-availability of separate rearing house; and (e) absence of a well organised marketing system.

Muga

2.5.8 The golden yellow silk produced by the Muga silkworm, *Antheraea Assama* is unique to Assam and neighbouring States of Nagaland and Meghalaya. Muga culture has also extended to the State of West Bengal in recent years and is spreading to far-off places like Andhra Pradesh. The muga silkworm is semi-domesticated with rearing done in the open on trees whereas seed production and spinning are done indoors. The muga silkworm is multivoltine in nature with six crops a year, two commercial, two pre-seed and two seed crops. The muga silk industry is yet to be organised on systematic lines. While basic seed production is more or less organised, commercial seed production is yet to be organised systematically.

2.5.9 The post-cocoon activities are concentrated mainly in Sualkuchi (Assam). There is no systematic marketing, and middlemen & traders are flourishing in the trade. The rearers often produce their own seed due to short supply of quality commercial seed. While the research achievements have made some headway in increasing the quality and production of food plants (leaf) and cocoons, more research support is needed, particularly in seed technology, pre and post cocoon aspects etc.

2.5.10 Areas of weakness in Muga silk production include the following:

- (a) Lack of systematic seed production/distribution organisation, because of which farmers produce their own seed without adopting scientific measure to check diseases and seed crops have to be reared during the adverse seasons and the industry is facing the problem of pebrine.
- (b) Lack of efficient extension services to motivate and educate the farmers, since rearing is done outdoors on trees and being multivoltine, it has to be reared throughout the year even in adverse seasons and conditions.
- (c) Reeling is in the unorganised sector and the technology adopted is primitive.
- (d) Lack of organised marketing system for cocoons and yarn or price support mechanism.

2.5.11 The policy formulation with regard to silk may be guided by the following considerations:

- (1) Due to the segmented nature of the industry and the conflict of interests, motivation has to be increased for integration of activities of different segments of the industry. Encouragement ought to be provided for the formation of progressive organisations of industry groups which articulate industry needs and which funnel the assistance available from govt. or other agencies for improving marketability of their goods, for compiling industry data and setting up systems of market intelligence, and education to their constituents in value enhancement by better handling and avoidance of wastage. The use of information technology to disseminate market information like prices in main regulated markets and availability of goods of various quality ranges need be promoted.
- (2) Sericulture may be developed in the hinterland in collaboration with the user industry on the pattern of sugarcane development programme which helps both the industry and the farmers.
- (3) Encourage tissue culture and genetic engineering (germ plasm) to improve the productivity and quality of silk.
- (4) Sericulture is at present restricted to a few states only. There is a need to encourage other states which have the potential to focus attention on development of sericulture.
- (5) Authority should be demarcated statutorily between the centre and the states for sericulture to avoid conflicting policy thrusts or directions. As of now, the States of Karnataka, Tamil Nadu, Andhra Pradesh, West Bengal and Jammu & Kashmir have legislation regulating the production/sale of seed and marketing of cocoons and/or silk. It is necessary to review the provisions thereof and ensure that the existing provisions do not discourage the linkage of upstream and downstream activities. It is also necessary to ensure that the regulations are well enforced in the control of seed areas and commercial seed production and also provide for productivity and market oriented initiatives like introducing concepts of batch brushing, compulsory sale of quality disinfectants with commercial layings, packing of cocoons and silk, grading of cocoons and silk in regulated markets. It is also necessary for states which do not have a system of regulated markets to promulgate appropriate legal framework to facilitate marketing of a perishable item like cocoons or a high value item like silk.
- (6) Eri and Muga silk are peculiar to India and are mostly consumed domestically. The exports of value added items produced out of such silk should be encouraged

- (7) A state level mechanism for the coordination or integration of activities of the directorate of handlooms and the department looking after sericulture is necessary for unity of perspective and purpose.
- (8) There is adequate infrastructure created on the on-farm side in the country, in the shape of basic seed farms and grainages in mulberry sericulture. Further capacity building in this area has to be discouraged till utilisation improves and a mechanism evolved to enable central and state govt. agencies to shed farm infrastructure which can be hived-off and to reduce surplus man power. A policy of reassignment of surplus manpower from one area to another or from one organisation to another will be useful.
- (9) Varieties/grades of silk which are not produced in the country should be liberally permitted to be imported.
- (10) For govt. agencies, the areas of intervention can be broadly divided into (a) those of active intervention and (b) those of facilitation.
 - (a) The areas recommended for active intervention are:-
 - (i) The enforcement of technical discipline in basic seed production and the scientific management of seed areas and seed pricing;
 - (ii) Commercial seed quality control as substantial part (65 percent) of the commercial seed production is in private hands with very little control on quality;
 - (iii) Operation of support price system in respect of quality mulberry silk, non-mulberry cocoons and non-mulberry silk;
 - (iv) Setting up extension systems which are lead-farmer based, reducing govt./public sector employees to the minimum level possible in direct extension;
 - (v) In Tasar and Muga, basic seed multiplication and delivery of healthy commercial seed;
 - (vi) In non-mulberry silk, funding of product development programmes to enhance value addition by blends, etc;
 - (vii) An environmental audit in respect of post-yarn activities which generate effluents.
 - (b) Areas of facilitation could be:
 - (i) Operation of regulated markets;

- (ii) Announcement of indicative prices of cocoons and silk with a price quality link;
 - (iii) Creation of infrastructure for clustering of reeling and weaving activities;
 - (iv) Conceiving and establishing silk industrial estates for quality processing in the post yarn sector with financial management and participation of the industry;
 - (v) Assistance for setting up design facilities or for investment for generation of design capabilities in the private sector with emphasis on those who will use the attractive properties of multivoltine silk;
 - (vi) Apart from the present international quality standards for silk, evolving another set of quality standards which can be applied to local decentralised producers to ensure that the silk they produce meets the quality requirements of powerloom warp in respect of limited parameters like winding breaks, size deviation and maximum deviation.
- (11) The CSB is a statutory body created by an Act of Parliament to look after the interests of silk producers and silk industry. The Committee has noted that the CSB has done reasonably good work in the field of R. & D. but has failed to transfer the results of such R. & D. down to the field level. The CSB, in the Committee's opinion, is too much mired in regulatory functions and the silk textile industry perceives it to be pro-sericulture and anti-industry. It is not a healthy situation and the role of CSB needs to be reexamined in the context of the globalisation of textile trade. The Committee was informed that an Expert Group was constituted in 1997 under the chairmanship of Additional Secretary & Financial Adviser, Ministry of Textiles, to give their recommendations regarding the various laws/regulations pertaining to the textile sector. In the case of silk, they had recommended that the CSB Act 1948 should be repealed since the Act has provisions mainly to regulate the routine functions of the Board. The Group had recommended that the R. & D. and development/extension functions of CSB should be separated into two distinct organisations. The developmental functions could be entrusted to a separate Corporation or Development Commissioner. The Expert Group also recommended constitution of an All India Silk Advisory Board comprising representatives from the concerned sectors of the silk industry for overall review of the silk sector and with the objective of laying down broad policy guidelines. The Committee broadly agrees with this approach. However, since post-research

development activities also include the silk textile industry which is mostly in the private sector, a corporate format would not be suitable. Hence, the Committee favours the alternative of a Development Commissionerate. Accordingly, it is recommended that the CSB Act should be repealed and CSB abolished. In its place an R. & D. organisation comprising of the R. & D. institutes/centres presently under the CSB should be created whose activities are limited to the areas of (i) R. & D. in sericulture, (ii) transfer of technology and (iii) training. It could be rechristened as Central Sericulture Research and Development Organisation (CSRDO). The CSRDO should have distinct branches and institutes handling the different varieties of silk so that non-mulberry sericulture research also get their due. The CSRDO may be empowered appropriately to issue guidelines relating to sericulture, including prices of seed cocoons, seed commercial cocoons and silk, with a clear price-quality link. This will enable uniformity of pricing in the states and aid growth. Similarly, it should be the sole empowered agency to approve extension literature in sericulture by whomsoever it is generated. In other words, CSRDO should be empowered to guide development of sericulture. It should preferably be headed by a research scientist of proven track record and merit. A separate Development Commissioner (Silk) should be created to handle silk fibre development including post-technology transfer extension and silk reeling. Since the present CSB is highly overstaffed, the staffing of the two successor organisations should be trimmed after a through study and the excess staff given VRS or transferred to the surplus cell. At present, silk handloom weaving and carpet weaving are looked after by the DC (Handlooms) and DC (Handicrafts) respectively. Silk powerloom weaving, processing etc. are presently supported by the Powerloom Service Centres through the TRAs and the Textile Commissioner. These post reeling activities may continue to be looked after by these agencies, including export of their end products. A central coordination council under the chairmanship of the Union Secretary (Textiles) may be set up to coordinate the activities of various developmental agencies.

- (12) It is desirable that all research & development work on the on-farm side in sericulture, particularly pertaining to breeding and general bio-processes in any state is done by only one agency in that state. If other agencies wish to do such work, it should be in collaboration with the 'Lead Agency' defined for the state. Working of multiple agencies independently in the same areas is often a duplication and waste of resources. In most states, sericulture is accorded a fairly low priority despite substantial work force and infrastructure. Extension delivery systems are weak and it would be advisable for the CSRDO (successor

to CSB) to engineer its research extension centres into units which would, within a limited sphere, transfer the technologies to an identified group of beneficiaries which can be a model. The area development done by the CSRDO should be treated as a demonstration, which the state should, on its own, replicate.

- (13) Characterisation of germplasm by gene markers has been made possible and a clear posture on germplasm exchange and patenting requires to be notified.
- (14) Besides the reeling cocoons, there are other products obtained during silkworm rearing and reeling operations, viz. unused mulberry leaf, silkworm litter, pupa, cocoon waste, reeling waste, winding waste etc. The silkworm excreta and residual mulberry leaves are used in cattle feed, manure, and the pupa is used to prepare cattle, fish and poultry feed, soaps and perfumes etc. At present, the utilisation of by-products in the country is meagre. Extensive research work is required for utilisation of these by-products to the maximum level within the country. China is considered to be one of the best in utilisation of the by-products to the maximum level. It is recommended to bring in the same technology here also for maximum utilisation of by-products.
- (15) The focus of development so far has been on mulberry silk only and non-mulberry silks were neglected. Such silk should have separate R. & D. focus and external funding for non-mulberry areas should be encouraged. Special emphasis will have to be laid on targeted interventions in the non-mulberry sector. In addition to the general policy issues indicated in the earlier paragraphs, on account of the nature of non-mulberry sericulture, additional thrust is a necessity. The Govt. should formulate a separate 'White paper' on this sector with identifiable targets/objectives to be achieved. In this process of development, the specific role of the Central Govt. and State Governments would need to be spelt out in clear terms. The areas of intervention which need to be addressed have been identified by the Committee as follows:
 - (a) Increasing the land coverage under food plants in block plantation with appropriate incentives and advanced technological interventions in rearing and management practices of egg production.
 - (b) Improved and standardised reeling practices. Standardisation of indoor rearing techniques and artificial diet. Development of effective control measures for diseases, pests and predators. Evolution of appropriate post-cocoon technology.
 - (c) Effective marketing arrangements.
 - (d) Product diversification and design development.

- (16) The very profile of the silk industry in the World is changing and in the light of the general fall in production of raw silk elsewhere in the World, ensuring our strategic positioning at the time of restraint phase out in global trade in 2004 is important. The WTO allows bound tariffs up to certain limits for silk items and it would be in our enlightened self interest to increase tariff to the levels we consider necessary to protect domestic producers at reasonable levels of efficiency and give appropriate drawbacks and duty concessions to genuine exporters. Technology sourcing from China, considering the strategic position that India occupies in the disposal of raw silk by China, should be a strategic objective.
- (17) Under the existing Import and Export Policy (1997-2000), silk is in the restricted list. To provide facility to exporters, duty free import of silk is permitted under the Duty Exemption Scheme. In addition, in October 1998, import of mulberry silk yarn of certain specified grades has been permitted under SIL with the condition that the CIF value of the surrendered SIL is three times the value of the imported silk item(s). The Govt. should continue to allow such imports of silk into the country so as not to discourage investments in the downstream industry for the upgradation of quality and profitability. The Indian sericulture and silk textile sector have yet to come up to international standards in spite of various steps taken in this direction. With the opening of tariff barriers in 2005, this sector will be exposed to international competition. Till such time, reasonable protection would be required to be given to the domestic sector through a fair and balanced approach to the interests of the silk producers and the silk textile industry/exporters. The decision to permit import of mulberry silk yarn under SIL is in the right direction. However, care should be taken to ensure that imports are restricted to Grade-2A and above as at present and through limited entry points and that inferior grade silk does not enter into the country through misdeclaration. Further liberalisation may be considered in the context of the likely post-2004 scenario so that the sector is not suddenly exposed to stiff international competition. Simultaneously, in order to strengthen the domestic producers' capabilities, domestic availability of high quality bi-voltine silk must be strengthened. For that purpose, the facility for the import of dry quality bi-voltine reeling cocoons up to 50 percent of the single shift capacity of multi-end reeling technology may be allowed. There is also need to simultaneously generate a demand for improved/quality cocoons. The Govt. ought to keep a close watch on the import policy in the long term interest of the domestic industry in the context of the WTO agreements and make appropriate and timely changes as warranted.

CHAPTER-3

SPINNING

3.1 Introduction

3.1.1 The spinning (cotton, man-made and blended) activity, which is predominantly concentrated in the organised sector, has shown a very impressive growth during the last two decades and more particularly, in the wake of the liberalised trade and economic policies initiated by the Govt. in 1991. The installed spindleage increased from 25.57 mn. in 1985 to 26.67 mn. in 1991, an average increase of 0.18 mn. spindles per annum. Thereafter, the process of installing new spindles considerably accelerated, so much so that as on 31st December '98, there were 33.93 mn. spindles, which represents an average increase of 1.04 mn. spindles per year. The open-end rotors which were only 45,000 in 1989 also increased to 3,17,000 in December 1998. The number of units including composite units went up from 955 in 1985 to 1062 in 1991. But between 1991 and 1998, the growth was much sharper at the rate of 2 mills every week, taking the total number of mills to 1788 as on 31st December, '98 (Table-3.1). Particularly noteworthy is the trend that a significant proportion of new units set up in recent years are high tech Export Oriented Units (EOUs) to cater to the growing demand for cotton yarn in the world market. Such units now number 82.

3.1.2 In addition to spinning units in the organised sector, a large number of small spinning units have come up of late, particularly in the state of Tamil Nadu, around Coimbatore. As on 31st March '99, there are 861 small spinning units with an installed capacity of 1.62 mn. spindles and about 37,700 rotors. (Table-3.2).

3.1.3 Currently, the spinning capacity in the woollen industry is placed at 5.74 lakh worsted spindles and 4.11 lakh woollen spindles. However, it is not possible to trace the growth of the woollen spinning activity since the Textile Policy of 1985 for lack of enough data as these mills are predominantly in the decentralised sector. It is noted with satisfaction that the Office of the Textile Commissioner has initiated a census of the woollen industry to strengthen the database.

3.1.4 Currently, India has the second highest spindleage in the world after China, accounting for about 20 percent of the world spindleage and 3 percent of the world rotagage. The total capacity in the country in terms of spindle equivalent is about 37 mn. as against 46 mn. in China. But in China, the 3-year (1998-2000) programme of restructuring of cotton textile industry is expected to reduce their spindleage of pre 1980 vintage by about 10 mn. China has already dismantled about 4 mn. spindles from January to September 1998. Thus, very soon India is likely to emerge as the country with the highest spindleage in the world. However, in terms of quality and technology, only about 15 mn. spindles can be considered to be state-of-the-art while another 10 - 11 mn. spindles need upgradation within the next 5-7 years. The balance comprise of almost obsolete or scrap spindles, requiring immediate technology

upgradation through replacement. With the replacement of obsolete spindleage, India can achieve a better capacity utilisation, better quality and higher productivity which should meet the requirements of the country for the next 10 years or so. In other words, there is only limited scope for incremental capacity.

3.2 **Policy initiatives in the past**

3.2.1 Textile Policy of 1985 had proposed the restructuring of the textile industry in order to eliminate the structural rigidities which had cropped up due to classification of industries either in organisational structural terms, viz., organised mills, decentralised powerlooms and handlooms, or in fibre use terms, viz., cotton textiles, woollen textiles, man-made textiles and silk textiles. The restructuring proposed by the Textile Policy of 1985 had the following three main dimensions:

- a) The industry shall be viewed in terms of the stages of its manufacturing process, namely, spinning, weaving and processing;
- b) The industry shall be provided with fuller flexibility in the use of various fibres ; and
- c) The industry shall be subject to more pragmatic policies regarding creation or contraction of capacities by units in order to increase competitiveness and promote healthy growth.

3.2.2 The policy measures initiated by the Govt. as a consequence of the proposed restructuring have benefited the textile industry in terms of considerable increase in capacity, production and consumption of textile items. With regard to the spinning sector, the textile policy of 1985 had stated clearly vide para 7, "In the spinning sector, all steps will be taken to ensure optimum utilisation of the spinning capacity. The availability of raw materials for the spinning sector would be augmented. The infrastructure of the distribution of yarn would be strengthened". It is a matter of satisfaction that the capacity utilisation of the spinning sector has gone up from 69 percent in 1985-86 to 73 percent in 1989-90, to 80 percent in 1990-91 and to 86 percent in 1995-96. However, in 1997-98 there was a marginal fall in capacity utilisation to 85 percent. Further, raw material availability for the spinning sector has increased tremendously during this period as a consequence of measures initiated by the Govt. on the basis of recommendations of the Textile Policy of 1985.

3.2.3 The major raw material required by the spinning industry is cotton. Being an agricultural commodity, cotton availability, as to be expected, has been fluctuating in the short-term. However, it has shown an increasing trend over the long-term as the following statistics would show. Cotton production, which was 107 lakh bales of 170 kg. each (1819 mn. kg.) in 1985-86, increased to 135.75 lakh bales (2308 mn kg.) in 1989-90 and to 177.90 lakh bales (3024 mn. kg.) in 1996-97, though again it declined to 158 lakh bales (2686 mn. kg.) in 1997-98. The other important raw material

required by the textile industry is man-made fibre/yarn, which has also registered impressive increases during the corresponding period, primarily due to liberalised licencing, fiscal and other policies of the Govt. The production of such fibre/yarn went up from 285 mn. kg. in 1985 to 714 mn. kg. in 1992-93 and to 1640 mn. kg during 1998-99. In spite of such increase in availability of raw material, the spinning sector has raised questions like quality of cotton, international price parity of man-made/yarn and fiscal levy, etc. Such issues are discussed in detail in the chapters relating to "Raw material" and "Fiscal policy and structure".

3.2.4 The Abid Hussian Committee, which reviewed the progress of implementation of the Textile Policy of June 1995, had recommended that a review may be undertaken of the existing spindle capacity in the country in order to arrive at the correct spinning capacity, and obsolete/non-viable spindles/units should be scrapped and taken out of licenced capacities. Another recommendation made by the Abid Hussian Committee was to focus on the modernisation of spinning capacity with a view to introduction of new technologies. The Abid Hussian Committee has further recommended **vide para 3.11** that the new policy for spinning should seek to promote:

- i) Adequate new capacity in new units;
- ii) Modernisation of existing mills regardless of locational constraints;
- iii) Revival of sick and weak units which are viable, through modernisation;
- iv) The expansion of existing units below the minimum economic size prescribed, again regardless of locational constraints;
- v) The upgradation of production facilities (or new investment) for export quality yarn;
- vi) In order to ensure the certification of yarn variety and quality, it should be made obligatory for mills to mark each bundle of yarn with the count/denier, net weight and ex-mill rate.

3.2.5 The recommendations made by the Abid Hussian Committee, it is noted, have generally been translated into govt. policies. Such of those recommendations as are pending like scrapping of obsolete capacities, still hold good and merit favourable consideration, more so when the industry itself is making a strong plea for it.

3.3 **Present scenario of spinning sector**

3.3.1 With the increase in spinning capacity, the production of spun yarn (cotton, man-made, blended) rose by about 25 percent from 1454 mn. kg. in 1985-86 to 1824 mn. kg. in 1990-91. By 1997-98, there was a further increase of about 60 percent, taking the spun yarn production to 2973 mn. kg. . The compounded annual growth

rate (CAGR) for these two periods was 4.6 percent and 7.2 percent respectively. In pursuance of the multifibre orientation given to the industry by the Textile Policy of 1985, the share of man-made and blended yarns in the total spun yarn production has improved from 14 percent in 1985-86 to 26 percent in 1997-98. The production of blended yarns and man-made spun yarns has registered a higher growth rate of 13.5 percent between 1990-91 and 1997-98 compared to cotton yarn which registered 5.6 percent increase during the corresponding period. (Table-3.3).

3.3.2 The exports of cotton yarn and other yarns also registered spectacular increases in the wake of the Textile Policy of 1985. The cotton yarn exports have increased from a mere 11 mn. kg. in 1985-86 to 485 mn. kg. in 1997-98. The latter quantity is almost equal to about 25 percent of the total cotton yarn produced in the country, so much so that India emerged in 1997 as the largest exporter of cotton yarn in the world (514 mn. kg.) replacing Pakistan. The global demand for cotton yarn, which was in the range of 1900 mn. kg. in 1995, is projected to touch 3000 mn. kg. in the year 2002. Even a modest share of 25 percent of the world cotton yarn market would mean for our country an export potential of 750 mn. kg. in 2002, which is almost a 50 percent growth on 1997 export volume. With numerous EOU's newly set up plus the additional high tech spinning capacity being created in the country, it will not be difficult to meet the higher export volumes of the above magnitude, both quantitatively and qualitatively. The exports of man-made and blended spun yarns, minuscule in 1985-86, increased to 83 mn. kg. in 1997-98. With the capacity in this segment, particularly polyester and polyester blended yarn, growing by leaps and bounds, a better export performance can be expected from this segment in the years to come.

3.3.3 It is also observed that while the spinning industry has been growing in terms of its capacity and production, the margins of spinning mills have come under tremendous pressure in recent years, particularly during the last two years.

3.3.4 Spinning sector having become more export oriented, the performance of this sector is increasingly dependent on the growth of the international economy and trade. During 1997-98, the financial turmoil followed by the economic slide down in South East Asian region, which accounted for about 50 percent of our cotton yarn exports, left their repercussions on our cotton yarn exports, with consequential down slide and adverse effects on the performance of the spinning sector. The problems of the spinning sector were further compounded by the shortfall combined with quality deterioration in cotton crop, recession in the economy, liquidity crunch resulting in less off-take and unremunerative prices for finished goods, with consequential intense pressures on the margins.

3.3.5 Profitability in the textile industry is generally low when compared to that of other major industries. The profits for the textile industry over the past 3 decades, as reported in the Reserve Bank of India Bulletin, averaged only 6.1 percent of sales after

depreciation but before interest as against the profit of 9.5 percent for all industries during the same period. The inter-year variation in profits is also very high in the textile industry. The net profits average no higher than 3 percent during these years. Since 1990s, there has been a sharp fall in the profits from year to year. In the first half of the nineties (1990-95), mills on an average recorded a net profit of 2.2 percent of sales value but in the later half of the decade (1996-98), there was a net loss of about 3 percent of sales. High raw material cost relative to yarn selling price plus high interest and power costs and low levels of productivity are the main reasons for the losses incurred.

3.3.6 Neglect of modernisation, it is noted, is the primary cause of poor working, low profits and sickness in a large number of spinning mills, particularly in the recent periods. A major factor for the high inter-mill variation by over 300 percent in labour productivity, by 40 percent in production per spindle and by more than 75 percent in spindle utilisation is found to be the wide differences in the age of machinery and level of technology used by the mills, as mentioned earlier. In fact, about 20 percent of the mills were able to register profits of over 5 percent even during recessions, and significantly, all of them are equipped with very modern machinery and export yarn in sizeable volumes.

Co-operative spinning mills

3.3.7 With a total installed capacity of 3.5 mn. spindles and 18 thousand rotors spread over 150 mills, co-operative spinning mills constitute a significant component of the spinning sector. With the exception of a few units, the performance of co-operative spinning mills is in general found to be poor. Started as new units though, on account of the poor commercial and operational efficiency, most of the co-operative mills have been incurring huge losses year after year. Poor management is another major cause of poor performance.

3.3.8 On the one hand, the raw material cost incurred by these mills is invariably on much higher side and on the other, the yarn selling prices are on the lower side, partly attributable to the poor product quality, leading to a large fall in net output value. The sales turnover per spindle per year is substantially lower for these mills compared to the industry average. This is largely attributable to very low machine productivity and manufacturing of low value added yarns in large proportions.

3.3.9 With very low labour and machine productivity, the operational efficiency of these mills is also poor. Largely because of very low work assignments, the mills employ double the number of operatives as compared to the SITRA standards. The staff employment is also almost 50 percent more than the SITRA standards. So much so, the wage cost relative to sales turnover is very high-in excess of 20 percent - as against the industry average of 10 percent.

3.3.10 Production per spindle is about 20 percent below the SITRA standards, mostly due to poor machinery condition and lack of modernisation. The machine utilisation is also very low at around 70 percent and the major cause for this is found to be the insufficient or lack of working capital consequent to accumulated losses. Most of these mills have neglected modernisation for several years.

3.4 **Status of modernisation of spinning sector**

3.4.1 India has been able to modernise its spinning sector to some extent. The ITMF data regarding shipment of spindles reveals that during the period 1988 to 1997, 40.48 mn. spindles were shipped. Out of these, 11.39 mn. spindles (that is, 28 percent of total) were directed towards India alone (Table-3.4). The spinning sector in India is relatively modern. As a matter of fact, new ring spindles sold by the TMMI to the domestic textile spinning sector between 1986-87 and 1998-99 works out to over 15.1 mn. spindles. About 35 percent of the installed capacity on the basis of ring spindles equivalent is not older than 10 years. If the active spinning capacity in India is taken as reference, the degree of modernisation as judged by 'machinery 10 years or less old' jumps close to 50 percent.

3.4.2 Though the spinning sector is more modern than other segments of the textile industry, yet the fact remains that a large number of mills are still using obsolete technology. A survey by SITRA has shown that some 10 percent of the blow room lines are more than 30 years old, half of the cards are older than 20 years, modern draw frames with auto-levellers are in use only on 7 percent of the machines, 20 percent of the combers and half of the fly frames are 20 years old or more, in 25 percent of the mills the average age of ring frames is more than 25 years and only 20 percent of the cone winders are automatic. This is mainly because the modernisation process has been piecemeal, mostly on the ring frame, neglecting the equally vital preparatory and post-spinning operation and thereby denying themselves the full benefits of modern ring frames. A large proportion of spinning mills have not practically done any modernisation in the past 5 years, primarily because of very low levels of profits. And this has led to a further deterioration in their operational efficiency and profitability. Modernisation is, thus, very essential in many mills not only to reduce their manufacturing costs and losses but also to prevent them from becoming sick.

3.4.3 One of the reasons for the low level of modernisation has been the high cost of capital. The ITMF regularly conducts comparative study of cost of production of textile items in 7 countries : Italy, Indonesia, Korea, Turkey, USA, Brazil and India. This study for the year 1997 has indicated that interest cost in India is one of the highest in the world. Among the 7 countries for which ITMF conducted the study in respect of manufacturing cost of ring spinning, only Indonesia's interest cost is as high as India's, that is, 30 percent of the manufacturing cost of ring spun yarn as against India's 31 percent. Brazil, Korea, Turkey, Italy and USA have much lower interest

components at 26 percent, 21 percent, 15 percent, 14 percent and 13 percent respectively.

3.4.4 The Committee has noted that the Govt. has included the spinning sector under the purview of the recently launched TUFSS. This would enable the spinning sector to upgrade its technology. The total fund requirement for modernisation of spinning mills, as estimated by the Committee, comes to the tune of Rs. 10,000 crore for the technology upgradation. Mills with about 11-12 mn. spindles, which are fairly modern from preparatory to auto coning, will require about Rs. 1000 crore in the next 5 years towards normal replacement of components. Mills with another about 12-13 mn. spindles would need modernisation in varying degrees, mostly at the blow room, carding, draw frame, auto winding stages and the amount required for the same would be around Rs. 4,500 crore. Additionally, about 5 mn. new spindles will need to be installed (mostly by way of cent percent replacement) to meet the projected demand in 2002 and the cost thereof would be about Rs. 4,500 crore. The Committee expects that net of the internal resources raised by the spinning mills, particularly by such of the mills as are able to earn profits, fund requirement from the lending agencies may be of the order of Rs. 7,000 crore.

3.4.5 The industry representatives pointed out that but for the closure of almost 20 percent capacity (7 mn. spindles), the industry would have faced a piquant situation of over production which would be disastrous for the industry already reeling under squeezed margins. They made a plea for capacity rationalisation and consolidation rather than new capacity creation. The Committee agrees with this view. The conditionality of matching value addition with new spinning capacity under TUFSS but unconditional technology upgradation of existing capacity is, therefore, the right approach and the Committee endorses it. What China is doing through planned downsizing can be achieved less painfully through this rationalisation and consolidation. Incremental capacity unmatched by downstream value addition can play havoc with the already bloated capacity and fragile financial position of the spinning sector. But given the industry's acute awareness of this ground reality, it is hoped that it will use the TUFSS adequately and wisely.

3.5 **Excess capacity**

3.5.1 The Committee has noted that the current situation of prolonged recession in the domestic and international market has brought into sharp focus the phenomenon of over-supply of yarn in the country. The factor responsible for this appears to be the ever expanding spinning capacity, particularly in the wake of the liberalised industrial policy of July 1991 and aided by a once-booming export market. The Committee has observed that the pace of setting up of new spinning units, which was in the range of 15 units to 41 units per annum prior to 1990-91, increased significantly after 1990-91 to an average of 75 units per year and reached the peak in 1996-97 when 144 units commenced production with 1.40 mn. spindles and 0.50 lakh rotors.

3.5.2 With recession in domestic and global markets, the spun yarn market has become the 'buyer's market', exerting tremendous pressure on the margins of mills as prices of cotton yarn have lost parity with the cotton prices.

3.5.3 The spinning sector has represented to the Committee that a scheme may be formulated for scrapping of the obsolete spindles. The Committee has noted that out of approximately 35.5 mn. spindles in place, about 7 mn. spindles are lying idle in the closed mills out of which not more than 1 mn. spindles may be of good quality. Another 4 mn. spindles are dormant in working mills. Most of the ring frames in the SSI sector are obsolete. There will be some old ring frames in the working mills. Seen from another angle, the total new spindleage installed in the last 13 years (1986-87 to 1998-99) including imports is about 15.5 mn. spindles. The spindleage which have been installed in the earlier decade and which can be upgraded may not exceed another 10 mn. However, except for about 11-12 mn. spindles, the remaining modern spindleage does not have the matching back up facilities, viz., modern blow room, carding, combing, draw frame, speed frame, auto-coner etc. In other words, about 11-12 mn. spindles require only routine updating and replacement of some components, about 12-13 mn. spindles will require upgradation in many preparatory and back up facilities and the balance about 11 mn. spindles complete scrapping. Realistically speaking, not more than 50 percent of the obsolete spindleage need replacement if yarn demand projection for the next 5 years is the yardstick to go by. It has been observed that a significant portion of the dormant, non-viable and obsolete capacity gets re-activated during periods of buoyant market conditions, thereby de-stabilising the established market as well as the better performing quality-driven mills.

3.5.4 It is also observed that actual production potential of active spindles is much below what their numbers would seem to convey. This is because a large number of these active spindles are on very old ring frames, apart from obsolete preparatory machinery. The Committee has estimated that about 28 mn. quality spindles (ring frame equivalent) at 85 percent average capacity utilisation are adequate to produce 2793 mn. kg. of yarn, i.e., production level in 1997. The Committee has also estimated that not more than 30 mn. quality spindles and 3.6 lakh rotors will be required to meet the projected production of 3775 mn. kg. of spun yarn required by the end of 2002, as estimated by the Working Group for the 9th Five Year Plan.

3.5.5 Abid Hussian Committee report has also made recommendations for scrapping of obsolete spindles. This Committee is also of the view that in the backdrop of excess capacity in the spinning segment, old and obsolete capacity may be scrapped. It is also pertinent to point out in this context that even developed countries had to tackle the problem of obsolete equipment by providing Govt. subvention for scrapping of worn out capacity. For example, the British Govt. spent £11.2 mn. and the Japanese Govt. ¥37.7 billion for scrapping the redundant capacities in their textile industries. Similarly, Govts. of Italy, West Germany, Ireland and Spain also provided financial support for the purpose. As already mentioned in **para 3.1.4**, China has embarked upon a 3-year reform programme for revival of its textile industry. Under

the programme, 10 mn. spindles are to be eliminated. The programme envisages reduction of spindles from 46 mn. to 36 mn. and the textile workers by 1.2 mn. during the 3 year period. The Chinese Govt. has earmarked US \$ 174 mn. in the 1998 budget to fund the rationalisation programme.

3.5.6 The Committee is of the view that it is essential to eliminate unviable equipments in the textile industry, irrespective of whether they are in the public, co-operative or private sectors. Having regard to the emerging competitive environment, it is not in the best national interest to allow re-installation of the discarded and out-dated capacity. It is noted that TUFs provides for scrapping of discarded spindles. But it may not be possible to tackle the issue of excess capacity through TUFs alone, particularly since there appears to be no compulsion for scrapping of such replaced spindles. Therefore, the Govt. may seriously consider formulation of a separate scheme in this regard to suitably tackle the issue which has serious implications for the long-term health of this sector. The Committee recommends that the Ministry of Textiles may formulate a suitable scheme to scrap such redundant capacity.

Sickness and closure of spinning mills

3.5.7 Profitability in the textile industry is generally very low. Following the pressure on profit margins of spinning mills due to various factors, as pointed out in para 3.3.5, these low profits dipped further, leading to average net losses for the industry in the last two years. As a result, several mills with low labour and machine productivity combined with high costs incurred heavy losses and turned sick. A striking feature shared by all these mills which have become sick is that in the past, they have spent on modernisation only a fraction of the SITRA norm of 4 to 5 percent of the sales revenue every year. And in many sick mills, no modernisation was carried out for several years.

3.5.8 With accelerating increase in wage cost, it is inevitable that the mills with very low labour productivity would be more and more handicapped in future to operate profitably. This is because it is just not possible for them to achieve in a short time the increases in labour and machine productivity at levels enough to tilt the scales in favour of viable working. Even large investments on modernisation in such units will be of no avail in reviving and enabling them to operate profitably. Therefore, it is inescapable that such of those mills with the following conditions which characterise sickness will have to be closed sooner or later :

Financial

- Cash losses incurred during the last three years
- Wage cost exceeding 18 to 20 percent of sales turnover
- Very high interest commitment at over 10 percent of sales
- Accumulated losses exceeding the entire net worth

Operational

- Labour productivity half or less by SITRA standards (Table 3.5)
- Spindle utilisation below 75 percent (yearly average)
- Production per spindle per shift less than 65 gm. for 40s

3.5.9 In many of the co-operative spinning mills, the operating conditions are about the same or well below the benchmarks specified for closure of mills in para 3.6.7. Closure of co-operative spinning mills is a difficult decision for most governments in view of the strong opposition by the trade unions. However, some state governments have been able to get the trade union support for closure of terminally sick co-operative spinning mills by offering compensation under voluntary retirement scheme to the workers rather than under the Industrial Disputes Act. Once the workers' dues are settled, winding up procedure under the Co-operative Act can be followed with relative ease. This strategy can be considered by other state governments where sickness amongst co-operative spinning mills is of a high order. Govt. of India can consider giving interest-free or low-interest loans to the state governments to advance voluntary retirement benefits to the workers of sick co-operative spinning mills.

3.6 Export policy of cotton yarn

3.6.1 As per the existing export policy, the exports of cotton yarn in count-group 1s to 40s are restricted within a quantitative ceiling fixed for the year and the following categories of export are allowed outside the purview of the ceiling, without restriction:

- (i) Exports to Quota Countries;
- (ii) Exports by 100 percent EOUs and units located in EPZs, under ALS and against raw cotton imported under OGL by spinning units;
- (iii) Exports to the extent of minimum annualised quantum of additional export obligation (excluding the obligation towards average export performance), under EPCG Scheme; and
- (iv) Exports of processed yarn.

3.6.2 As per the policy, cotton yarn in hank form, in count group 1s to 60s is banned for export, except under ALS and by 100 percent EOUs. The quantitative ceiling for the export of cotton yarn in count group 1s to 40s during calendar year 1998 was fixed at 175 mn. kg., which has been increased to 300 mn. kg. during the current calendar year. The quantitative ceiling has never in practice restricted the cotton yarn exports as the ceiling is reviewed periodically and enhanced, if necessary, during the course of the year. However, ceiling has a psychological impact and the exporter also has to submit bank guarantee. In view of the excess spindleage capacity in the country and comfortable cotton production in the last 4 years, the Committee feels that there is no merit in prescribing quantitative ceiling on export of cotton yarn, which only acts as an irritant in the export growth. It is, therefore, recommended that quantitative ceiling

on export of cotton yarn should be removed and exports of cotton yarn placed under OGL.

3.7 **Hank yarn obligation**

3.7.1 The Committee is of the view that one of the regulations inhibiting the growth of the spinning sector is the scheme of hank yarn obligation (HYO). The production of hank yarn is uneconomical, wasteful, very much labour-oriented and impacting adversely on the economic viability of the spinning units. While assured supply of yarn to one of the most vulnerable sectors like handloom weavers is no doubt necessary, at the same time it should not be at the cost of the spinning sector, more so in the context of the on-going integration of textiles into global trade. To improve the economic viability of the spinning mills, there was unanimity in the views of the members of the Committee that HYO Scheme should be done away with, with suitable arrangements for maintaining deliveries of required quantities of yarn to the handloom weavers at reasonable prices.

3.7.2 Under the HYO Scheme, the textile mills are required to pack 50 percent of their specified varieties of civil deliveries of cotton and viscose spun yarn in hank form. It is noted that net of self consumption and exports, the quantum of hank yarn deliveries has shown a steep increase over a period of time. The deliveries of hank yarn which were 348 mn. kg. in 1989-90 increased to 490 mn. kg. in 94-95 and further to 615 mn. kg. in 97-98. The Committee was also informed that in recent years, a large number of handlooms have been converted to powerlooms, particularly in the western and southern states, though no authentic data are available since the last handloom census was conducted 10 years back in 1987-88 and results of the recent census conducted by NCAER have not been made available to the Committee. But it was variously suggested that the number of handlooms may have shrunk from 3.8 mn to about 3.3-3.4 mn. Despite the reduction in number of handlooms, consumption of hank yarn has increased. This clearly indicates that powerlooms, more particularly those run by ex-handloom weavers, are consuming hank yarn in significant quantities. In fact, a survey undertaken by the Office of the Textile Commissioner has indicated that about 39 percent of the hank yarn is being consumed by the powerloom sector for production of yarn dyed fabrics and made-ups.

3.7.3 The conversion of cone yarn to hank yarn is highly labour intensive and mills have to incur an additional cost of about Rs. 2 to Rs. 10/kg. of yarn depending on the counts spun as compared to cone yarn. Thus, the spinning mills are subjected to a huge burden. The Committee is of the view that since handloom sector can survive without the hank yarn obligation scheme, it is in the national interest to improve the economic viability of the spinning mills by abolishing the said scheme and evolving alternative schemes for providing yarn to the handloom sector at reasonable prices. One such alternative appears to be the supply of dyed cone yarn at affordable prices to the handloom sector.

Supply of dyed cone yarn to handlooms

3.7.4 The Committee was told that the handloom sector basically uses hank yarn because of the ease with which grey yarn in the hank form can be dyed. If good cone dyeing units are set up at major clusters of handlooms, and the per unit dyeing cost thereof is kept reasonable, even if marginally higher than that of traditionally dyed hank yarn (attendant with wastage due to entanglements and health hazards to the hand-dyeing workers), the demand for hank yarn will reduce significantly except perhaps for small quantities of custom-dyed special colour yarns. Currently, about 600 mn. kg. of hank yarn is produced in the country. By setting up cost-effective cone dyeing facilities in the decentralised sector, the requirement of hank yarn may be substantially reduced to the level of, say, 100 mn. kg. To meet the demand for this quantum of hank yarn, hank yarn obligation in the present format may not be necessary as there are sufficient number of spinning mills who are producing substantial proportions, or even 100 percent of hank yarn due to the quality-based premium they command in the market. The dyed yarn in the cone shall be wound by the handloom weavers on dubbas for preparing warp, and can be sized and woven on handlooms, as is usually done.

The merits of setting up of cone dyeing facilities include :

- Minimisation of yarn waste;
- Uniformity/consistency in colour shade;
- Fastness properties (with respect to washing, rubbing and light) meeting international standards;
- Quality of yarn will be superior and therefore, weavability and quality of fabrics will be much better;
- Elimination of health hazard to the hand-dyer;
- More environment friendly;

The demerits of this alternative include :

- The cost of cone dyeing will be higher due to high cost of plant and machinery;
- Power is needed to dry the yarn after dyeing which increases the cost further;
- It is uneconomical to dye small quantities of yarn;
- Displacement of a large number of workers engaged in the activity of hand dyeing.

From the long-term point of view, it is essential to adopt the practice of supply of dyed cone yarn to handloom sector since it will substantially improve the efficiency of

warping, sizing, pirn winding and weaving, reduce the waste and enhance the quality of fabric production and therefore, increase the value realisation by the weaver. It will also improve the marketability of the handloom products both in the domestic as well as export markets. In the recent years, package dyeing units have become very popular in advanced countries, and hank dyeing is slowly dispensed with.

3.7.5 The cone yarn dyeing can be done in two different capacities :

- i) Larger capacity - upto 1200 kg per day (100 kg. of yarn per vessel)
- ii) Smaller capacity - upto 350 kg per day (30 kg. of yarn per vessel)

Since the requirement of handloom weavers is in small quantities, the smaller capacity dyeing plants (upto 350 kg. per day) offer the appropriate technology for the decentralised handloom sector. It is estimated that the project cost of setting up of such smaller size dyeing units is about Rs. 50 lakh each. The conversion cost for cone dyeing vis-à-vis the existing hank dyeing unit is comparatively higher. The cost of dyeing in 350 kg. per day capacity dyeing unit is about Rs. 59 per kg. of yarn in cone dyeing unit as against Rs. 47 per kg. of yarn in hank dyeing unit. This means an additional cost of a mere one rupee per metre of yarn-dyed fabric. As a matter of fact, now low cost yarn dyeing machines are available even in 15-20 kg capacity costing as low as Rs.2.60-3.00 lakh which can dye yarn in cone, cheese or hank form. The dyeing cost in such units will be still lower. Therefore, the Committee recommends that Govt. may carry out a comprehensive feasibility study for setting up of such units in the decentralised handloom and powerloom clusters. The excise revenue realised from the stopped revenue leakage to powerloom weavers after the abolition of the hank yarn obligation, which is in the range of Rs.150-160 crore per annum (though continuing the exemption for voluntarily produced hank yarn supplied to handloom weavers) could be utilised for setting up of cone dyeing facilities at substantially subsidised costs. Govt. may formulate a suitable time bound scheme of, say, 3 years for the purpose and in the interim, the HYO scheme may continue in a declining format to be completely abolished on achievement of the desired cone dyeing capacity. It is noted that dyeing units are covered under TUFSS, but there may be need for further incentives to facilitate setting up of such units which are highly capital intensive in the handloom clusters. To incentivise setting up of cone dyeing units by private entrepreneurs, professional associations/co-operative societies or groups of spinners, it is recommended that financial norms under TUFSS may be further reduced for this activity appropriately.

3.7.6 Since the cost of machine-dyed yarn would be higher, this disadvantage could be juxtaposed against the benefits available from the use of machine dyed yarn. The Committee also realises that it would be difficult, if not impossible, to persuade handloom weavers to change their conventional method of hand dyeing and go in for machine dyed yarn. The Committee, therefore, feels the necessity of creating 'awareness' amongst the handloom weavers with regard to the benefits of the machine dyed yarn. One of the ways by which such awareness can be spread among handloom weavers is to set up 'Education Centres' in different parts of the country, particularly in places of handloom concentration. The said 'Education Centres' may function under

an apex autonomous body (Trust), with members co-opted from the mill sector, TRAs, handloom sector, DC(HL) office and Textile Commissioner's Office. The local weaver's service centres (WSC) or IIHT, wherever available, should also be associated. Since removal of hank yarn obligation will lead to considerable saving and improvement in efficiency for the mill sector, mill sector can be persuaded to contribute towards initial 'corpus' of such a Trust.

3.7.7 The Committee is of the view that the displaced workers in hand dyeing activity can be absorbed by the growing activities in the down stream segments, particularly clothing activity. Some of them could form co-operatives to operate machine dyeing units.

Cones to be converted to hank by weavers

3.7.8 An alternative recommendation which, if implemented, could reduce the burden of hank yarn obligation of the spinning mills is the supply of cones to the weavers for conversion by the weavers themselves. The broad features of the proposed scheme are given below:

- In this scheme, it is envisaged that mills may produce only cone yarn and the requirements of the handlooms can be met by converting the cones to hanks by the 'master weaver' or a co-operative society of the weavers in a common shed.
- The overall conversion cost of hank yarn per kg. at the hands of handloom weavers will be less by about Re. 0.60 in 20s to Rs.5.80 in 100s count.
- An appreciable improvement could be expected in the quality of handloom fabrics and working of handlooms.
- Depending on the number of handlooms in a rural area, the required number of reels can be located in a common shed on a co-operative basis. Even hand-operated reels can be used where power is not available.
- Installation of efficient modern reeling facility could be financed from a suitable scheme to be formulated for the purpose. Govt. could do away with excise duty exemption on hank yarn and provide 100 percent govt.-funded reeling centres with all the equipments, which will be run by the service co-op society. For the master weavers, the govt. funding could be 50 percent or 75 percent.

3.7.9 This alternative will have the advantage that there will be more employment generation and improvement in the yarn quality. The Committee has noted that the Abid Hussian Committee had also made a recommendation for organising reeling of hank yarn at decentralised locations near handloom clusters. It is not known why Govt. has not implemented such a scheme. Additionally, the handloom weavers themselves or the reelers or the society/association as the case may be can set up the

small dyeing machines referred to in para 3.7.5 to get their desired dyed yarn to save themselves from the tedium and hazards of hand dyeing.

3.7.10 The Committee is strongly of the view that in the era of globalisation, there is an urgent need to free the spinning mills from hank yarn obligation to enable them to become cost competitive. Hence, either of the schemes outlined above may be adopted for the purpose.

3.8 Wool top making and spinning of woollen, shoddy and worsted yarn

3.8.1 It is noted that the basic problem faced by the wool top, woollen/ shoddy yarn and worsted yarn manufacturers is their dependence on imports for their raw material requirement and the high rate of customs duty on such imports. The worsted yarn sector almost entirely imports their requirement of Merino wool with 15 percent basic rate of customs duty. The shoddy yarn manufacturers also import their entire requirement of synthetic/woollen rags with 25 percent basic rate of customs duty. The woollen yarn manufacturers are also importing significant quantities of carpet grade wool for mixing, with indigenous wool for production of better quality carpet yarn. The Committee is of the view that there is a need to augment the indigenous availability of raw materials for the woollen sector. There is also a need to reduce the customs duty structure on such imports in view of nil or negligible indigenous availability of such raw material in the country. This issue has been discussed in detail in the chapters relating to "Raw material" and "Fiscal policy and structure".

3.8.2 The Committee has also observed that there is a need for modernisation of pre-spinning activities like carding and scouring. The coverage of such activities under TUFs would result in upgradation of technology of such important segments of the woollen industry.

3.9 Silk reeling and spinning

3.9.1 India has the distinction of being bestowed by nature with all four varieties of silk, viz., Mulberry, Tasar, Eri and Muga. India is also the second largest producer of silk in the world contributing about 18 percent to the total world raw silk production, though way behind China which contributes over 70 percent to the world total. Still, India has not been able to exploit this advantage to the desirable extent. One of the reasons for the same is that reeling is in the unorganised sector and the technology adopted is primitive.

3.9.2 The processing of silk waste to produce spun silk yarn and noil yarn, which was confined till 1984 to 3 public sector mills, has also spread to private sector mills. The total installed capacity of public and private sector mills is 46,480 spindles for production of spun silk yarn and 7450 spindles for noil yarn.

3.9.3 It is noted that investments made by entrepreneurs/industrial houses in the post-yarn sector do not usually include any element of backward integration or linking with the reeling and twisting sectors. Unlike production of most textile fibres which is

"industrial" in the way normally understood, silk fibre production in India is spread over a variety of reelers and reeling devices without comparative quality standardisation. It has been found convenient by the post-yarn sector to spread the risks and inconvenience of generating silk yarn onto those in the reeling sector whose existence is largely on the margin, despite its skills and crucial nature. This has been an impediment to the absorption of available technology for the production of international grade yarn.

3.9.4 It is also noted that the agencies which deal with silk industry in the pre-yarn and post-yarn areas in the states and in the Govt. of India are usually not the same, and the degree of co-ordination between these agencies in taking a cohesive view of the situation needs a great degree of improvement.

3.9.5 The Textile Policy of 1985 has mentioned that "efforts shall be made for the development of technology in reeling". The Committee feels that the said recommendation of the Textile Policy of 1985 still holds good, probably more so in today's competitive world where there is a greater urgency for upgradation of technology in reeling so as to improve the quality and cost competitiveness of silk fabrics in the international markets. The Committee has noted that silk reeling has been covered under TUFs and expects the silk reelers to avail of the benefits under TUFs to improve their technology level.

3.9.6 Developing high-yielding bivoltine races more suitable to India's climate and resistant to local diseases is a pre-requisite for the development of filature silk in the country. Importing bivoltine cocoons is not feasible on a long-term basis. Therefore, indigenous production of bivoltine cocoons is absolutely necessary to feed the requirements of a modern silk reeling industry.

3.9.7 State level mechanism for the co-ordination or integration of activities of the Director of Handlooms and the department looking after sericulture, it is noted, must be necessary for unity of perspective and purpose. Co-operation is necessary between institutions under the Ministry of Textiles like NHDC and CSB for the supply of yarn to silk enclaves of non-traditional states, between the Weavers Service Centres (WSC) and the Central Silk Board Technological Research Institute (CSTRI) for providing technical services on degumming, dyeing, finishing etc.

3.9.8 In the committee's view the Govt. intervention by way of facilitation is required in the following areas :

- i) Creation of infrastructure for clustering of reeling and weaving activities.
- ii) Conceiving and establishing silk industrial estates for quality processing in the post-yarn stages with financial management and participation of the industry.
- iii) HRD, and HRD assistance, particularly in new technology areas.

CHAPTER – 4

WEAVING

4.1 Introduction

4.1.1 One of the most important segments of the value chain of the textile production that needs immediate and focussed attention to provide the ‘competitive edge’ to the value added textile products is the ‘weaving segment’. The weaving activity is predominantly concentrated in the decentralised sector and thus suffers from attendant disadvantages and handicaps in terms of low quality and technology, limited ability to absorb technology upgradation etc. normally suffered by any activity carried out in the decentralised sector. The two reasons for concentration of weaving activity in the decentralised sector are : (a) past govt. policies restricting the capacities of organised industry in the pre-liberalisation era and fiscal policies prescribed by the Govt. and (b) somewhat inward looking policies of the organised industry. Due to the Govt.’s restrictive policy in the initial years after independence, the mill sector was not allowed to expand and its growth was stymied. The handloom sector, though protected and strategically encouraged by the Govt., could not meet the clothing needs of the masses as desired and projected, thus leaving the decentralised powerloom sector to grow to fill the vacuum for meeting the clothing needs of the country. By the time the subsequent liberal Textile Policy of 1985 unshackled the organised (mainly composite) mill sector for capacity expansion, the competition from the vastly grown decentralised and widely dispersed powerloom sector in terms of competitive pricing (if not quality) had virtually killed the scope and incentive for a competitive resurgence of the organised weaving sector.

4.1.2 Only the few export-driven and niche-market-oriented mills did go in for strategic weaving modernisation/expansion while most others chose to confine their modernisation/expansion to the relatively SSI-insulated spinning sector because spinning even now requires an integrated, technology-oriented and larger economic size oriented investment unlike the high dispersability of the weaving activity. The fact that there are today 1510 stand alone spinning mills with 24.87 mn. Spindles and a mere 200 exclusive weaving mills with barely 17000 looms also underscores the same stark reality. Thus, while the decentralised powerloom sector found the environment most congenial for its spatial expansion, the growth of the sector is only in overall size and not in terms of quality, finish and technology. This sector grew primarily due to low cost and low overheads, all of which was not always legitimate. A part of the sector thrived, to some extent, due to labour exploitation, compromise on safety standards, evasion of local taxes, electricity charges etc. Many of these units are owned and operated by the traditional handloom weavers and their families and are not geared towards modernisation. The share of the mill sector in production of cloth which was 74 percent in 1951 gradually eroded, so much so that at present, the decentralised sectors, i.e., powerloom, handloom and hosiery sectors account for

about 95 percent of the total cloth production of around 36,000 mn. sq. mtrs. per annum (Table-4.1).

4.1.3 While growth of decentralised powerloom sector per-se was not undesirable, the protection given to hidden inefficiency and low technology, by way of distorted fiscal policy measures, import restrictions and restrictions on new capacity creation in the organised sector was detrimental to the health of the textile industry in general and weaving sector in particular. Heavy social obligation costs in terms of 'controlled cloth scheme', 'hank yarn obligation scheme' were other contributory factors for negative growth of the mill sector. Though some of the mills in the organised sector, inspite of all these impediments, continued to make investments with emphasis on modernisation and created 'islands of excellence', most of the other textile mills became indifferent to textile activities and diverted funds to other lucrative activities, resulting in speedy decline of the organised sector. Growth of the powerloom and hosiery sectors in the SSI led to a consequential and similar growth in SSI processing units. Most of the cloth produced in the decentralised sector, not being good and also not requiring top quality processing facilities, coupled with Govt.'s lopsided fiscal policies, led to the growth of independent processors with low technology. Simultaneously, the mill sector, except for the few export- or niche-market-driven units, stopped investing in modernisation and technology upgradation, particularly in an uninformed consumer scenario where price and not quality was a dominant and deciding factor in purchase decisions. The fact that average grey powerloom fabrics fetch less than one-third the price of average grey mill fabrics in the export markets and that its processed fabrics fetch only as much as grey mill fabrics and less than 50 percent of processed mill fabrics clearly brings out the vast quality difference in the powerloom and mill sector fabrics.

4.1.4 The handloom sector which suffers from inherent disadvantages in terms of production, productivity, adaptability and price-competitiveness has continued to receive attention from the Govt. However, its share in the cloth production which was around 25 percent in 1951 has declined over the years to 14 percent now (Though in absolute terms the production of handloom fabrics has increased by about 230 percent from 1508 mn. sq. mtrs. in 1951 to 4952 mn. sq. mtrs. in 1997-98). The knitting sector, though a century old, has achieved accelerated growth only during the last about two decades due to its emergence from the confines of hosiery to the fast growing fashion knitwears. Today, it accounts for about a 17 percent share in the national cloth production. (Table-4.2). The scope for high value addition and attractive export potential in the knitwear sector has of late attracted some big players into the knitting sector inspite of its reservation for the SSI and consequential 50 percent export obligation on non-SSI entrants.

4.1.5 The Committee has examined in depth the problems faced by the different segments of the weaving sector and has recommended measures to provide thrust for harmonious development of all the segments, i.e., mills, powerlooms, knitting and

handlooms. The proposed measures aim at removing the irritants to harmonious growth and improving the quality and other related aspects to provide 'comparative and competitive advantage' to the value added textile products to withstand the competition both in the world market and local market and accelerate export growth.

4.2 **MILLS**

4.2.1 It is an acknowledged fact that the composite sector has intrinsic strengths in terms of economies of scale, higher productivity, superior technology, better technical and skilled man power and integrated working, and has the capability to supply high value added, superior quality goods both for domestic and overseas markets. This sector is best suited to monitor quality parameters at all levels right from selection of raw material to finishing and packaging of final products. In the context of globalisation, thrust on quality standards and insistence on eco-friendly textiles, the role of composite sector assumes special significance. Effective action, therefore, needs to be taken to remove the impediments and irritants hampering its modernisation and growth.

Technology upgradation

4.2.2 As already stated in preceding paras, the organised sector has not shown any keenness to upgrade loom facility either through replacement or by way of green field projects. There is considerable backlog of modernisation in the weaving segment of the mill industry. In contrast to the modern and sophisticated looms of major textile manufacturing countries, such as China, Korea, Taiwan and Indonesia which, during the last decade have installed shuttle-less looms numbering about 67,500, 80,800, 30,400 and 30,200 respectively, the number of shuttle-less looms in Indian mill industry is barely about 7000 which also includes a fair share of second hand ones. This constitutes a bare 5 percent of the total looms in the mill sector at 1.24 lakh. as against the world average of 16.83 percent, not to speak of other countries like Italy, U.K., France, Germany, USA, Korea and Hongkong, which have the said ratio in the range of 85 percent to 98 percent. Weaving machine performance has been increased in the last decade to an extent which has exceeded the boldest expectations. In addition to that, specific types of markets have arisen for the individual weaving processes: air jet and water jet machines for staple products, rapier looms for fashion fabrics and specific technical woven fabrics; the projectile weaving machine has become a type of speciality machine, and is competitive virtually only as a twin fabric loom. The projectile weaving machine is otherwise too expensive. In tandem with the invention of super-strong and super-special yarns like tencel, liocel etc., speciality fabric looms are also coming into the fore. Added to these weaving processes is multi-phase weaving. With this, a new weaving era is imminent. With the launch of TUFSS, it is expected that the mill sector would take maximum benefit of it to maximise the advantages of integrated operations, multi-stage value addition and production/product flexibility by upgrading its technology and acquiring state-of-the-

art technology to strengthen its position in the domestic weaving sector and making its presence felt in the international textile economy. Mills may also increasingly make use of information technology to improve their production processes, productivity and marketing operations.

4.2.3 The Committee has recommended the minimum level of technology in weaving activity as semi-automatic looms for the SSI powerloom segment. Therefore, it is logical to recommend at least one higher level for the mill sector, i.e., automatic looms for mills as the minimum level of technology. The mill sector may be encouraged to scrap all their ordinary looms. The share of loomage of public sector mills in the total loomage in the mill sector is about 45 percent, with most of the plain looms in the mill sector being in the NTC mills. The Committee recommends that the Govt. must take the hard decision to scrap all such looms so that those cannot be resold to the powerloom sector for a meagre short-term profit or even by way of incentivising outgoing workers.

4.2.4 Modernisation is a continuous process. As per an ITMF study, to remain modernised and technologically upto-date, a unit should spend about 7.5 percent of its sales turnover every year in modernisation alone. In the emerging scenario of free competitive and globalised trade, mills will have to make concerted efforts to continue modernisation as an on-going process even if at a more moderate rate of say, 4 to 5 percent and not at the rate recommended by the ITMF study. The Textile Policy of 1985 as well as the Abid Hussian Committee have recommended for providing thrust for the modernisation of textile mills. This Committee fully endorses this recommendation.

Management practices

4.2.5 Alongwith technology upgradation, adoption of modern management practices is also very essential to acquire competitiveness. In other words, a technology that is not developed in-house is potentially accessible to all competitors and therefore does not provide a distinctive advantage to a firm. However, managerial practices together with design inputs that are uniquely designed to take advantage of technology can be copied less easily and hence provide unique competitive advantage. Management practices like JIT, TQM, Supply chain management etc. form an important link between technology adoption and competitiveness. The mill industry would have to develop some distinctive capabilities to compete in the emerging global scenario. Units around the world develop different kinds of capabilities that allow them to perform well in the face of severe competition. In the long run, a competition between firms is a 'contest of competencies'. Units whose competencies are more robust and more distinctive tend to gain more than others. It would be units with these kinds of capabilities who could aspire to stand competition both in the domestic and international markets in a few years from now. Some illustrative examples of how

firms around the world have been acquiring the distinctive capabilities are listed below:

- German manufacturers have implemented “lights out” weaving for 24 hours where weaving machines are loaded with weft packages and computers adjust weaving speeds to optimize yarn speeds.
- Japanese and American plants are using TQM practices like Design of Experiments for optimizing weaving practices.
- In Indonesia, one operator works 48 looms and shares the profits stemming from them. Because of top class weaving preparatory, loomshed is operated at night without factory lighting.
- Firms are using “looming robots” to setup looms, load and unload them and to transport the cloth to the stock room.
- Quick response to innovative design demands/suggestions.

Other areas required to be addressed by the Indian mill industry include cut down in manufacturing and delivery lead times, improving product and process quality and improving plant and equipment maintenance. It is noticed that production cycle times in Indian plants are almost twice of those in Honkong or Korea. Most firms do not follow any scientific approach to shop floor planning and control, thereby leading to poor coordination between processes and consequential longer lead times. Planning tools like MRP or JIT are almost non-existent in most Indian textile plants. There is a lot of scope for improving on these factors by introducing appropriate shop floor planning and control systems.

Corporate governance

4.2.6 Management accountability through a stricter code of corporate governance is very much essential for healthy industrial relations and corporate growth. Since corporate entities are increasingly relying on public funds through small investors and financial institutions, it is essential that the management is accountable for its action. Direct mis-application or defrauding of corporate funds must be restrained through stricter statutory provisions and also restructuring of boards of the mills through adequate representation to independent and reputed non-executive professional directors. It is recommended that Govt. may consider constitution of a panel of such professional directors of high repute and integrity for ease of choice by mill managements.

Conducive labour laws/exit policy

4.2.7 The organised sector is facing serious problems due to restrictive labour laws and industrial policies, including exit policy. As a matter of fact, unduly over-

protective or one-sided labour laws tend to restrict employment potential and restrictive exit policies act as a drag on healthy units and the economy. Conducive labour laws and rational exit policy are essential for corporate growth and optimisation of national resources. Such issues are discussed in detail in the chapter on 'Industrial Relations'.

Mills in metropolitan cities

4.2.8 Most of the mills in the metropolitan areas are in financial difficulties because of obsolete technology coupled with comparatively high overheads, particularly high wages. At the same time, they are sitting upon valuable real estate. These mills are also a serious nuisance to the general population of these cities because of transport of materials by heavy trucks and containers and also because of noise, air and water pollution. Such mills being mostly composite, they tend to consume a substantial quantum of water for processing activity, thereby straining the municipal water supply system. It is recommended that these mills should be permitted to shift to rural areas where they can get better space, open atmosphere and affordable labour. Most of the finance for this purpose can be obtained by selling the land in the cities. A few years back, the Supreme Court had directed the textile mills functioning in Delhi to relocate themselves outside for de-polluting the city. A uniform govt. policy is needed on this issue. Most of the mills located in metropolitan cities are sick. With generation of funds by sale of land asset, such mills can be modernised and revived. A govt. policy can be formulated for systematic shifting out of such mills. They could shift either as self contained composite units with weaving and/or knitting or even more desirably, into the clusters of powerlooms with full freedom for restructuring. For example, in powerloom clusters, relocated mill may operate only spinning or spinning with yarn processing/ weaving preparatory, or only processing or both spinning (preferably with yarn processing/weaving preparatory) and processing activities to cater to the requirements of the powerloom sector, which today have no access to good quality weaving preparatory or processing. Such relocation will be of mutual benefit and socially desirable. Though land is essentially a state subject, given the magnitude and multi-locational nature of the mill land problem, there is a strong case for an urgent national policy thereon. Hence, the Committee strongly recommends that the Union Govt. take a lead in evolving a national policy and a suitable central legislation to tackle the problem of mills in metropolitan cities on a nationally uniform and rational basis.

NTC mills and STC mills

4.2.9 At present, there are 119 NTC mills. Most of these mills are lying closed for a long period, but due to the Govt.'s inability to take hard decisions, huge amounts are spent on idle wages every year. It is not possible to revive all the NTC mills. A perusal of the revival packages formulated over the years indicates a steady decline in the number of revivable mills. Therefore, it is recommended that the NTC mills

which are potentially viable should be revived by the Govt. and the remaining mills closed down with provision for reasonably attractive terminal benefit payment to the workers through sale of land asset. Gujarat Govt. has successfully adopted this route for closure of state owned textile mills. The point to be stressed upon is that quick decision has to be taken by the Govt. Already so much time and govt. resources have been wasted on artificially propping up the non-viable, sick NTC mills. Given the complexity of the land disposal issue and the huge annual drain on the exchequer on account of idle wages, it will be eminently desirable to delink the issue of closure of unviable mills from that of land disposal and pay off the workers through a time-bound closure. The Committee feels that the capitalised value of the annual idle wages would be adequate for such severance payments. The assets can be disposed off in due course, particularly since at present the real estate prices are highly depressed. Another alternative has been recommended to close down the non-viable mills and retire the workers and pay the salaries applicable on the day of closure of mills till the day of retirement, with no restriction on the worker from taking an alternative job if he wishes to. The assets can be disposed of as soon as possible. This alternative will, in fact, reduce the losses incurred by the non-viable NTC mills for keeping the mills running. The Committee would, however, recommend the former as it provides a clean break and no tedious accounts keeping for long years. The states could also adopt this strategy for their unviable STC mills.

4.2.10 The Committee was told that some of the revivable mills can break-even even now if a small amount of working capital is injected and strong management accountability enforced. However, care must be taken to treat finances of such mills separately and not divert funds to other mills for payment of salary by the subsidiary company. This sounds reasonable as an interim arrangement to sustain viability of such mills which otherwise may become unviable by the time Govt. takes a decision. Govt. may examine this issue expeditiously.

4.2.11 It is recommended that to revive the potentially viable NTC mills, such mills be privatised. Some members of the Committee were of the view that unless the private entrepreneurs take up the management of the NTC mills, it may be difficult or even strategically undesirable and unwise to revive such mills.

Closure of mills

4.2.12 In any big Industry, there will always be a few units lying closed at any point of time. However, in the textile industry, the problem of closure and sickness has been more acute. As on 31st March '99, there were 313 textile mills lying closed in the country with an installed capacity of 7.49 mn. spindles, 60,000 looms and 3.11 lakh workers on their roll. Out of these 313 mills, only 55 mills are legally closed. Due to the restrictive provisions in the I.D.Act, the units which could have been legally closed down have not been given the permission by the concerned State Govts. resulting in illegal closure of such mills. The Committee has recommended for

liberalisation of chapter V of the Industrial Disputes Act, 1951 (ID Act.) which would subject the mills to "rational and easy exit policy" and would curtail the practice of illegal closure. These issues are discussed in detail in the chapter on 'Industrial Relations'.

Sick mills

4.2.13 The Govt. has set up the Board for Industrial and Financial Reconstruction (BIFR) to tackle the problem of sickness in industries, including textiles. The mandate of the BIFR is to revive the potentially viable mills through rehabilitation packages and close down the mills which are not potentially viable. In the Committee's view, the BIFR in its present form has not succeeded in achieving its objective. It has neither been able to close down the non-viable mills nor to revive the potentially viable mills. The reasons for the same are two fold : the long drawn procedure under the BIFR and lack of powers with the BIFR to enforce its decisions on various concerned parties associated with rehabilitation packages. As a matter of fact, unscrupulous managements use the immunity offered by the BIFR mechanism to renege on all payment liabilities and exploit the assets of the firm, leading it towards inevitable non-viability and eventual closure. The Committee is of the view that with the easy exit policy as recommended in this report, the BIFR will become redundant. The management and lender(s) may decide on revival or closure of the mill, considering the options available.

4.2.14 The definition of 'sickness' may be modified to cover the cases of 'potential sickness' and a strong mechanism may be set up to monitor the health of the textile mills so that the potential sickness is detected in time and remedial measures are taken by the Govt. to prevent the unit from falling sick. The Estimates Committee (12th Lok Sabha) in its 'action taken report' has recommended that suitable institutional arrangement may be made to maintain data regarding detection of sickness at the incipient stage and to initiate suitable preventive measures to minimise/arrest sickness. The norm of potential sickness could be formulated by the Govt. in consultation with the Textile Research Associations and AIFIs. A strong mechanism for monitoring the health of the textile mills can be set up in the office of the Textile Commissioner by strengthening it in terms of an adequate data base and qualified and experienced man power. For this purpose, the office of the Textile Commissioner may assume the role of 'friend, philosopher and guide'.

4.3 POWERLOOM SECTOR

4.3.1 There has been tremendous growth in cloth production by the powerloom sector over the last few decades, more particularly since the early 80s. The number of powerlooms has also doubled during the last 12-13 years. There were about 8 lakh looms installed in the year 1985-86. The number has increased to about 16 lakh currently. As per the present estimates, the powerlooms also contribute about 57

percent of the cloth production in the country. Though there is some doubt about the method of estimation of cloth production in the decentralised sector, the fact remains that the powerlooms produce maximum quantum of cloth as compared to other sectors. Under the present system of estimation of cloth production in the decentralised sector cloth is estimated on the basis of prescribed conversion ratio and deliveries of yarn. Conversion ratios were prescribed a decade back on the basis of production pattern prevailing at that point of time. It is also assumed under this system that all the cone yarn delivery is consumed by the powerloom sector while hank yarn is entirely consumed by the handloom sector. In actual fact, it is not so and a major chunk of hank yarn is consumed by the powerloom sector. A survey undertaken by the Office of the Textile Commissioner has revealed that about 39 percent of the hank yarn delivered is consumed by the powerloom sector while only 0.44 percent of the cone yarn delivered is consumed by the handloom sector. It is understood that the office of the Textile Commissioner is in the process of revising the method of estimation of cloth production in the decentralised sector. A committee has also been constituted to revise the conversion ratios. After the finalisation of the conversion ratios based on the current production pattern, the estimation of the cloth production by the different segments in the decentralised sector can be worked out in a more appropriate manner. The tentative estimates, based on the hank yarn consumption by powerlooms and cone yarn by handlooms, show that the share of powerloom sector in cloth production will increase from 57 percent to 63 percent while that of the handloom sector will decline from 20 percent to 14 percent.

4.3.2 Though there is a quantum jump in the production of cloth by the powerloom sector over a period of time, the quality of cloth leaves a lot to be desired. There has been almost no technology upgradation in the powerloom sector over the last 40 years. Though precise data regarding the level of technology and different types of looms installed is not available, it is estimated that only about 3000 shuttle-less looms including a substantial number of second hand ones are installed in the powerloom sector. Most of the looms installed in the powerloom sector are ordinary plain looms. This is the main reason for production of low quality fabrics in the powerloom sector. The Committee is firmly of the view that the plain looms installed in the powerloom sector should be dis-mantled or upgraded in situ into semi-automatic status to enable this sector to withstand the onslaught of cheap imports in the wake of the integrated global textile trade. To recommend policy intervention, powerloom sector has been broadly categorised in the following manner:

Tier-1 Powerloom units with shuttle-less looms;

Tier-2 Powerloom units with automatic looms;

Tier-3 Powerloom units with semi-automatic looms;

Tier-4 Powerloom units with ordinary looms;

4.3.3 The Committee is of the view that in the liberalised / globalised economy of intense competition, tier-4 which is no more than mechanised handlooms will be completely wiped out, unable to meet the competition. Therefore, the powerloom units falling under tier-4 having ordinary looms should graduate to tier-3 of semi-automatic status. In tier 4, there are about 3 to 4 lakh narrow width looms (below 140cms.) which cannot be economically converted into semi-automatic looms and need to be scrapped and replaced. Out of the remaining 12 lakh wider width plain looms, about 40-50 percent may be old and in need of replacement while the balance can be upgraded in situ at a reasonable cost so as to produce defect-free fabric. Therefore, the policy with regard to tier-4 powerloom units should be guided by the following:

- (i) Powerlooms units with looms > 140 cm. width be encouraged for in situ upgradation since such units can be covered under TUFs. The TUFs has provided for in situ upgradation of plain looms of a minimum 140 cms width to semi-automatic looms with or without dobby/jacquard. The cost involved in such upgradation is about Rs. 15000 per loom without dobby/jacquard.
- (ii) Powerlooms < 140 cm. in width be scrapped and replaced by semi-automatic looms. Such looms need to be completely eliminated by full conversion to tier 3. Similarly old, obsolete wider width plain looms, which cannot be upgraded economically also need to be scrapped. Since the cost involved for scrapping and replacing the looms with semi-automatic looms is estimated at about Rs.80,000 per loom, the powerloom weavers need to be provided with incentive to go in for the same. However, TUFs does not seem to cover replacement of existing plain looms by semi-automatic looms. While it is desirable that new units or additional looms come only from automatic or shuttleless category, a special dispensation for existing obsolete, plain looms of whatever width is as deserving as in situ upgradation of existing wide-width looms. It is, therefore, recommended that old, obsolete plain looms irrespective of width also be covered under TUFs for replacement by semi-automatic looms with or without dobby/jacquard, and in view of the substantial fund requirement for such wholesale replacement, for such conversion 50 percent of the margin money requirement may be provided by the Govt. with zero percent or nominal interest. Such govt. loan component may be repaid to the Govt. along with the TUF loan repayment during the last four years of TUF repayment schedule in 16 equal quarterly instalments. The funds for this margin money may be disbursed through the TUFs lending mechanism and also recovered the same way.

The Committee also recommends that in order to disincentivise obsolescence, those who do not avail of this facility should not be provided any support after a suitable cut-off period.

4.3.4 Given the general financial status of the powerloom weavers, it is unlikely that many semi-automatic or automatic looms will be replaced by shuttleless ones. Therefore, the development strategy should aim at maximum in situ upgradation or replacement of plain looms in a time-bound manner, say, in 5 years, and accretion of new automatic and shuttleless looms to upgrade the fabric quality without substantial employment disruption. Such a strategy would ensure that we have enough capacity to produce upto twice as much fabric as now from the same loomage size through higher productivity. The Committee would, therefore, recommend legal restriction on further installation of any plain looms. The benchmark technology for new/additional looms should be semi-automatic status (automatic under TUFS) with or without dobby/jacquard. This will ensure at least defect-free fabric production. Even handloom weavers and their children being ushered into powerlooms (discussed later in the handloom part in detail) should start at this level or higher level of loom technology.

4.3.5 Needless to say, a proactive action plan to identify the plain powerloom weavers desirous of upgrading their technology and to guide them in bankable project formulation and implementation thereof under TUFS will be necessary. The Union Govt., State Govts. TRAs and PDEXCIL etc. must put their heads together to bring about this gigantic operation into fruition. More importantly, with upgradation of technology, the input, output and market profile of the weavers will also undergo substantial or even drastic changes. Thus, the weavers graduating to semi-automatic looms would need training and other infrastructure support in terms of design input, finance input and marketing support etc. Likewise, Weavers of 2nd and 3rd tiers graduating to next higher level will also need similar support. The present PSCs are, in the Committee's opinion, adequate in number and coverage to provide this service. But their technical manpower and infrastructure facilities need to be augmented to take care of incremental training, consultancy, testing, design development and dissemination services. It is also essential that PSCs provide on-site incremental training to the weavers. The weavers graduating to next higher level may be trained in PSCs for upgraded technology level. The training courses of about 3 month's duration may also be thought of on upgraded technology looms for new workers. For this purpose, the Committee recommends that all the PSCs be upgraded in terms of felt needs within the next 3 years, together with additional technical manpower support as may be necessary.

Demonstration projects

4.3.6 As long as the domestic market is cost conscious and demands are price-elastic, powerloom operators find little reason to invest in modernisation or produce quality

fabrics. A study recently conducted by the National Productivity Council on modernisation of powerlooms has observed that for at least next two decades, loom operators are not expecting any change in the market behaviour and confident to manage the situation with their traditional looms. The Committee views this smugness in the backdrop of ensuing globalisation of textile trade before 2005 with concern and considers it as a complete misreading or ignorance of the globalisation process or its likely impact. Unless the Govt. changes these perceptions through some policy initiatives, majority of the powerloom operators may remain complacent and contribute little to speed up the pace of modernisation, perhaps getting marginalised or eliminated in the process. To increase the level of awareness among the powerloom weavers, Govt. may accord top priority to establishing demonstration centres to demonstrate the positive effects of loom modernisation. These centres could be located at the powerloom service centres.

Ancillary facilities

4.3.7 The modernisation of powerlooms will result in higher productivity and better capacity utilisation of the units. This will necessitate creation of additional facilities for yarn preparation, warping, sizing, cone winding, finishing, dyeing etc. The future strategies, therefore, should aim at creation of matching facilities on centralised basis. The modernising units should be encouraged and activated to set up common input facilities and marketing setups by taking advantage of the relevant provisions in the TUFs.

Consolidation of powerloom units

4.3.8 Due to the govt. policies of the past, which encouraged fragmentation of the decentralised powerloom sector into small units, the powerloom units are overwhelmingly small, the average being four looms to a unit. The Committee has noted that most families have multiple units holding 12 looms or more. It is desirable to incentivise such family-held powerloom units to consolidate into a single bigger unit of 12 looms or more which will facilitate their absorption of the benefits of economies of scale and also enable them to avail of the benefit of organised credit facility which is mostly denied to them because of fragmented small nature of their units. Though the import quota system imposed by the western countries will go away in the next five years, the Committee would recommend to link it with consolidation of powerloom units to encourage the process of consolidation. Accordingly, 50 percent of the PEE quota should be allocated to individual powerloom units of 12 looms or more and not for family holding of 12 looms, in order to encourage consolidation of the fragmented units. The balance 50 percent should be earmarked for co-operative societies of powerloom weavers in order to encourage co-operativisation in this sector, which is not taking place at present but desirable in the interest of long term health of the sector. This, in turn, will facilitate modernisation, production flexibility and cost savings, thereby improving competitiveness and

financial health of the individual units and co-operative societies. Since there is hardly any unit with fewer looms which exports its own fabrics for export against PEE quota, this policy change is unlikely to affect genuine powerloom weaver-exporters adversely.

Preparatory facilities

4.3.9 Another major weakness of the powerloom sector which results in low quality of powerloom fabrics is the non-availability of high-tech preparatory facilities. The Govt. has recognised and covered weaving preparatory facilities as a distinct activity under the TUFs. It is thus expected that this would facilitate setting up of co-operative or independent weaving preparatory units with modern high-tech facilities. Given the over-capacity in the spinning sector, the Committee is of the view that spinning capacity expansion should be generally discouraged and such expansion, if any, through TUFs must be linked to down stream value-addition, including weaving preparatory. Such linkage will augment availability of top quality sized warp beams, particularly in the powerloom clusters while easing the pressure on over capacitated spinning sector.

Fluctuation in yarn prices

4.3.10 The Committee was informed that yarn price fluctuation affects adversely the working of the small powerloom weavers. The Committee is, however, of the view that improvement in yarn availability and intensification of the competitive forces in the global economy coupled with policy interventions recommended by the Committee would stabilise the yarn prices to a great extent. Besides, in a market-driven economy, the different segments must learn to live with such ups and downs. The price control mechanism through statutory regulation is not justified in the liberalised scenario and hence, not being recommended. However, the recommendation for setting up of powerloom service co-operative societies (para 4.3.12) will definitely have a sobering effect on the fluctuation of yarn prices and therefore, highly recommended.

Credit availability

4.3.11 The working capital needs which are quite huge for the powerloom sector need also to be taken care of. At present, most of the powerloom production is in the hands of master weavers who, in turn, sub-contract to small weavers. The working capital is provided by master weavers or cloth traders, and small powerloom weavers have little access to organised credit. Thus, the individual powerloom weavers are totally at the mercy of master weavers, with no bargaining power and the real profit goes to the master weaver or cloth trader. The small powerloom weaver gets only job work charges. There is, therefore, an urgent need to evolve an integrated strategy to provide access to the powerloom weavers to adequate working capital. Co-operativisation of powerloom weavers, setting up of powerloom service co-operative societies and

consolidation of family holdings and encouraging financial institutions to provide working capital against group guarantee and hypothecation would ease the problem considerably.

Powerloom service co-operative societies

4.3.12 In the decentralised powerloom sector, the experiment of establishing co-operative societies has not succeeded mainly due to high capital cost and high working capital requirement, necessary for establishing such business oriented societies. There are small units with 1 to 12 powerlooms each in which either the owner or his family members are engaged. The powerloom owners have to depend on master weavers, yarn merchants and cloth traders who purchase the cloth from the weavers for meeting their working capital needs. These powerloom weavers are often exploited as they have to pay high rate of interest or work on meagre job charges for the master weaver/merchant. In order to solve this problem of the powerloom industry, the Abid Hussain Committee had recommended setting up of service co-operative societies of powerloom weavers to facilitate joint input sourcing and output marketing on professional lines. The weavers would continue to own their looms while being members of the society. The Committee envisages the following role for the service co-operative societies.

- (i) Input provider : The members will submit their requirement of yarn to the society which, in turn, will purchase the yarn in bulk and distribute it amongst its member. The members will manufacture the fabrics.
- (ii) Marketing : The members after manufacturing the fabrics may also hypothecate the same to the society till such time it is sold by the latter. This will help save the weavers from the present compulsion to sell the fabrics immediately on production to pay to the yarn merchants at the earliest to avoid payment of high rate of interest. The weavers will be able to realise reasonable and steady price for their fabrics by selling through the service co-operative society. Such a system will have a salutary effect on stabilising the market prices of yarn and fabrics which fluctuate heavily, adversely affecting the weavers. Service co-operatives may also encourage members to become fabricators for the mill sector jointly. This will result in upgradation of technology and better quality control in production of fabrics by such members.
- (iii) Assistance for credit proposal : The service co-operatives will assist the members in preparation of project proposals for obtaining loan (cash credit or term loans) from the banks.
- (iv) Manufacturer-exporter : On a long term basis, service co-operatives should encourage their members to become direct exporters but in the

interim period, service co-operatives/ registered professional associations of such weavers should be treated as manufacturer exporters and not merchant exporters to enable them to get the PEE quota and its attendant export benefits. Moreover, the service co-operative societies should be treated as 'export house' under EXIM policy and eligible for benefits thereunder. Any society getting national or state level award for excellence should be treated as 'Star Export House' for export purposes.

- (v) Processing facilities : The service co-operative societies may also be encouraged to set up preparatory and processing facilities under TUFS for the captive consumption of their members to ensure better sales realisation for powerloom fabrics. Such facilities are already covered under TUFS.

4.3.13 The Committee recommends that SIDBI should encourage formation of service co-operative societies of weavers in the decentralised powerloom sector starting with the major clusters and finance them on the pattern of the one existing at present for financing agriculture service co-operatives by NABARD.

Powerloom Service Centres (PSCs)

4.3.14 The Textile Policy, 1978 had recommended for setting up of Powerloom Service Centres (PSCs) to enable the powerloom weavers to improve their skills in regard to maintenance of equipments, design development and quality of weaving. As on date, there are 43 PSCs established in various parts of the country with one more sanctioned for being set up in Madhya Pradesh by a state govt. agency. Out of these, 13 PSCs are under the administrative control of the Textile Commissioner, 29 PSCs under the various Textile Research Associations and one PSC under the administrative control of the Andhra Pradesh state govt. agency. The changing global trade scenario and increasing competition makes new demands on the PSCs, ranging from clarification on Exim Policy to upgradation of the technical know-how. The looms on which PSCs impart training to the weavers are very old and generally don't match with the existing machinery of the area. With the coverage of powerlooms under TUFS, the powerloom sector is expected to improve its technology spatially in a big way. This would increase the demand on PSCs to provide training on the latest looms. The Committee has also recommended for a time-bound elimination of the 4th tier and conversion of plain looms to semi-automatic looms. In such a scenario, the role of PSCs assumes greater significance. Therefore, there is a need to strengthen the PSCs in a more structured and time-bound manner in terms of high-tech looms, man power and other infrastructural facilities on a war footing within the next 2 to 3 years. Trainers in the PSC's should also be properly trained on high-tech looms to enable them to impart effective training to the weavers. The PSCs should focus on 'out-reach' activity by providing 'on-site' training to the weavers. PSCs should be provided with appropriate computer configurations with internet connectivity to have access to the

website of 'NIFT Textile Design Centre' and other 'websites' for information on fashion and design intelligence. PSCs should have 'on-line' connectivity with Economic Research and Market Intelligence Unit (ERMIU) of the Ministry of Textiles to have access to latest upto date information on production, market trends etc. PSCs should also disseminate to the powerloom sector information on production, market, fashion trends and other related information. PSCs having CAD centres should also subscribe to fashion journals, fashion catalogues etc. to disseminate relevant information to the powerloom weavers. Depending on the production profile, production turn over and level of sophistication, value addition etc. of their catchment area, the PSCs should be graded into 3 grades and the infrastructure, manpower and service facilities should be provided appropriately. Accordingly, the fund requirement of each PSC should be reassessed carefully and provided accordingly. In the areas of concentration of knitting activity, the powerloom service centers may be converted into composite powerloom and knitting service centers to cater to the felt needs of knitters along with powerloom weavers. Such centers may accordingly be strengthened in terms of required equipments, machinery and manpower. If no such PSC exists in a particular area, then an exclusive knitting service center may be set up on the lines of PSCs to service the knitting sector in that area, with appropriate infrastructure and manpower. To motivate PSCs to aggressively market their services, a suitable incentive scheme could be devised on the basis of services provided.

Upgradation of PSC laboratories

4.3.15 As far as textile testing by laboratories under the PSCs is concerned, most of the PSCs are having only physical testing facilities and no chemical testing is possible due to the absence of required equipments and trained knowledgeable personnel. Most of the tests are to be carried out as per BIS standards in the conditioned atmosphere. The PSCs do not have air-conditioned laboratory. Unlike the organised mill sector, the small powerloom units cannot afford to have their own testing facilities and perforce, depend on the PSC laboratories for such facilities. Thus, the upgradation of PSC laboratory is an important programme for giving comprehensive test service support to the powerloom sector. Therefore, the Govt., inter alia, has initiated the process of upgrading the existing laboratories of PSCs (including provision for eco-testing facilities wherever warranted). The Committee, however, recommends that the work of upgradation of testing laboratories must be accelerated to enable the powerloom sector to cope with the increasing demand for better product quality and higher productivity, apart from meeting the eco-standards.

Computer aided design centres

4.3.16 To facilitate the creation of new designs, improvement of the designs and production in keeping with the fast changing global fashion trend, the Computer Aided Design (CAD) system plays a vital role. So far, the Govt. has set up 20 CAD centers in the PSCs and WSCs in major textile centers in the country. It is necessary

to set up more such centers in the areas of powerloom concentration, more particularly the export oriented ones.

4.3.17 **Welfare schemes**

(a) Work shed-cum-housing scheme

Powerloom weaving by and large is a family affair. The Powerloom sector, spread all over the country, has tiny units mostly concentrated in certain pockets and states of the country. The working environment and living conditions of many of these powerloom weavers is pathetic. They often do not have appropriate housing, sanitation, water supply and proper working environment. It is understood that the Govt. is working on a workshed-cum-housing scheme for the powerloom weavers. Experience with handloom sector has shown that due to impact of noise pollution, housing combined with workshed is not a viable or desirable proposition. The problem will be more acute in case of powerlooms. Hence, this scheme as it is conceived now does not seem feasible or necessary. Instead, the focus should be on relocating the workshed in case of powerloom weavers operating from house. Workshed can be covered under TUFS. A separate suitable scheme may be formulated for development of textiles parks and relocating the looms in the proposed 'textile parks', which will have all the infrastructural facilities. The Andhra Pradesh Govt. is promoting textile and garment parks, which can be replicated in other states based on felt needs.

(b) Powerloom workers' group insurance scheme

Govt. has introduced a group insurance scheme for powerloom workers under which the worker is insured for Rs.10,000 on a yearly premium of Rs.120 to be equally contributed by the Govt. of India, state Govt. concerned and the worker. The insurance benefit gets doubled in case of death by accident. The scheme has not been a success and the coverage is only a few thousands. The Committee was informed that the scheme is administered by the Ministry directly through the state govts. It is not understood why the scheme has not been given to the field organisation, i.e., Textile Commissioner to administer it. In the Committee's opinion, the scheme needs to be thoroughly revamped, terms and conditions including insurance coverage redrawn and administered through the Textile Commissioner who can better co-ordinate with the workers, state govts. and the insurance company. Govt. should take urgent steps accordingly. This has been discussed in detail in the chapter on 'Industrial Relations'.

Export of fabrics by associations & co-operative societies on behalf of powerloom weavers

4.3.18 The powerloom units being small find it extremely difficult to export their fabrics directly. Most of the powerloom fabrics are exported through merchant

exporters. Even the PEE quota meant for encouraging direct export by weavers is seen to have been misused by merchant exporters in the garb of clubber-shippers. The weavers are reportedly given a few hundred rupees for their quota certificates. As a result, the small powerloom units who are manufacturing fabrics are not able to get any export benefits including duty free imports of their raw material. A request was made to the Committee to recommend increase in the PEE quota. However, given the level of misuse and the fact that PEE quota entitles the exporter to PPE quota next year in addition to new PEE quota, the Committee is not in favour of a larger quota. The Committee was informed that Textiles Committee is examining the utilisation aspect of the PEE quota. If rampant misuse is detected, the Committee would, in fact, favour a suitable reduction in the quota commensurate with genuine direct export potential together with adequate steps to stop the misuse. Realistically speaking, as of now it is only the top end of 5 percent or so units who can aspire to produce and export cloth. On a long term basis, individual powerloom weavers should be encouraged to become direct exporters and PEE quota may not be given to powerloom weavers below tier 3. However, this may take some time to materialise. Therefore, the PEE quota system may be directed for the next 2 years in the following manner :

Total (PEE) quota, of which :

Primary or service co-operative societies and registered associations of at least 11 powerloom units.	50 percent
1 st , 2 nd and 3 rd tier powerloom units with a minimum of 12 looms	25 percent
4 th tier power loom units with a minimum of 12 looms	25 percent

After 2 years, the share of the 4th tier will get merged with that of the higher tiers. This recommendation, it is hoped, will encourage consolidation of family units, co-operativisation and technology upgradation in the powerloom sector while eliminating manipulative merchants. It is also recommended that powerloom weavers may be encouraged to export through the service co-operative societies and registered associations and provided with market development assistance (MDA).

Protection against import of cheap fabrics

4.3.19 With the scheduled dismantling of the trade barriers, the import of textile fabrics, particularly the cheap fabrics will have severe adverse impact on the domestic industry, specially the powerloom sector. There is a provision in the WTO to protect the indigenous industry from such cheap imports by imposition of specific duty on imports of fabrics. The Govt. may examine this issue and prescribe such duties consistent with WTO stipulations at an early date. In addition, 'deemed export status' to the indigenous fabric manufacturers supplying to garment exporters, availability of

concessional packing credit and other export benefits to make the local fabrics more competitive as a source for garment exporters is also recommended. 'Deemed export status' will encourage the indigenous fabric manufacturers to upgrade technology and improve quality to compete with imported fabrics.

4.4 **KNITTING SECTOR**

4.4.1 Hosiery knitting has a presence in the Indian textile economy for over a century. Still the growth rate of this segment accelerated only in the last two decades or so, primarily because of expansion of hosiery into fashion knitwear segment. However, reservation of this sector for the SSI irrespective of its limitations has stymied the modernisation and growth of this sector. While volume-wise our knitwear exports have grown steadily, due to low value-addition and stagnation in the undergarment groove, we have not done well in value terms in the export market. The policy intervention of the Govt. in the knitting segment can be on the following lines :

De-reservation of hosiery and knitting items

4.4.2 In order to withstand competition in the emerging integrated global economy, the knitting sector should be encouraged to install new generation machines like rachel knitting, warp knitting, circular knitting and fully fashioned knitting machines to achieve high productivity and improvement in product quality, value and range. Installation of computer controlled laser/electronic cutting machine and other such high-tech machines would reduce losses to a great extent and improve competitiveness in terms of cost as well as product quality. This is only possible if hosiery and knitting sector is dereserved from small-scale sector as these machines are very expensive and mostly outside the capability of SSI units. Secondly, since knitwear trade is now driven by short duration fashion seasons, there is virtually no market for knit fabrics as importers/big retail store chains prefer to procure finished knitwear. This necessitates integrated knitting and knitwear units or large knitting units catering to multiple knitwear exporting units. Besides, many SSI knitting units who have established themselves would also like to grow to reap the benefits of economies of scale and introduce high technology. This point was especially emphasised by the representatives of the SSI knitting manufacturers and exporters during the inter-active sessions with the Committee. Therefore, the Committee very strongly recommends that hosiery and knitting sector may be removed from the purview of SSI reservation without any further loss of time if India has to be a global player in knitwear sector.

Knitting service centre

4.4.3 At present powerloom service centres have been set up in different parts of the country to provide basic services like training, modernisation and technical consultancy, design inputs, testing services etc. to powerloom sector. However, for the knitting sector no such service centres have been set up by the Govt. inspite of its

reservation for SSI. It is, therefore, recommended that powerloom service centres may be converted into powerloom and knitting service centres in the areas of concentration of knitting/hosiery activities. The existing PSC's may be strengthened accordingly in terms of infrastructure, equipments and manpower. In case powerloom service centre does not exist in the area of knitting concentration, independent knitting service centres may be considered for setting up in view of the fact that knitting has developed so much in the recent past that it deserves independent knitting service centres also.

Technology upgradation

4.4.4 There is also an urgent need to upgrade the technology of the hosiery/knitting sector to withstand the competition in the domestic and export market and accelerate the export growth. Hosiery and knitting machinery have been covered under the TUFs to facilitate further technology upgradation. The fiscal levies on such machines may be further reduced to facilitate their absorption by the hosiery/knitting units and enhance their international competitiveness. The Committee recommends that high-technology machinery not produced indigenously or produced negligibly should be permitted to be imported at 'zero' duty, while medium technology machinery may attract concessional import duty.

Infrastructure support

4.4.5 Hosiery and knitting sector also needs support in terms of design and fashion input, commercial intelligence etc. to improve their marketing prospects in the face of shortening fashion seasons, just in time (JIT) sourcing and increasing global competition. The Committee recommends that garment and knitwear parks either independently or as a part of 'textile parks' may be set up with all the infrastructural facilities. State Govts. should take the lead and the Ministry of Textiles may provide the necessary backup including infrastructure development assistance. In the textile park, all stages of production from spinning (only with inhouse investment in down stream value added products), weaving/knitting, processing, garmenting etc. may be covered to make such parks 'self contained'.

4.4.6 The Govt. may set up information technology (IT) booths in the areas of concentration of hosiery knitting activity with computer and internet facility etc. to enable the knitters to avail of the benefit of information on Internet, particularly access to the website of NIFT and other such agencies handling fashion/design intelligence etc., Electronic media like CD's, floppies etc. with latest trend forecasts and designs may be kept in such booths to increase their access to such information to the knitting industry.

4.5 HANDLOOM SECTOR

4.5.1 The Handloom industry in the country has shown reasonable growth in the past. In terms of employment potential, it is only next to agriculture and it is estimated that it provides employment to 124 lakh persons working on 38 lakh looms. Of these, 60 percent are women, 12 percent SC and 20 percent ST. The sector has a large

presence in the textile industry in as much as it produces an estimated 20 percent of the total cloth produced. These are the official statistics. However, the Committee has doubts regarding the figure of 38 lakh looms which was as per the last handloom census carried out in 1987-88. Since then, a large number of handlooms have been converted into powerlooms, particularly in the South. Similarly, the estimation of its share at 20 percent in cloth production is doubtful in view of the faulty system for estimating cloth production in the decentralised sector as already discussed in para 4.3.1. The NCAER has recently carried out a joint census of handlooms and powerlooms but the report is yet to be submitted. The Committee recommends that the data base with regard to handloom sector should be strengthened for better planning and policy formulation and execution of handloom development programmes.

4.5.2 The Textile Policy of 1985 has stated that the distinct and unique role of handloom sector in weaving technique should be preserved. To this end and to enable handlooms to realise their full potential as also to ensure higher earnings for handloom weavers, the policy had recommended certain measures like development of handlooms through co-operatives and corporations, greater emphasis on modernisation and provision of technological inputs for improving productivity, quality and finish to improve marketing of handloom products, infrastructure of marketing complexes, training of marketing personnels etc. and steps to be taken to upgrade technical, managerial and administrative skills of personnel employed in the handloom sector. The Abid Hussain Committee appointed to review the progress and implementation of the 1985 Textile Policy had recommended intensive technology input and welfare measures and also a professional approach, with enhanced marketing training for personnel. Further, recognising the immense potential of exports, the Abid Hussain Committee had mentioned that there is a need for innovation in marketing and designs in this field. The said Committee also recommended setting up of effective institutional mechanism to provide a new deal to the handloom weavers. The elements of the new deal were : focus on weavers, area based promotion, result oriented institutional infrastructure for implementation and search for new organisational forms for target oriented handloom promotion. The Mira Seth Committee in 1996 had also recommended for strengthening of the handloom sector through provision of timely and adequate credit, technology upgradation, human resource development and appropriate R. & D. interventions wherever required. All the recommendations made by Textile Policy 1985, Abid Hussain Committee and Mira Seth Committee with regard to strengthening the handloom sector through technology upgradation, human resource development, marketing support and R. & D. intervention are still valid and need serious consideration for implementation. However, certain recommendations made by the Textile Policy of 1985 and aforesaid committees for providing artificial support to the handloom sector through Handloom Reservation Order, production of Janata Cloth and fiscal concessions to reduce the cost handicap vis-à-vis other modes of textile production need to be reconsidered and changed in view of the emerging economic and global trade scenario.

4.5.3 The growth of handlooms in the country has been in the warm confines of protection and support. As competitive market economy takes over and walls of international trade barrier crumble, the sector has to find ways & means of standing on its own. It is not to say that protection and support is not required. Protection is required because the heritage of the country needs to be protected and support is required to offset the inherent cost handicap of the sector. However, in the days to come, the support should not be in the form of crutches for the sector but as a stimulant to make the sector vibrant, self-reliant and sprinting. The support systems must provide for preservation of the exclusiveness and the magic of hand-woven intricate designs of handloom fabrics. The focus of the policy and support system for handlooms, therefore, should be to enable the weaver to stand up on his own and face the competition in the domestic and international market and improve export prospects.

4.5.4 Changes in the economic scenario naturally necessitate change of focus in all economic activities, including handloom weaving. Since it is around the skills of the weaver that all other handloom related activities revolve, the focus of the policy should be the development of the handloom weaver. There is need to build a new paradigm for development of weavers based on their felt needs. The development paradigm would mobilise and organise handloom weavers for their socio-economic development. The weaver knows best what is good for him, but can do precious little in this direction because of his rather poor economic condition. Hence, there is a need to plan for convergence of activities which improve the economic condition of the weaver in the field – as this is the only way to sustain employment in the handloom sector. This is particularly true for those weaving low value items or the 'Janata' variety of cloth, as he is bound to face an unequal competition from the powerlooms.

4.5.5 The Committee has categorised the handloom weavers in the following 3 categories with a view to recommending appropriate policy interventions to strengthen this sector:

1st tier – Weavers producing unique, exclusive, high value added items with strong linkage to heritage with intricate designs and improvised technology which can not be replicated on other modes of fabric production and have excellent export potential. Such weavers have the necessary weaving skills but lack infrastructure support of design input, credit input and marketing support.

2nd tier – Weavers producing medium priced fabrics and made-up articles from not-so-fine counts of yarn. Such weavers are vulnerable to competition from the powerloom sector and cheaper inputs and thus, need support in terms of design input, technological input and marketing input so as to upgrade them, in due course, to the 1st tier.

3rd tier – Weavers producing plain and low cost textile items which can be easily replicated on powerlooms in a more cost effective manner. This includes the weavers engaged in the production of 'Janata' cloth.

They are the most vulnerable to competition even today and live at a below-subsistence level.

4.5.6 The Committee is of the view that the 3rd tier of the handloom sector will not be able to withstand the onslaught of cheap imports in the free trade regime and therefore needs to be dismantled. The weavers of this tier and their progeny need to be provided with alternate avenues of livelihood. The least painful conversion would be perhaps to convert them into either skilled weavers' in co-operative or commercial 1st tier handloom units or powerloom weavers of 3rd tier with semi-automatic looms as already discussed in the preceding para 4.3.3. But since such looms will have relatively less 'man to machine' ratio than handlooms or even plain powerlooms, other avenues, viz., made-up/garment manufacturing (as workers or converters for large manufacturers/exporters), hank yarn reeling, dyeing/processing, retailing etc. must also be explored. For conversion into the 3rd tier of powerloom, the handloom weavers ought to get the same support as envisaged for the powerloom weavers, i.e., 50 percent of the margin money with 'zero' or nominal rate of interest repayable in 16 equal installments in the last four years of repayment schedule under TUFS. The weavers of the 2nd tier will need design input, marketing and other infrastructure support to upgrade themselves to 1st tier for meeting the challenges of liberalised economy. The weavers of the 1st tier will require to be further strengthened to enable them to tap aggressively the export market and withstand the competition of imported items in the domestic market, through strategic placement of their products in appropriate niche markets. Hence, the objective of the policy should be to strengthen the 1st tier weavers and provide adequate support to the 2nd tier in order to graduate to the 1st tier. The aim of the policy basically should be to prepare the sector to face the imminent competition as a result of opening up of the market and move out those that cannot cope with the competition to other more viable options.

4.5.7 In a nut shell, the basic focus of the policy ought to be to strengthen the 1st tier of the handloom weavers and provide adequate support to the 2nd tier to graduate to 1st tier. The 3rd tier of the weavers will have to be converted into powerloom weavers of the 3rd tier of semi-automatic loomage or alternate better avenues. It is also felt that the 3rd tier of handloom weavers may perhaps have to be converted into the 3rd tier of powerloom in stages. In the 1st stage, he should be encouraged to become a powerloom worker enabling him to learn the skills of powerloom weaving. In the 2nd stage only, he should become powerloom owner/weaver when he is confident of running the loom and managing the business on his own. To implement this policy option, action plan has to be prepared which should, inter-alia, include identification of the handloom weavers of the 3rd tier for conversion and also providing adequate facilities to the weavers in terms of training, design input etc for smooth transition from handloom to powerloom activity. However, change is difficult to come by, particularly when an artisan has got used to a particular style. Therefore, the Govt. has to carefully scrutinise the change, anticipate the likely fallout of such conversion and prepare contingency plans and also other job avenues for the weavers who are not ready to convert to powerloom weaving. When the weaver is over 45-50

years of age, a greater emphasis on the progeny rather than on the weaver would perhaps be more practical and successful.

4.5.8 The co-operatives have been found to be the best form of institutional mechanism to carry and convey the Govt. assistance to the targeted people. The co-operative structure as such has served reasonably well. It was working admirably as long as its role was limited to input supply and output marketing. Notwithstanding the several steps taken, the coverage of weavers by co-operatives has been stagnant at around 25 percent. The co-operative sector too, over the years, is becoming increasingly sick. Along with the co-operatives, other forms of organisations of weavers should be recognised to carry and receive the govt. assistance. The sector needs to develop a system whereby assistance is provided to these weavers through the corporations or association of weavers or even by recognising the entity of master weavers and regulating their activities. The self-help groups of weavers seem to be an equally desirable form of organisation for the purpose. The IRDP scheme could also be linked with cluster approach for handloom area development.

4.5.9 Generally, the handloom weavers remain tradition bound and are averse to change. This is so because of their socio-economic conditions and also because of their lack of knowledge about the current trends in the fashion market. For more than five decades, the handloom weavers have remained spoon-fed through govt. schemes and they continue to look upon the Govt. for anything and everything. This kind of mind set among the weavers has to be changed. As the handloom weavers generally have a creative sense in them, with proper and adequate communication, they will definitely understand what is needed to be done to improve their lot. Accordingly, awareness among the weavers about the latest trend in the fashion market and the impact of globalisation and import penetration should be created through proper education in simple language through appropriate medium. The continued efforts of the Govt. or the agency nominated for the purpose would definitely enable the weavers to adopt and adapt to marketing changes, design and product changes and commercial viability aspects to develop new products and reposition them in appropriate niche markets in order to maximise their returns.

Welfare schemes

4.5.10 Presently, all the development and welfare schemes intended for handloom weavers are implemented with the budgetary support of the Central and State Govts. under the plan schemes. But for the sustained implementation of welfare schemes like House-cum-Workshed Scheme, Group Insurance Scheme and Health Package Scheme, the socio-economic conditions of the handloom weavers would have been miserable. Though the benefits of these welfare schemes reach the handloom weavers directly, many of the handloom weavers who are producing goods for lower end of the market and getting low wages do not get the benefit of the schemes, especially due to their low repaying capacity. Both the Central and State Govts. have been providing substantial assistance to the handloom weavers under the scheme of modernisation of handlooms, with the objective of facilitating the weaver to increase productivity and

thereby increase his remuneration. Modernisation of looms means changing the pit loom into frame loom or providing dobby or jacquard and other appliances on the looms. No doubt, the modernisation of handlooms with dobby, jacquard and other appliances have increased the productivity of weavers, bringing more wages with less dexterity. This has been possible only where handloom weavers have adequate space in the dwelling house of the weavers. Mostly the weavers are living in huts and their main living space is beneath the warp mounted on the loom. Thus, the space constraint limits the modernisation of loom process, ultimately leaving the weaver without any material benefit from out of the developmental schemes. This calls for earnest and accelerated implementation of the House-cum-Workshed Scheme for all handloom weavers on a priority basis.

4.5.11 Again for implementing the weavers' housing scheme, owning a plot in the name of the weaver is a pre-requisite. Though traditionally handloom weavers are living in rural areas, a substantial number of handloom weavers do live in urban and urban agglomeration areas where the cost of land is prohibitively high. The weavers in these areas are, therefore, not able to purchase and own a house site and accordingly, are deprived of their rightful share in the scheme. Further, they are economically ruining themselves by paying exorbitant rent for their dwellings. With little savings, they cannot even dream of owning a house site. It is, therefore, recommended that an Infrastructure Development Fund may be created from where financial assistance may be extended to the weavers for purchase of house sites and making them eligible to get assistance under weavers' housing scheme.

4.5.12 The Committee is of the view that the existing welfare schemes for the handloom weavers are sufficient and therefore, not recommending any additional schemes for the welfare of the handloom sector. Currently, the schemes/reliefs are mainly confined to the co-operative fold and the weavers outside the co-operative field are not able to avail of the benefits of such schemes. Besides, the scheme are too fragmented to make the desired dent. Therefore, the Committee strongly recommends for consolidation of the existing welfare schemes and their universal coverage of weavers across the board. Consolidation of the schemes could be along the lines of raw material sourcing, production process related support (technology, design, dyeing, printing etc.), marketing and welfare schemes. The Committee was informed that since DC(Handlooms) depends on the state govt. agencies for their implementation, the schemes often do not achieve the desired results due to indifferent implementation or non-utilisation of funds. This is a disturbing situation. The Committee, therefore, recommends that the Govt. may thoroughly review the present operational strategy to ensure that the benefits reach the handloom weavers and if necessary, restructure the mode or timing of release of funds to reimbursement basis or even appoint alternate agencies including NGOs.

Technology upgradation

4.5.13 Considering the state of primitive technology practised in the handloom sector, a need for superior technology appears to be irrefutable in pre-weaving and

weaving process to ensure quality production. Unwinding from hanks for preparation of warps, spool and the weft pirn, peg warping and manual sizing of warp yarns which involve as much time as the weaving operation itself need to be mechanised and where warp sizing has to be resorted to, supply of sized beams to weavers needs to be encouraged. Thus, it is imperative that quality function starts from the raw material stage itself.

4.5.14 Each area with more than one cluster of handloom concentration has almost specialised in weaving of one or two products. The production of end product on handlooms is also, to certain extent, decided by the pre-loom and on-loom services available in the cluster area. Thus, the pre-loom and post-loom services available in clusters also decide the products and product mix. Establishing such quality service centres for providing pre-loom and on-loom services to the weavers would definitely help orienting the products of handlooms towards market needs. But in the entire gamut of fabric production activity, the hitherto neglected and a grey area is the pre-loom and post-loom processing facilities. They are essential items of work in weaving activity determining the quality of products and ensuring reasonable wages to the weavers as these costs form a part of the weaving wages. Besides, this facility will reduce locking up of funds and result in effective utilisation of working capital of the weavers' societies. The role of apex societies should not be confined to marketing of fabrics alone but should include provision of pre-loom and post-loom service facilities to the weavers in cluster areas to ensure quality of the fabric. The above service centre will also facilitate conversion of cone yarn into hank for the benefit of weavers in the area. This will provide rural employment to a certain extent.

4.5.15 Warping, sizing and wet processing are the main pre-loom activity. Traditionally, warping and sizing were carried out locally by trained outsiders. The process of dyeing is being carried out by weavers also. Due to the exodus of such native people, the handloom weavers generally tend to get ready-made warps to be mounted on the loom. The traditional system of common pre-loom facility is therefore not followed. In most places, the warping and sizing facilities are not easily available to the handloom weavers. In the case of wet processing, this facility is available in only about 30 percent of the primary societies and the rest get their work done from private dyers. Resultantly, not only do the weavers pay a very high wage for warping and sizing but also wait for a longer period as demand for such services is more than the availability. Moreover, there are ample chances of replacing the quality yarn with substandard material and the poor quality of processing by private dyers both in terms of fastness and depth of colours. Modernising the entire process will reduce the cost, improve the quality, quicken the process and result in increasing the wages of the weavers.

4.5.16 There have been concerns about use of eco-friendly azo-free dyes. The handloom sector depends largely on pre-dyed yarn. There have been some efforts towards developing eco-friendly dyes and chemicals. However, the development and production on a commercial basis and wide spread availability of eco-friendly dyes has to be ensured. Vegetable dyes are among the best bet for the handloom sector.

There is a need to popularise and also ensure quality vegetable dyes alongwith dissemination of information to the weavers so that they are able to adopt the usage of such dyes.

4.5.17 The major on-loom activity in weaving is pirn winding which is normally done by the members of weaver's family. In the conventional method of pirn winding, much labour and time is wasted adding to the cost. When sufficient number of family members are not available, weavers utilise the services of outsiders by paying higher charges. The other activities, such as repairs and replacement are attended to by the private parties and since these facilities are not readily available to the weavers, they have to wait for a longer period to undertake this work.

4.5.18 Handloom by its very nature is not amenable to any substantial technology upgradation. Hence, high productivity cannot be a feasible objective. Marginal improvements in the loom to ease the discomfort or tiredness of the weaver, or weft insertion or fabric quality can reasonably be aimed at. Therefore, the emphasis has to be on improved, innovative and unique design inputs and value addition through high quality processing and finishing. The processing can be at the yarn stage for yarn-dyed fabrics or at fabric stage for grey fabrics. For this purpose, the Committee recommends the same strategy as recommended for the decentralised powerlooms, namely, upgradation of processing facilities together with common ETP etc. through common service co-operatives or associations by taking full advantage of the TUFs.

4.5.19 In view of the above circumstances, it is recommended that 'service centres' may be set up to provide pre- and post-loom facilities at one place so that the product quality improves, thereby ensuring better price for the product and better wages for the weaver. Such centres should provide the following facilities:

- a) The centre will undertake warping, sizing, conversion of cone into hank, all wet processing including cone yarn dyeing, hank yarn dyeing and azo-free processing with effluent treatment plant (ETP)/ common ETP conforming to the requirements of pollution control norms.
- b) Provide worksheds for carrying out repairs, mechanised pirn winding, accessories, tools and on loom training etc.
- c) Provide special finish depending upon the product, stitching, knotting etc.
- d) Testing of yarn and cloth both physical and chemical could also be undertaken by these centres if there is no other test house in the area.

Besides the cost of setting up such common facilities, the administrative aspect of who will set up and run these facilities has also to be settled. In this context, the Committee recommends that apex societies and professional associations must be assigned a major role for this. It shall not be their role only to arrange for (partial) marketing support, they shall also be enjoined with the responsibility of setting up such processing units as common-service-facilities for their members. While the

approach can be to encourage big and medium primaries to set up such facilities themselves as auxiliary units under them, it shall remain the responsibility of apex societies and associations to fill up the gaps. It is also recommended that the Tamil Nadu model of statutorily requiring the primary, central and apex societies to contribute a certain percentage of their net profit to a 'corpus fund' centrally managed and administered by the state level Co-operative Union may be adopted by other states. Funds so available can be utilised for setting up common service centres.

4.5.20 The Committee was informed that the WSCs at Vijayawada and Bangalore have achieved a technological breakthrough in handloom technology to reduce the weaver's fatigue and improve the fabric quality and productivity. The Committee was further informed that the Andhra Pradesh Govt. has proposed to launch a massive programme for assisting the handloom weavers in modernising their existing looms and acquiring modern looms. Under the programme, 5 modifications/additional attachments/changes in the looms developed by the Weavers' Service Centers are proposed to be popularised. The improvements in the looms include: raised pitloom, jacquard saree loom, solid border saree loom, multiple weft butta design loom, and two treadle jacquard loom. The improved looms will promote appropriate skills and increase the productivity and production of value added items, thereby increasing the earnings of the weavers. The Committee, therefore, recommends that other State Govts. may also try to emulate the example of Andhra Pradesh Govt. by encouraging the Weavers' Service Centres to bring about effective changes in the handlooms or adopt the A.P. technology which may result in improving the skills and productivity of the weavers. Such type of modern handlooms may also be popularised through a massive awareness programme.

Product development

4.5.21 Weavers' Service Centres (WSCs) and Indian Institutes of Handloom Technology (IIHTs) under the office of the Development Commissioner for Handlooms (DCHL) provide the basic R. & D. support base. However, they have been serving their purpose only in a limited way and often duplicate their efforts. They need to be used as trend setters in finding new technology and providing appropriate design inputs. WSCs should strive to develop new designs, new fabrics and new products having market acceptance and commercial viability. For example, the exclusive and exquisite designs on cotton and silk sarees available in different parts of the country could be adapted to produce exclusive made-ups and blended sarees. Gradually, all WSCs/IIHTs may be provided with CAD and CAM systems. Intensive training should be given for their use. WSCs/IIHTs may also run training programmes on CAD/CAM. NID and NIFT may introduce a new course on Handloom Textile Designing. DC(HL) office may be associated with projects on handlooms to be executed by the students of NIFT/NID. In nut shell, R & D, design intelligence, testing, training & HRD support should be provided by WSCs and IIHTs. If WSCs and IIHTs co-exist in any particular center, the IIHT can take over the WSC's work and the WSC may be shifted to another place on the felt need basis. This will avoid duplication of efforts and maximise the usage of scarce resources.

4.5.22 Handloom sector being highly decentralised, is placed at a position of disadvantage in organising production of handloom products in tune with the needs of the market which change virtually from season to season. Today, the market is changing too fast and remains highly fashion-oriented and it is becoming increasingly difficult for handlooms to adapt at such fast pace to the changes in the market place. There is hardly any market intelligence currently available to the handloom weaver or marketer. A Research and Development Centre should be established to accurately forecast the demand for handloom products well in advance, and to organise production according to the changing tastes of the market-both domestic and export. Collecting and processing of commercial intelligence should be the prime objective of the centre.

4.5.23 A Product Development Fund should also be set up to meet the cost of developing new products with wide spread application of computers and information technology. While a section of handloom weavers still remains conservative and less amenable to change, their enterprising counterparts in other areas do enthusiastically take up diversification of products whenever the market demands or is perceived to demand so. Continuous response to the changing market conditions and weavers themselves orienting their products towards market needs need to be encouraged. It calls for cross-cultural inter-area visit of the weavers to upgrade their technology and design input.

4.5.24 Currently, the time lag between the identification of new and traditional designs, colour forecasting based on fashion trend bulletins, the process of loom preparation and conversion and development to actually achieving commercially viable production is a frustratingly slow and haphazard process. Streamlining this by a computer based R & D Centre would help the industry to orient their products towards the updated market. The proposed Design Intelligence Centre of NIFT, it is recommended, should dedicate a part of the centre to feeding and educating the handloom sector for converting trend forecast and design intelligence into viable product ideas and eventually marketable products, all within the limited time available. It should be linked to the R. & D. centre recommended in para 4.5.22. For this purpose, a strong institutional linkage among NIFT, DCHL, WSCs/IIHTs, ACASH and apex societies is a must.

4.5.25 The apex societies should have their own computer aided design centres and mini handloom production units with 10 to 12 handlooms. These looms to be operated by the technically qualified persons should be engaged in developing various products designed as a result of market intelligence and the results disseminated down the line through the extension staff. Weavers should also be trained at these centres.

4.5.26 Eventually the apex societies should aim to connect the R & D centre with the production units (at least the commercial ones) through a computer network facilitating easy communication of designs developed and sort out the working problems faced in execution of the project in the field. This would, if meticulously

planned, reduce the time lag between the development of products and the date of production of finished fabric.

Marketing

4.5.27 The handloom sector should be geared up to meet the challenging requirements of the market and the policies proposed should, therefore, have provisions for adequate infra-structural facilities such as design development, transfer of technology through product development, feedback borne out of market surveys and studies etc.

4.5.28 The logic of economic liberalisation will, sooner or later, involve the elimination of subsidies for handlooms, even if the social need to protect the handloom sector is not likely to disappear in the foreseeable future. What the handloom sector should look for then is not the continuation of financial subsidies but institutional support for modernisation of looms, product development, timely dissemination of market intelligence, production process technology support, training, support for adoption of vegetable dyes in lieu of chemical dyes, testing facilities, design input in innovative patterns of weaving, and marketing.

4.5.29 One of the major reasons for present ills of the sector is that there is no proper linkage between the market requirements and the production centres. Adequate steps should be taken to ensure provision of proper forward and backward linkages for the handloom sector. To achieve this, schemes for skill upgradation of weavers and technology upgradation of production processes with stronger support of techno-economic expertise from input sourcing to marketing should be considered.

4.5.30 One major effect of trade liberalisation and the consequent revitalisation of the industry is certainly going to be a new look market place. Fabrics with product designs, improved wearing quality with superior finish will certainly command a greater market which is already influenced by the consumers and the least by producers. Niche marketing demands consistency in quality, fashion confirmity and to certain extent price of the product. It, therefore, calls for constant market feedback, innovation and quick adaption. Thus, commercial intelligence is of vital importance to niche marketing. Lack of market intelligence is the major problem of the handloom sector. The basic problem in marketing is the decentralised nature of the industry. The inherent weakness is that it has been carrying on production largely without references to the market trends, consumer tastes, and in isolation from technical developments.

4.5.31 Intricate designs and quality par excellence are required to be maintained to strengthen the marketing potential of handloom products. This calls for periodical change of designs and product development to suit the needs of fashion conscious market. This is where the designer steps in. His role begins with survey of existing products, skills, raw materials and techniques. A feedback is also obtained from the market with regard to the precise requirements of the consumers. Based on the data collected, the designers define the problem area and in consultation with the clients,

the products are designed and produced. It should also be essential for him to supervise the stage of production and exercise strict quality control. In the kind of market that we envisage, poor quality products will stand no chance even if the design input is excellent. Packaging and presentation of these fabrics are other factors one cannot ignore.

4.5.32 There are enough number of small and tiny primary weavers' co-operative societies serving the cause of small and marginal weavers, producing high quality and standard fabrics but without adequate infrastructure facilities for marketing their products. Many of the primary weavers' co-operative societies are suffering from structural weaknesses, lack of commercial intelligence, organisational support and sales promotional expertise or even manipulation by master weavers or office bearers. This area can be served better and the gap between the market requirements and the production centres can be very well filled up by national marketing organisations like All India Handlooms Fabrics Marketing Co-operative Society. It is recommended that an appropriate format may be prescribed for a model MOU between the national organisations and primary weavers' co-operative societies with a minimum percentage of commitment to be executed by both the parties in a specified time limit. Such a minimum guaranteed performance base will provide the necessary stability to production planning and resource marshalling apart from marketing assurances to the primary societies on the one hand and an assured supply of specified quality to the apex marketing society. The so-called handbag societies (operated by individual office bearers or master weavers from their handbag as it were) ought to be eliminated and genuine weavers encouraged to participate in the societies.

4.5.33 To overcome the problems of marketing, it is recommended that marketing complexes may be established in the main commercial centres. Each marketing complex can have constructed area of about 10,000 square feet, 50 percent of which is rented out on permanent basis, to the large and medium sized societies and the balance reserved for occupation by small societies at intervals or during festivals whenever the need for such participation arises. While the expenditure in running this complex may be met out of the revenue generated by such complexes, the initial investment of construction of the showroom and other infra-structural facilities etc. may be borne by the Central Govt. and the participating handloom agencies equally.

4.5.34 Protection of handloom has been sought to be achieved by reserving articles for production in the handloom sector under the "Handlooms (Reservation of Articles for Production) Act, 1985 enforced through Handlooms (Reservation of Articles for Production) Order 1985 (as amended from time to time). The Committee, feels that the handloom sector needs to look at the future where, post-2004, such protectionist regime would be rendered superfluous because of the breakdown of market barriers. The Committee has, therefore, recommended for withdrawal of this Act and the Order thereunder. As an alternative, it is recommended that instead of reserving 'products' for handlooms and requiring bulk-buyers to take only handloom products irrespective of their quality, there can be a new system of 'reserving' identified bulk-buyers (e.g. Railways, Police, Defence Services) for the handloom market. While such an

arrangement will ensure availability of bulk orders, it will at the same time eliminate the need for inevitable compromises in quality. The bulk-buyer will stipulate the standards that shall be adhered to. The present system of STS through ACASH should be thoroughly checked and reviewed. A definite boost to marketing of handloom products can be given with a slight change in the system adopted by the ACASH. Instead of floating tenders with very little lead time as it always happens and being landed with impracticable offers, ACASH can introduce a system of empanelment of apex societies along with their identified primary affiliates, with reference to their capabilities - loomage, product range, production capacity, etc. The panelists can be required to update their product range and rates every quarter or, if necessary, even every month. It will then be simpler for ACASH to respond quickly and meaningfully to enquiries from consuming ministries/undertakings/agencies. If the empanelment system is in vogue, it would be possible for ACASH to arrange for appropriate supplies in adequate quantity, of acceptable standards, at remunerative prices and in good time for the bulk buyers. The Committee recommends that such an arrangement can initially be tried out on a small scale to check on its feasibility before being expanded for wider adoption. Further, to offset the disadvantage created by the withdrawal of the Reservation Act, it is essential to consider patenting of exclusive handloom items.

4.5.35 It is desirable to replicate the Panipat/Meerut model for aggressive marketing of handloom products. Though these models are entrepreneur- driven, at the initial stage, Weavers' Service Centres have provided requisite support in terms of design and technical inputs etc.

4.5.36 Marketing is expected to be driven by information technology (I.T.) in the ensuing competitive economy. To take advantage of this, I.T. booths may be set up on the pattern of STD/ISD Booths with infrastructure facility of computers and Internets connectivity etc. in the areas of handloom concentration to enable the handloom weavers to have access to the latest information regarding fashion trends, design trends in the international market. The website of agencies handling the design and fashion intelligence like NIFT would also be accessible through Internet.

4.5.37 Though marketing is going to be IT driven, ultimately inter-face has to be there. Therefore, the Committee recommends that a 'National Handloom Mart' on the pattern of 'International Apparel Mart' may be set up with the close involvement of the industry to make it successful.

4.5.38 Efforts should also be made to create a directory of designs at the national level to showcase not only the heritage of India but also to document the available designs in the country that have a potential in the export market. In this respect, attempt should also be made to access designs from the international market which can be adopted and adapted by the handloom weavers in India. This should be based on a system of networking of information technology that can be accessed by those desirous of going in for exports. Such a centralised effort is likely to serve as a design bank and enable the weavers to keep in touch with the latest market trends abroad.

4.5.39 Assistance should be extended for adequate publicity for hand woven products, highlighting the heritage value and uniqueness of designs and weaves as the USP, through electronic media and through international magazines by an appropriate central and all India agency, which will create a new clientele for the hand woven fabric. Since handlooms cannot compete nationally or internationally in terms of price or finish, the market place has to be won through a conceptual and psychological battle and the handloom fabric/article user ought to be made to feel special and unique about its usage. The proposed Brand Equity Fund could be utilised for this purpose.

4.5.40 The purpose of all activities geared towards promotion of exports would ultimately have to mean preparation of the sector for the years beyond 2004. Efforts, geared towards actualising patenting processes, brand equity, better improved designs coupled with proper publicity abroad would be the steps in the right direction. Given the right thrust and marketing and infrastructure support, the Committee feels confident that the handloom exports can grow by 5 to 10 times of the present level in the next ten years. This will have to be achieved by making the sector stand on its own feet with a wider horizon and vision.

4.6 **MADE-UPS**

4.6.1 Made-ups occupy the highest position in the textile value addition chain as do garments. But since made-ups have not developed into an independent segment unlike garments and most of the production and export is done by the mills, powerloom units, handloom units or knitting units, they have not been given the status and importance they deserve. It uses the same raw materials, namely, fabrics, threads, buttons etc., as do garments and employ the same or similar machinery. The unit value realisation from made-up exports at about 3.50 US\$ per sq. mtr. is almost identical to that from garments. Product category-wise export growth between 1993-94 and 1997-98 is given below:

(Value in Mn. US\$)

Item	1993-94	1997-98	CAGR (%)
Yarn	590	1780	31.80
Fabrics	1214	1716	9.04
Ready Made Garment	3764	4965	7.17
Made-ups	851	1498	15.18

As can be seen from the above, our made-up exports from mill, powerloom, handloom and knitting segments including woollens were 851 mn. US\$ in 1993-94 rising to 1498 mn. US\$ in 1997-98, a CAGR of 15.18 percent, higher than that of garments and fabrics at 7.17 percent and 9.04 percent respectively for the corresponding period. But most of our made-up exports like most other textile exports, are directed towards the USA and EU. In other words, our made-up exports to non-quota markets are insignificant, which speaks volumes both of our warped approach and lost opportunities.

4.6.2 Notwithstanding the reasonable success of our made-up exports, it leaves one with a strong sense of under-achievement due to a host of factors. Our made-up manufacturing segment suffers from a number of constraints which, inter alia, are as follows :

- i) Poor quality of raw material, i.e., fabric, due to poor manufacturing quality and/or poor processing and finishing.
- ii) A narrow raw material base due to undue emphasis on cotton fabrics to the exclusion of man made / blended fabrics.
- iii) Use of substandard dyes in processing.
- iv) Neglect of quality control aspects - poor productivity, workmanship and packaging.
- v) Lack of economies of scale.
- vi) Neglect of product development and design development.
- vii) Improper and inadequate market analysis, commercial intelligence and market development.
- viii) Lack of strong 'Made in India' image and limited individual brand names with international acceptability.
- ix) Restraint on a number of potentially lucrative product categories due to the handloom reservation order.

4.6.3 Representatives from all segments almost invariably have made the plea that given the right policy thrust, made-ups can be our star performer in future export growth as there are markets which have been left practically untouched. Based on these feedbacks, the Committee has identified the following policy approaches as essential to the growth of our made-up segment and its export performance, and subsequently analysed the sector wise necessary action plan:

- i) Technology upgradation in and expansion of the raw material segment, i.e., in the weaving/knitting and processing and finishing segments to make available internationally acceptable, defect free, fast colour processed fabrics.
- ii) Removal of restrictions, regulations and reservations to facilitate market – driven and superior technology / skill / quality-based production decisions.
- iii) Facilitation of product development, production and marketing facilities on a felt need basis.
- iv) Rationalisation of fiscal and export promotion policies and programmes.

Mill sector

4.6.4 Ironically, exports of mill made cotton made-ups are a distant third to powerloom and handloom made-ups, and mill made synthetic / blended made-ups are

almost nil. While the miniscule five percent share of the mill segment in national fabric production partly explains this, the rigours of labour laws (referred to in detail in the chapter on 'Industrial Relations') also deter them from sourcing good quality fabrics from mill/ powerloom / knitting sources for expanded made up manufacturing activity which is less technology driven and more labour intensive like garment manufacturing. In the Committee's view, the following steps are necessary to give a fillip to the growth of made-ups and their exports in the mill segment:

a) Technology upgradation

- i) Within exports of made-ups, the emphasis has to change from coarse medium counts to medium fine and superfine counts in piece dyed, printed, yarn dyed and surface textures like dobby and jacquard in both medium and wide width.
- ii) To achieve the above objective of upgrading the product mix, technology upgradation specially in bleaching, dyeing and printing backed up by state-of-the-art, automatic stitching needs to be encouraged. Currently, there are only a couple of plants for wide width fabric processing which are not sufficient to meet the requirements of the industry.
- iii) Similarly, to improve the quality of design inputs and creation of collection for exports, due understanding of the different market requirements, is also a key to the success. Therefore, training and development of textile designers, with outside help, specially for bed linen, table linen, kitchen linen and bath linen is of great importance and needs to be encouraged.

b) Marketing and quota policy

- i) US/EU account for a major portion of our exports of made-ups, when it comes to high value added exports. Efforts must be made by the industry to explore possibilities of exports to markets other than the EU and non-EU European which are governed by quota restrictions.
- ii) Emphasis must be given to strict quality control and attractive packaging on the lines that leading made-up exporters China and Pakistan do.
- iii) Companies that have the strength and ability to do brand selling outside India must avail of the India Brand Equity Fund to strengthen their brand image and international profile.
- iv) The quota policy for made-ups, especially in U.S., needs to be immediately given a relook. The U.S. Group II fabrics quota is subdivided into cotton yarn, man-made fabrics and made-ups, and made-ups are further sub-divided into handloom, mill made and powerloom

sectors. The total share for made-ups out of the total basket of 59 mn. sq. mtrs. (1999) is only 12 mn. sq. mtrs. which includes 3 mn. for the handloom segment. Unit value realisation from made ups in this category is over 3 times that of other items. Therefore, it is very strongly recommended that a much more substantial part of the Group II fabrics quota should be earmarked for made ups, based on higher price realisation.

- v) The current anomaly in DEPB scheme for cotton made-ups and poly-cotton made-ups need to be removed and all made-ups irrespective of the blend must be treated on par for purposes of DEPB / drawback refunds.

c) General

- i) Reservation of specified made-ups for the handloom sector, as recommended elsewhere, must be done away with to unleash the productive forces in the mill and powerloom sectors to maximise their production and exports. Handloom made ups must thrive on the basis of their uniqueness and niche positioning.
- ii) Promotion of 'Made in India' brand image must be improved through around technology upgradation, quality control and improved services.
- iii) Increased use of e-mail, internet, etc., must be made to ensure quick service.

Powerloom segment

4.6.5 As far as made-ups are concerned, the problems and constraints facing the powerloom segment and, therefore, policy prescriptions for powerloom sector are, more or less, similar to those of the mill sector. In addition, because of its structural disadvantages, the following issues / suggestions are highlighted :

- i) Weaving preparatory quality must be upgraded through TUFs to ensure better fabric quality.
- ii) Due to heavy dependence of the powerloom segment on SSI independent processors, quality suffers. Technology upgradation and new capacity creation through independent processing units and co-operatives/associations under TUFs must be given a thrust on a war footing.
- iii) Thrust must be given to increased usage of good quality blended fabrics for manufacture of bed linen.
- iv) Proper sampling and strict inspection standards must be enforced by the manufacturers/exporters.

Handloom Segment

4.6.6 Handloom segment is in a unique position to exploit its heritage and historic aspects to market its made ups to the upmarket segments. While it is heartening that the share of made up exports in total handloom textile exports has risen from around 70 percent to over 80 percent during the five years since 1993-94, it has lost its share and number one status in the overall made up exports to powerloom made-ups. Its major handicaps are the poor quality of dyeing and finishing due to manual dyeing and poor packaging. Lack of adequate and timely market intelligence and narrow product/ design range also handicap this sector. The Committee recommends the following action plan for promotion of handloom made up production and exports.

- i) Colour fastness in the handloom made ups is barely 35 to 45 percent as against the international standards of 60 to 80 percent. It is, therefore, imperative to introduce machine dyeing and finishing for yarn used by handloom weavers and fabrics produced by them. The committee has recommended in the ‘Spinning’ chapter for promoting machine dyeing for yarn for handloom weavers.
- ii) Since Karur (Tamilnadu), Panipat (Haryana) and Kannur (Kerala) account for 80 percent of India’s handloom exports, Govt. should provide additional incentives over and above those of TUFS by way of 50 percent margin money loan (interest free) to promote large / medium process houses under TUFS in these 3 centres.
- iii) India has vast resource base of traditional designs and motifs. They could be catalogued and further developed to produce a design bank which could be augmented from time to time on the basis of market feedback. Designs of traditional products like saree could be adapted to new products like made ups also. The Committee was told that the Ministry of Commerce has sanctioned a National Design Centre under the aegis of the DC (Handlooms) to be setup with the help of NIFT and HEPC. It is a timely and welcome step. But care must be taken to enhance the facilities there and transfer the new designs to production centres and translate them into quality products with the help of CAD/CAM facilities. A set of qualified designers (as against WSC artists) must be encouraged and patronised to adopt and adapt existing designs and create market desired new designs.
- iv) A culture of quality must be inculcated among the weavers to emphasise their economic return aspects for their better acceptance and adoption.
- v) Packaging is as much important as the product. A good product in an ugly, unattractive packaging can detract value. China and Pakistan which excel in handloom products are very meticulous about it. The exporters must be made to realise the value of packaging in export marketing.

- vi) Steps must be taken to tap hitherto untapped markets apart from consolidating our strength in the U.S. and E.U. markets. A market study ought to be done on priority with specific focus on exquisite handloom textiles / made ups in the US, EU and Latin American markets to bridge the gap between the buyers' needs and our capabilities.

4.7 **CARPETS**

4.7.1 The Indian Carpet industry is export oriented and highly labour intensive. The industry manufactures and exports products of (a) handknotted carpets in wool, silk & synthetic fibre; (b) handtufted carpets of wool; and (c) handmade flat woven druggets, namdahs, chain stiched rugs of wool and other natural & man-made fibres. The industry is spread all over India but concentrated mainly in a few states like U.P. (Bhadohi/Mirzapur/Varanasi/Agra), Rajasthan (Jaipur/Bikaner), J&K (Srinagar/Baramullah), Punjab (Amritsar/Pathankot), Haryana (Panipat) and Madhya Pradesh (Gwalior).

4.7.2 Exports of carpets have been steadily increasing and have almost doubled in value terms in just 4 years from Rs.1102 crore in 1994-95 to Rs.2014 crore during 1998-99. Still, India faces stiff competition from China, Iran, Nepal and Pakistan in the international market. A sharp devaluation of the Iranian currency in recent times has also adversely affected the price competitiveness of Indian carpets.

4.7.3 There was a time when consumers looked upon investment in oriental carpets in the hope that the investment would increase in value with passage of time. However, consumers now have different views while buying carpets. Consumers are no longer interested in investment in carpets and they buy carpets according to the fabrics, drapes and fashion in vogue. Colour and designs are the most important factors in making decisions to buy carpets in the price brackets within their reach.

4.7.4 The demand pattern of oriental carpets can be classified into two broad categories: (a) medium quality, and (b) fine quality. In medium quality of oriental carpets, we face competition in price with machine made carpets, consequent upon which there has been a sharp decline in demand of medium quality oriental carpets eventhough there is no serious competition from other producing countries. Production of fine quality oriental carpets in India faces stiff competition from Iran, China and Pakistan, although there is limited production of fine quality oriental carpets in India as well as in other countries. The Indian products have a competitive edge in price compared to Iranian and Pakistani carpets but are almost at par with Chinese carpets. However, India is losing ground in respect of fine quality oriental carpets because of its produce being perceived as imitations of Iranian carpets.

4.7.5 In view of the changing environment and buyer perceptions, the strategy to be adopted by the Indian carpet industry to achieve higher exports of high value added carpets are to: (a) develop and adopt new, innovative and ethnic designs to carve out a niche identity for Indian carpets; (b) increase the unit value of carpets through better quality; (c) diversify the markets; (d) anticipate future requirement of consumers with regard to taste and preference and adapt to the same; and, (e) participate in international fairs and exhibitions to create a positive image and unique identity for Indian products.

Recommendations

4.7.6 The Committee recommends the following measures for improving production and export growth of the carpet industry:

- (i) Indigenous wool production should be properly organised and augmented with due emphasis on quality and lustre. Wool productivity in India should also be improved, as detailed in the chapter on 'raw material', to bridge the gap between the demand and supply of carpet grade wool.
- (ii) A cluster approach to production of carpets needs to be encouraged to have input processing and carpet weaving within the same cluster or compound in order to boost exports of quality carpets. This will also facilitate proper inspection and monitoring of looms.
- (iii) Carpet looms shall be modernised to ensure increased productivity. For this purpose, old looms must be replaced by modern steel looms developed by the National Productivity Council (NPC). The Govt. must provide financial support to the NPC to design and develop steel looms in different sizes.
- (iv) Improvement and creation of infrastructural facilities, particularly in the Bhadohi-Mirzapur carpet belt of Uttar Pradesh, must be given top priority and adequate funds for the purpose need to be provided by the Centre and concerned state Govts. to ensure faster development and growth of the carpet industry and its exports.
- (v) Carpet suppliers, while adopting the design changes shall try to locate new designs from international fashion journals and also introduce innovative and creative designs on their own for creating both demand and preference for Indian designed carpets among overseas retailers. The carpet trade and industry shall increasingly make use of CAD/CAM facilities with the help of the WRA for introducing new designs and improving the quality of carpets for export.
- (vi) Fine oriental hand knotted carpets are essentially copies of Iranian designs and therefore, are hit by Iranian competition. Efforts must be made to produce designs based on Indian tradition acceptable to western buyers, to increase value realisation.
- (vii) Medium grade hand knotted carpets face competition from machine made woollen carpets. Value realisation of such carpets can be increased by producing trendy carpets in fashionable colours.
- (viii) The carpet trade and industry must also take advantage of the various facilities offered by the WRA relating to dyeing of wool, computer colour matching, use of vegetable dyes, etc., for maintaining and improving the quality of carpets.
- (ix) The carpet trade and industry shall promote only eco-friendly carpets and use only eco-friendly dyes and chemicals as hazardous chemicals

have been banned by legislation in Germany and Netherlands and likely to be banned shortly by the EU as a whole.

- (x) The Govt. may entrust NPC with a project and provide financial support for developing an appropriate process for washing carpets as the Indian process is considered inferior to the process of washing carpets in China and Pakistan.
- (xi) Complete eradication of child labour except those learning with the family. This can be achieved by strengthening the system of registration by exporters of only those looms that do not violate the law in this regard. The credibility of this system can be enhanced by a process of certification based on regular monitoring. Strengthening of welfare measures, especially those relating to educational and health aspects, both at the places of origin of the migratory labour as also at the carpet weaving clusters, will also have a salutary effect.
- (xii) The various aspects of processes and techniques of the Indian carpet industry are not well researched or documented. India has a vast storehouse of traditions and techniques which should be systematically documented in terms of area, techniques, design etc. to serve as valuable reference material for researchers, designers, manufacturers, buyers and others. The DC(Handicrafts) must take the initiative in this respect with the help of NID and WRA to accomplish this task in a time-bound manner.
- (xiii) In line with our general emphasis on promoting the 'Made in India' label, here again imaginative and energetic steps must be taken to promote the brand image of Indian carpets. Introduction of the 'Kaleen' mark has been a significant step forward in this context. Such arrangements must be refined and strengthened to ensure that the brand image will help our carpet exports not only to score on quality factors but also to steer clear of problems with reference to factors like child labour, hazardous dyes/chemicals, environmental and eco considerations, etc.

CHAPTER – 5

PROCESSING AND FINISHING

5.1 Introduction

5.1.1 The processing stage is undoubtedly the most significant process in the value chain of various textile products, i.e., fibres, yarns, fabrics, RMG and made-ups, contributing the essential user requirements of easy maintenance, colour fastness etc. and also aesthetic value addition in terms of colours, motifs and designs. In the global scenario, the value addition at this stage of production is maximum, often manifold. However, in the context of indigenous industry, processing stage is perhaps the weakest link in the entire textile production chain, which results in loss of potential value addition and also valuable foreign exchange earnings. In this chapter, we are essentially talking about fabric and apparel processing, i.e., the last stages of value added textiles. The technologically weak processing sector in the indigenous industry has also led to other problems in the international textile scenario, related to environmental issues which have assumed significant importance in the recent times and have also inhibited the balanced growth of our value added textile exports to a great extent. Thus, there is an urgent need for upgradation of textile processing sector, with particular reference to upgradation of quality and compliance with international environmental parameters. For this purpose, concerted and focussed efforts are to be directed by industry and Government to build-up a strong and vibrant processing segment capable of producing eco-friendly quality textiles of world class.

5.2 Current scenario

5.2.1 As in weaving, the processing operation, particularly woven and knitted fabric processing also takes place both in the organised and the unorganised sectors. In the organised sector, in addition to the composite mills, processing is done in independent processing houses organised on a factory basis. In the decentralised sector, analogous to the distinction between the powerlooms and handlooms, there are small scale power processors as well as hand-processors using traditional techniques. However, a unique feature of the processing sector is the substantial number of hand processing units which are legally permitted to use certain specified processes with the aid of power (12 for cotton and 7 for man-made/blended textiles). Thus, they straddle a half-way status between SSI power processors and pure hand processors, the latter being mostly in the handloom sector. The composite units have the facilities for manufacturing of yarn and fabric, as also all or major facilities for processing and finishing. The process houses attached to composite mills get the grey cloth from the loom shed of the mill and then process. Due to the optimal scale of operation and economies of scale, the composite mills also have the inherent capability for technology upgradation, including import of state-of-the art technologies for production, quality control and testing for achieving optimal conditions, apart from technically qualified

personnel to handle the processing and finishing operations. The independent process houses in the organised sector mostly carry on their business with job work and generally cater to the needs of particular market segments. These process houses most often have moderate facilities to maintain controlled condition in delivering the desired quality products. However, the degree and nature of technology sophistication varies from unit to unit. Quality control and laboratory facilities are also available to a limited extent, which largely depend on the attitude of the management and type and profile of the customers. Qualified and technical people are more often than not employed to handle shop-floor activities. Technology level is generally medium or upper medium, i.e., one or two generations behind the latest available. The SSI power processing units use even more obsolete or rudimentary technologies, surviving on processing of cheaper, domestic-market-oriented textiles. The hand processors using specified power processes also are, more or less, of the same technology level except for the hand operated processes. The other extreme is the hand processing units which employ most conventional labour intensive tools and equipments and there is no automation or sophisticated machinery. There are almost always no technical persons available in such units and the operators/supervisors make do mostly with hands-on experience, adopting unscientific and unsystematic practices. As such, there is a limit to which improvement in quality can be achieved by these units. However, the SSI power processing units and hand processing units interested in export to certain targeted markets generally improve the quality by paying more attention on quality of inputs, such as quality of grey fabrics, auxiliaries, dyes and chemicals, water and process parameters including some minimum essential quality testing facilities apart from the skill and experience of the workers.

5.2.2 The Working Group on Textiles for the 9th Plan has estimated the number of processing units at 12,596 out of which 133 are in the composite sector, 2066 independent process houses and 10,397 hand processing units.(Table-5.1). However, a careful perusal of the state-wise data would reveal an apparent anomaly, possibly error, in the data and hence, its reliability is rather suspect, particularly for the hand processing units. For example, 4061 units are shown as hand processing units in a low textile - concentration state like Orissa. It accounts for almost 32 percent of the total of 12,596 which seems rather too high. On the other hand, the North East known to possess an estimated 17 lakh handlooms (almost 50 percent of national total) shows only 210 units. So is the position in textile/handloom major states like Tamilnadu, Maharashtra and Punjab. Possibly, the household processing units of Orissa have been counted while elsewhere it is not. To sum up, the data base is extremely weak, dated and prima facie unreliable. Precise data on silk and woollen textile processing units and installed capacity or production is also not available. But available technology level is not substantially different. It was learnt from the Textile Commissioner and the Textiles Committee that they are shortly undertaking a survey for the same in two phases (hand processing units to be covered in phase II) and another for the woollen industry. They should hopefully throw up a reliable

uptodate data base within a few months. The Committee appreciates this pro-active effort and hopes that the survey would cover all types of processing units at the earliest and the Government must provide all necessary support.

5.2.3 With the pre-dominance of the hand processing activity in our processing sector, the ability to produce quality processed fabrics is lacking. One of the major limitations which beset the industry for reaching optimum output and quality is, of course, application of traditional/obsolete technology. The processing machineries generally installed in the processing sector lack proper process controls and are poor in metallurgy. To export value-added goods and to cater to the requirements of the clothing sector, the process houses should be able to process wider width fabrics in open width form with defect free, uniform shade/matching and proper dimensional stability (controls on shrinkage). Quality goods have to be produced uniformly and consistently at the very first time and re-processing has to be reduced. For textiles slated for exports, it is very essential that the preparatory processes are perfect. At present, machines available in India for preparatory processes are normally of batch type and most of the bleaching plants for processing the fabrics are meant for rope form. Such machines are not at all suitable where fabric is to be processed in open width, specially heavier fabrics such as drill, gabardine, satin etc. because only in open width processing, uniform and crease-free processing can be effected. It is also observed that dyeing is generally carried batch-wise on jigs or pad and batch system. Although continuous dyeing plants are available, considerable improvements in their performance is desirable. Jigs installed are of conventional types without any dosing system and control is of pneumatic type. Dyeing on such machines results in batch to batch variation and also variation within a batch due to tailing effect, side to centre affect etc. Another drawback connected with the dyeing process is re-productability of shades. As regards printing activity, the processing units are generally using flatbed and rotary printing machines manufactured in the country, which meet certain end requirements but are not suitable for highly sophisticated and accurate printing. As regards finishing, most of the stenters used in the processing industry for drying and heat setting of the fabrics are equipped with specific energy saving devices but there is a deficiency in such stenters in maintaining uniformity in temperature of the different chambers thereof. Apart from the application of traditional/obsolete technology, other major problems which adversely affect the functioning of the entire processing sector are cost prohibitiveness and non-availability of dyes free from harmful amines, lack of effluent treatment facilities, scarcity of power and water etc.

5.2.4 The Committee has examined in depth the current scenario of the processing sector of the textile industry as it prevails in the country and feels that pre-dominance of cloth production in the decentralised sector and steady loss in absolute production and market share of the more quality - conscious and quality - capable organised mill sector have inhibited the modernisation/technology upgradation in the processing sector. The mostly poor quality of cloth produced in the decentralised powerloom sector obviates the need and rationale for quality processing, as quality processing

often further brings out and highlights the weaving defects thereby not adding commensurate value or recovering process cost. Another factor responsible for lack of modernisation in the processing sector is the central excise duty structure at fabric processing stage. Under the currently applicable excise duty structure, hand processors are exempt from duty and even, as stated earlier, certain specified processes carried out with the aid of power are exempt from duty. It was very forcefully brought to the notice of the Committee that these exemptions provide scope for duty evasion by some unscrupulous power processors by maintaining both types of units side-by-side and declaring power processed fabrics as hand processed. The Committee is of the considered opinion that such disparities in tax structure lead to structural anomalies and inhibit the growth of quality process houses.

5.2.5 When MODVAT scheme was introduced at the fabrics stage in the year 1996-97 without uniformity in the duty structure at the yarn stage, an anomaly was created in favour of the mill sector. Under the MODVAT scheme, mill sector was eligible for modvat on 'actual' basis, even for bought out filament yarns, while independent processors were eligible for only specified 'deemed credit'. With specified deemed credit, they were not able to claim full credit for duty paid at yarn stage, particularly in respect of polyester and nylon filament yarns as these items attract very high rate of duty. Even among the independent processors, there was disparity in the sense that processors processing cotton fabrics were getting excess duty abatement under 'deemed credit' basis while man-made processors were getting less as the deemed credit rate was uniform for cotton fabrics and man-made/blended fabrics processors. This disparity was due to the wide disparity in the duty structure at cotton yarn and filament yarns stage in favour of cotton yarn.

5.2.6 It was also pointed out to the Committee that recently, another fresh anomaly has been created by imposition of excise duty based on the number of chambers in the stenter machine located in a process house. This scheme is strangely applicable only to independent processors. Even semi-composite units without weaving/knitting facilities and operating their processing units actually for job work only are not treated at par with independent processing units. The incidence of duty under this scheme is comparatively less than that of advalorem rate of duty applicable on process houses of the organised sector, more particularly in case of independent processors processing high value textiles. This situation can lead to de-linking of process houses by the composite sector as an instinctive survival strategy and will most certainly inhibit the modernisation process. If it happens (which does seem rather real in the present circumstances), it will be singularly unfortunate. While the scheme by itself may have the merit of transparency though without an in-built revenue buoyancy, it seems to be rather indulgent to large and medium independent process houses, particularly those processing high value fabrics, by giving them windfall bonanza of huge tax savings through fixed duties. Besides, any tax structure which moves away from the principles of equal and equitable treatment of all tax payers and the increasingly popular and rational VAT system, is retrograde in the long run. The committee feels that the move is rather a cover up for the failure of the revenue authorities to stop tax

evasion through suppression of turnover or mis-declaration thereof. The Committee would recommend that while in the long run, an advalorem duty structure with a minimum chamber based duty to tackle evaders would be ideal, in the short run, the stenter-chamber based duty on independent processors processing high value textiles should be levied with duties based on average value of fabrics costing above Rs.30 per sq. mt. multiplied by the net effective tax rate ratio over that for cheaper fabrics. This would minimise the gap between such processors and composite mill sector who are obviously direct competitors. The composite mills can also be given the discretion for opting for either the advalorem or the chamber-based duty structure. As regards the advalorem duty structure, the Committee has given its views in the "Fiscal structure and Policy" chapter.

5.3 Policy initiatives in the past

5.3.1 The Committee observes that the Textile Policy of 1985 has provided that "In the processing sector, the independent power processors and the processing houses in the mills would be treated at par and each would be allowed to operate on the basis of its competitive strength. The small hand-processing units with limited output will receive special consideration" Accordingly, duty structure on independent power processors and mill sector have been brought at par in the year 1985. Though 1985 policy has clearly laid down that "The small hand processing units with limited output will receive special consideration", the duty concession actually provided to this segment is without any consideration of output. No rationale or justification for the same is available on record. This anomaly together with duty exemption for specified power operated processes has played havoc with the modernisation process of this sector. Again the stenter/chamber based duty structure has gone against the basic tenets of the Textile Policy of 1985 which had unambiguously laid down that independent power processors and process houses of mill sector would be treated at par. The Committee has observed that the database with regard to the processing segment is very weak. Therefore, it is difficult to assess the impact of the 1985 policy on the growth of this segment. One of the parameters which is indicative of quality of processing in the country is the share of export of processed fabrics vis-à-vis grey fabrics. It is seen that in 1985-86 about 40 percent of fabrics were exported in processed form as against about 46 percent now. This shows that there has been only a limited growth in the export of processed fabrics. Nevertheless, it is evident from the less than 50 percent share of processed fabrics in our total fabric exports that the textile industry in India resorts to large scale export of grey fabrics resulting in a huge loss of potential value addition and incremental export earnings for the country. The poor unit value realisation from processed fabric exports, more particularly from the powerloom sector, also indicates the poor quality and technology of our textile processing industry. In the context of the restrictive import quota regime, higher export earnings can only come from higher value addition and hence, the critical importance of processing and finishing in the textile industry. Given the right policy thrust and adequate investment in technology in existing as well as green field

projects, the processing sector can certainly provide for the perfect platform for not only large increment in value addition in the manufacturing but also a great deal of foreign exchange earnings to the nation. Given the size of the untapped potential and steadily increasing yarn and fabric production base in the country, this sector has immense potential for new employment generation too.

5.3.2 The recently launched TUFS which has targetted processing sector as a thrust area for technology upgradation, it is hoped, will lead to a substantial improvement in the technology level of the processing segment as well as installed capacity thereof. This Committee has also recommended uniform duty structure for all the segments and withdrawal of duty exemption for specified power operated processes to remove the structural anomalies created due to differential and discriminatory excise duty structure.

5.4 **Policy recommendations**

5.4.1 The processing facilities available in the country are reasonably good for man-made and blended sector. Therefore, focus should be on improvement of facilities for cotton sector, primarily with a view to improving the export of value-added cotton based textile items. At present, only 46 percent of the cotton fabrics exported is in processed form while remaining 54 percent is exported in grey form. Our target in this context should be 90 percent processed fabrics and only 10 percent grey fabrics.

5.4.2 Technology Upgradation and modernisation will help in quality production, reduced re-processing, better utilisation of utilities (power, water, steam) without adversely affecting the labour complement. The Committee has noted that the recently launched Technology Upgradation Fund Scheme has targetted processing sector for focussed technology upgradation which should result in improvement in the technological level of the processing sector. The Committee feels that since processing activity is the weakest link in the production value chain of textile items, apart from coverage under TUFS, additional policy initiatives may be needed to accelerate technology upgradation in this segment. The facility of investment allowance or accelerated depreciation may also be made applicable to installation of the processing and finishing machines. At present, the process houses are allowed 10 percent and 15 percent annual depreciation on machinery and plant respectively except for high energy saving machines where 100 percent depreciation is allowed in the first year itself. In order to ensure high quality standards in the processing sector and also to extend other incentives to them, it is recommended that 33¹/₃ percent to 50 percent annual depreciation be allowed for first three years on purchase of various machines which improve the quality of the processed fabric or eco-friendliness of the process.

5.4.3 The basic thrust of the textile policy is to acquire and maintain global leadership in manufacturing and export of textiles and clothing by gaining a position

among the top 5 competitive nations. To achieve this goal, the processing sector has to gear up because at this production stage, maximum value addition is possible. The Committee recommends setting up of about 400 new processing units- 200 high-tech units and 200 medium-tech units. Total investment requirement for setting up these units may be about Rs.8,000 crore. This apart, in situ upgradation of existing processing facilities will require additional funds of about Rs.8,000 crore. The Committee recommends that the Govt. may encourage setting up of processing units, particularly of small and medium capacity. The processing units could be set up either by professional associations/co-operative societies or group of fabric manufacturers can join together to set up such facilities for captive consumption. Individual entrepreneurs can also be motivated to set up processing units, particularly in the clusters of decentralised weaving / knitting segments. It is noted that processing units are covered under TUFS, but there may be need for further incentives to facilitate setting up of such units which are highly capital intensive. Therefore, the Committee recommends that for processing units, financing norms under TUFS may be further reduced appropriately. The Committee has also recommended for setting up of yarn dyeing facilities for meeting the dyed yarn requirement of the handloom sector. Such yarn dyeing facilities may also be subject to such dispensation.

5.4.4 Investment in new processing units is, to some extent, discouraged by the possibility of subsequent public interest litigation in Courts on grounds of pollution. If State Governments identify areas where processing units can be permitted to be set up after assessing area-wise pollution loads and develop parks for such processing units providing good quality infrastructure (uninterrupted power, soft water etc.), it will go a long way in encouraging the setting up of world class processing units. The Ministry of Textiles, Government of India, can consider introducing a scheme to provide infrastructure grants to State Governments for setting up such Processing Parks. Ministry of Commerce is providing such assistance to Export Oriented Parks under the Critical Infrastructure Balancing Fund and the Ministry of Industry provides funds under the Integrated Industrial Area Development Programme. The introduction of a similar scheme by the Ministry of Textiles will give a special focus to the Textile Parks including Processing Parks.

5.4.5 The processing machinery available indigenously mostly do not have proper process controls and are poor in metallurgy. Wider open width machines are not available. High tech open-width bleaching plants are also not available indigenously. Such plants manufactured by reputed companies abroad are well-equipped with micro process based dosing system for chemicals and also with effective control of temperature, duration of treatment and machine speed. However, cost of such machinery is prohibitive and together with customs duties, they cannot sustain the profitability of processors in the low priced, low return domestic economy while export volumes may not be as large as can sustain such high investment. Hence, there is a very strong case to make the landed cost of such machinery affordable and production therefrom cost competitive. It is, therefore, strongly recommended that

high-tech processing machines with minimal or no indigenous angle should be permitted to be imported with 'zero' duty, while such medium-tech processing machines may be permitted to be imported with concessional duty.

5.4.6 Indian machinery manufacturers are reluctant to go in for manufacture of machinery needed by our textile processing units as they lack sufficient incentives by way of economic and sustainable demand size and general preference of the few quality processing units for foreign machinery. This being the case, a one time (substantial) grant for technology upgradation in the textile machinery industry is necessary to modernise this sector. The Committee has recommended in the chapter on 'Textile machinery' for setting up venture capital fund and also a technology upgradation fund for textile machinery industry to promote indigenous production of high-tech machinery needed by the different segments of the textile industry. For the processing sector, the thrust should be on manufacturers of small and medium capacity high-tech processing machinery.

5.4.7 For reproducibility of shades, colour matching techniques which predict accurate recipes are important. Hence, there is an urgent need to have colour matching centres close to the clusters of small process houses, which can assist the processing units in producing in the first attempt the exact required shade needed for export products and clothing units. Similarly, design preparation for printing is a time consuming process. For this, computer aided designing is now available. The Government has already established eight CAD/CAM Centres in the PSCs and 12 in the WSCs. The Committee recommends that more such centres may be liberally established, particularly in the clusters of decentralised textile centres with substantial processing activities.

5.4.8 Due to lack of proper technical and testing facilities, the quality of the processing suffers. The Government has facilitated installation of 20 eco-laboratories all over the country with the latest equipments imported mostly from Europe and USA for testing of various eco-parameters in the interest of human environment and health. Besides, another about 50 textile testing laboratories have been upgraded/established to provide the latest physical and chemical testing facilities to ensure that the textile production and exports conform to the stringent quality standards. Still, there is an urgent need for strengthening of testing laboratory network through the establishment of more and more testing laboratories and service centres, particularly in the clusters of small processing units.

5.4.9 The Committee was informed that textile processing activity has been notified as a 'hazardous activity' with stringent regulations. The view of the cross section of the industry was that textile processing cannot be considered as a hazardous activity. The Committee, therefore, recommends that Government may constitute a committee comprising of representatives from the industry, pollution control experts and concerned govt. officials to examine the issue in depth and recommend appropriate

uniform desirable and pragmatic norms and guidelines to encourage pollution control. Currently, different parameters for pollution control are prevailing in different states. In view of the globalisation of trade and integration of world market, there should be common national standards for pollution control for textile industry as a whole instead of different parameters prevailing in different states as is the situation now. In view of the pre-ponderance of the decentralised sectors in the textile processing activity, there is a need for encouraging the setting up of common effluent treatment plants in the areas of concentration of small textile processing units.

5.4.10 During its inter-active sessions with the representatives of the industry associations, the Committee was informed that different High Courts have been adopting different norms/standards to evaluate the functioning of various processing units. In the absence of a well-informed and co-ordinated defence, the Courts apparently have not been able to get a proper feedback of relevant information. This has resulted in orders being passed for immediate closure of processing units at different places. The Madras High Court is reported to have given a decision to the effect that no processing unit/dye house shall be located within a 5 kilometer radius of a drinking water source (a well, pond, or rivulet/river). At this rate, there may be no processing unit operating anywhere at all. The situation is serious enough to require immediate governmental intervention. Otherwise, the textile sector, which is already in a distress situation, is likely to face more desperate circumstances. The Committee recommends the following action points to tackle the situation :

- (i) Urgent compilation of information about all such cases in which there have been (restrictive) orders of different High Courts.
- (ii) Urgent compilation of information about all such cases pending in different High Courts.
- (iii) An approach to the Supreme Court with a request for 'bunching' of all these cases and their transfer to the Supreme Court for co-ordinated and in depth consideration.
- (iv) Authentic presentation of common norms/standards so as to facilitate a co-ordinated evaluation of all the pending cases/complaints.
- (v) The High Courts appear to have based their orders on the classification of the textile processing by the Central Pollution Control Board as a 'hazardous process'. If this is indeed so, the basis of such classification will have to be ascertained. It appears to be reasonable to contend that there can be no such general classification. If necessary, therefore, the CPCB classification will have to be countered with appropriate expert opinions duly backed up by adequate analyses/data so as to facilitate modification / replacement of such classification / norms.

- (vi) In any case, units that have been operating for long years without causing any apparent, major immediate health hazard, cannot be, in all fairness, asked to close down abruptly on environmental considerations. Courts do allow for reasonable lead times in such cases for transition before closure. There is, therefore, no reason why it should be different in these cases. Accordingly, the Supreme Court can be requested to permit suitable and reasonable interim arrangements.

5.4.11 The Committee also feels that investment in environment protection, pollution control measures and for acquiring ISO 14000 norms must be encouraged by providing interest/capital subsidies or income tax deduction on investments on such plant and machinery and standards installation costs and permitting high rate of depreciation for such plant, machinery, particularly since unlike ISO 9000, adherence to these norms do not provide any financial returns to the implementing firm. It is noted that expenses incurred for acquiring ISO 14000 norms have been covered under TUFs. The Committee feels that apart from concessional rate of interest, capital subsidy may also be provided by the Government for such investments to encourage the processing houses in the decentralised sector to acquire such norms. An annual 'national award' may also be considered to be instituted for "environment friendly companies".

5.4.12 The environment issues which are linked to the processing activity have social connotations. Social organisations and central and state governments in India have become aware of the harm done to the environment and human health by various industries and have taken the required measures to rectify the situation. Germany provided the catalyst by way of banning the import of specified textiles dyed/printed with certain azo dyes which release carcinogenic amines in the course of use. The different agencies diverted their attention to ecology, which is the study of interaction between living organisms and their environment, which includes the atmosphere, water as well as pollutants, either present in them, or introduced by man through industrial gases and effluents. With respect to ecology and textiles, three aspects, i.e., production ecology, use ecology and disposal ecology should be considered. Hence, the Committee recommends that in addition to modernisation / upgradation of chemical processing of textiles, the ecological aspects also deserve attention both from the point of view of domestic market as well as international market for the sake of social accountability.

5.4.13 The Committee feels that acid, direct and disperse azo dyes, banned in Germany and in India, may not be allowed for dyeing / printing in textile processing units and lists of safe substitutes may be made available to dyeing / printing units. Reactive dyes are very popular for dyeing cotton and other cellulosic textiles. Their application involves the use of Glaubers salt or common salt, which find their way in textile effluent, increasing their total solids content. Use of reactive dyes of low salt

or no salt requirements in dyeing may be encouraged. High reactivity dyes may be encouraged since they reduce pollution of effluents.

5.4.14 Use of enzymes (with standing bath used after replenishing to soften many batches) in finishing cellulosic fibre fabrics may be preferred to chemical softeners. In chemical softeners, high substantive softeners may be encouraged, since the latter pollute the effluents less than the former. Safer substitutes for non-eco-friendly textile chemicals may be produced and made available to the textile processing sector (sizing, de-sizing, bleaching, dyeing, printing and finishing) and production of such chemicals may be encouraged and R and D efforts are directed to develop safer textile chemicals, substituting the current non-eco friendly toxic / carcinogenic /sensitizing dyes and chemicals. This assumes great significance in the context of reported continued use of banned dyes by some textile processors for the advantages in terms of price and brightness. In tested samples, an average of 4 to 5 percent samples exhibit the presence of banned dyes/chemicals. It means that even though the Ministry of Environment and Forests has banned 112 dyes, there are manufacturers who evidently do not comply with the same. It is a pretty disturbing situation. The Committee would urge urgent and stringent action by the concerned authorities to enforce the ban on production and use of such dyes and chemicals. The fact that over 90 percent of all dyes and chemicals are consumed in textile processing makes this task all the more significant and urgent.

5.4.15 In the field of energy conservation, combined processes, wherever possible, may be recommended such as replacement of prolonged kier-boiling at high temperature (120 - 130 C) by J-box operations of scouring and peroxide (where halogenated hydrocarbons like perchloroethylene, trichloroethylene, trichloroethane etc. are being used) with safer solvents may be encouraged. Standing bath principle of dyeing/ finishing may be encouraged to conserve water, chemicals, dyes, and heat.

5.4.16 Serious attempts should be made to list all the textile chemicals/finishing agents/surfactants and their toxicity data collected from books, journals, encyclopaedias, handbooks especially recent issues of toxicological and related journals and safe alternatives to the existing toxic/poisonous/sensitizing/carcinogenic chemicals should be developed.

5.4.17 In the fast changing technology scenario, it has become necessary that all the TRAs should work in the field of R. & D., covering sectors other than those allocated/earmarked to them. Stronger structured co-ordination links should be established among different TRAs to strengthen the R. & D. activity in terms of textile wet processing, avoiding duplication of R. & D. efforts.

5.4.18 Efforts should be made for the development of natural and vegetable dyes on commercial scale. Having vast resources of production of such natural and vegetable products which, if taken in the ambit of research and development, may bring very

encouraging and fruitful results and large scale commercial production may be feasible for eco-friendly dyes. Establishment of an exclusive institute for the research and development of natural and vegetable dyes on commercial scale may also be considered.

5.4.19 The types of dyes and chemicals used in processing play a crucial role in determining the quality of the fabrics. Therefore, the dyes/chemicals crucial for high quality processing may be identified and import of such identified dyes/chemicals with no or negligible indigenous angle may be permitted with 'zero' duty.

5.4.20 As the textile technology is a fast changing one with equally dynamic production and marketing environment, there is need to have constant monitoring of the developments taking place. Studies on specific issues may be conducted through experts at regular intervals to provide the Government with adequate and timely input to lay down policy prescriptions for overall development and growth of the textile processing industry in the desired direction in a socially responsible manner.

CHAPTER - 6

CLOTHING

6.1 Introduction

6.1.1 Clothing industry is a phenomenon of this century, more specifically the 1970s onwards owing its growth to the potential in apparel exports. Since a modest beginning in the seventies, it has grown into a gigantic industry spread over the country. It has been estimated that there are about 77,000 manufacturers comprising of domestic manufacturers, manufacturer-exporters and sub-contractors. Clothing being reserved exclusively for small-scale sector, 80 percent of the manufacturers operate at small, tiny and cottage industry levels. Fabricators hold the bulk of production capacity (72 percent) while manufacturer-exporters account for about 7 percent. The sector operates on the basis of flexible manufacturing systems, making use of links between firms within the apparel industry and in the powerloom sector. This supply system has many advantages like price competitiveness, ability to meet small orders, ability to cater to a wider variety of clientele, specification of design etc.

6.1.2 Clothing sector contributes significantly to employment generation and export earnings besides meeting the domestic demand for clothing. Clothing exports constitute 40 percent of the exports of textile products. Direct employment in the apparel industry was estimated by IIFT in 1992-93 to be about 2 mn. with an estimated 68.7 percent employed by fabricating units, 21.8 percent by domestic manufacturers and 9.5 percent by exporters. This number must have gone up substantially and a recent NIFT estimate projects a figure of 4.28 mn. by the end of the current year. Most workers are paid on a piece rate basis. Employment in the main apparel making centres of Delhi, Mumbai, Calcutta and Bangalore is predominantly male (75 percent) except in Chennai where it is predominantly female (55 percent) as revealed by the IIFT study.

6.1.3 The clothing sector is extremely fragmented. Only about 6 percent of all garment manufacturers own more than 50 machines. Over 80 percent have less than 20 machines in their units. Given the small size of the firms, it is no surprise that majority of the firms are organised either as proprietorship or partnership. A typical apparel manufacturer owns about 20-25 machines and markets his own brand at the regional or national level, with an annual sales of about Rs.10 mn. (US \$ 0.23 mn.) and consuming 1-1.2 lakh metres of fabric per annum.

6.2 Policy prescriptions in the past

6.2.1 The Textile Policy of 1985 has mentioned that “Knitting and apparel manufacturing sectors contribute significantly to employment generation and export earnings besides meeting the domestic demand for clothing. The Govt. shall pursue policies for strengthening, modernising and developing these sectors”.

6.2.2 It is noted that the above pronouncement is very general and is of universal acceptance. This has, at the same time, its merits and demerits. It can be possibly said that a radical relook is called for with focussed attention on certain products of importance to incorporate direction and speed especially in the context of post-2004 globalised trade scenario. Another view possible is that the present textile policy had taken a sectoral view of the Indian textile industry. In order to encourage highest value addition from fibre to garments and to encourage value added exports, it is necessary to reduce sectoral conflicts and have a holistic view of the textile industry. While ordinarily, different segments of the textile industry in the value addition process should complement each other, competing fibres, competing technologies and more significantly, competing intra-sectoral interest groups often lead to conflict of interests, demanding preferential or differential treatment which tend to skew the market forces. The existence of mutually competing and sometimes conflicting inter-sectoral and intra-sectoral interests of various segments of the industry indicate that the growth of one segment in the industry may imply an adverse impact on the growth of the other segments. A stark example is the present excise duty structure presenting a skewed approach which prevents a holistic approach.

6.2.3 The Committee is of the view that the policy approach to the clothing segment should be on the following lines :

- a) A holistic view should be taken of the apparel sector and its linkages to input sectors in order to ensure maximum utilisation of the opportunities, emphasizing the strengths and meeting the challenges.
- b) Such an approach shall take into consideration factors like the emerging new products of importance, higher unit value realisation, and sharpening the competitive edge both in the domestic and overseas markets.
- c) All efforts should be made to shift to a position of market innovation and market dominance, both internally and externally.
- d) Efforts should be focused on de-bottlenecking of procedures to smoothen transactions and ensure consumer satisfaction and adequate returns to entrepreneurs, particularly in exports.
- e) High value, high quality and high-tech manufacturing facilities should be the overall approach for the clothing sector.
- f) In view of the developments worldwide, including India, the role of garments need to be redefined. Some kind of a collaborative model may be allowed to emerge for the small-scale garment manufacturers such that the country benefits from the synergistic relationship between the advantages of small-scale manufacturing and large scale distribution and marketing.
- g) The govt. policy in regard specially to the export-import and fiscal matters must be made more logical and stable.

- h) The artificial distinction thrust upon the industry as between the domestic and export market must be done away with. For, in the final analysis, only a sophisticated domestic buyer base can persuade upgradation of garment quality and attract inflow of fresh investments in the garment sector.

6.3 **Problems of the clothing sector**

Domestic factors

6.3.1 Perhaps the most draconian of all govt. policies that has scuttled the around growth of the garment industry is the reservation of garment manufacture for the small-scale industry. It has not only prevented expansion but also impeded technological upgradation of the garment manufacturing units. As a result, the garment units could neither attain optimal economies of scale, nor produce international quality garments. The reservation of garments for small scale sector, and its adverse impact on technology upgradation and economies of scale, has also hit the garment units hard on the pricing front, and India appears to be fast losing out to more aggressive pricing-rivals like China, Malaysia, Korea and even Bangladesh and Sri Lanka.

6.3.2 Poor productivity also affects the clothing sector. This is measurable in terms of the number of pieces of apparel produced per man-day. This is a function of work methods, technology employed, skill elements, work culture etc. In a study conducted by the ICRIER covering five major products in six countries including India, the productivity level was found to be the lowest in India in all the categories. Equally disheartening is the low level of efficiency as well as quality available in India.

6.3.3 Another area in which India does not compare well in international comparison is the low level of turnover from apparel units. This is directly relatable to the size of the units which are constrained, inter-alia, by the industrial reservation policy. Another reason is the large scale sub-contracting of the production of clothing on account of low overheads of small-scale operations. Technology status of the apparel sector too merits mention as an important factor. This has been commented extensively in a report prepared by the World Bank, touching upon aspects like low level of investment, relative absence of pre-sewing and post-sewing machinery in Indian units etc. The ICRIER study highlighted the following:

1. Number of machines is one of the lowest in Indian firms.
2. Investment levels and investment per machine are low.
3. Average earnings are low in India.
4. Low productivity level is likely to be due to low capital investment.
5. Though the labour costs are low, the advantage arising from such levels can be realised only in small units which, in turn, inhibit large scale

investments, technological upgradation, quick response, production of quality products and other consequential benefits.

6.3.4 One of the important problems discussed in the study was the peculiar Indian labour situation. The existing labour laws are cited to be the main reason inhibiting the expansion of existing units into bigger units and installation of new large units which would ensure realisation of the benefits of modernisation and economies of scale. Such laws are perceived to come in the way of realising the maximum potential of even the existing labour force. The absence of an enabling provision to discipline errant labour from wild-cat strikes, which result in delays and consequential costs was deeply underlined. Appropriate recommendations are given in this regard in the chapter on 'Industrial Relations'.

6.3.5 Absence of adequate hightech processing facilities is another area of serious concern. These are very crucial to knitweaves where the fabric shrinkage is estimated to be as high as 8 to 10 percent. The present unstructured decentralised processing industry not integrated to the garment making units results in crisscross movement of the unfinished products, adding to cost and delay apart from compromising the quality.

6.3.6 On the fiscal front, the lop-sided excise duty structure that characterises the textile industry is harming the garment industry from two quarters. On the one hand, it has been mainly responsible for the proliferation of umpteen independent processing houses that cannot produce quality fabrics. On the other hand, this has throttled the organised composite mills that are capable of manufacturing global quality fabrics. With the share of composite mills having declined to barely 5 percent in the total fabric production of the country, and that of powerlooms having become dominant, it is evident that the major source of domestic cloth to the garment units in India are the decentralised powerlooms. In the modern world, quality is no longer an issue; it is an accepted fact. That India is still struggling with quality related issues like consistency, long-length fault-free cloth, shade variation etc., speaks very poorly of a country aiming to launch itself as a major global garment player in the next millennium. And, in the final analysis, the quality of cloth is the prime determinant of the quality of garment.

6.3.7 Govt. policies relating particularly to export-import, infrastructure and fiscal issues, are yet another set of irritants in the development of the garment sector. The sudden and abrupt change in the duty drawback rates, as for instance in the last fiscal, took the trade off-guard, and jeopardised all pending contracts entered into earlier. The situation was subsequently retrieved partly, but at a high cost to the industry and the exporters.

6.3.8 With Indian exporters mainly catering to the summer and spring clothing needs of the western consumers, there exists an inevitable seasonality in demand for Indian garments. Moreover, only five products dominate the Indian garment exports. This, in

effect, implies a very narrow focus of the Indian garment exports and therefore, that much more vulnerable to adverse market forces.

6.3.9 Another major disadvantage faced by our exporters is the relative absence of leading brand names sourcing from India.

International factors

6.3.10 The emergence of trade blocs, specially in the two biggest world markets for Indian garment exports - EU and USA - is a cause of serious concern. What is worse is that these blocs are increasingly acquiring self-sufficiency in terms of their dependence on non-members for their clothing requirements. The OPT (Outward Processing Trade) between the USA and Caribbean countries and neighboring Mexico (as part of NAFTA) on the one hand, and that between the EU and the central and eastern European countries and Mediterranean region on the other is threatening the Indian garment exports to these two regions of the world. They together constitute almost 70 percent of India's garment exports.

6.3.11 With fashion needs changing rapidly in the global market, quick response to the changed fashion requirements, and a quick delivery system with rapidly lowering lead times are becoming the hallmark of successful garment manufacturers. The infrastructure bottlenecks in India, combined with the inefficient logistics of the SSI garment units, threatens to scuttle the response system of the garment manufacturers from India.

6.3.12 Another potent threat to the Indian garment industry come from its international competitors like China, Bangladesh, Tunisia, Morocco, Indonesia, Sri Lanka, Vietnam, Turkey etc. Most of these countries have already established themselves in the international market with a far greater share of these markets than India has. Moreover, there is sufficient evidence to recommend that these countries are moving into higher levels of preparation for facing the challenges of quota-free clothing exports in the post-MFA scenario. There are several JVs that are being promoted in Sri Lanka, Indonesia and Turkey by famous manufacturer brands and retailers from the EU and USA.

6.4 Improvement in productivity

6.4.1 The present technology levels of the garment industry leave much to be desired. The last available survey of the garment industry by the Textiles Committee shows that 83 percent of the sewing machines installed in the industry are manually operated. Domestic manufacturers employ mainly manual machines. Manufacturer-exporters tend to rely comparatively more on power operated machines but their capacities are very small. Bulk of the export production is carried out by fabricators who employ mainly manual machines. This requires urgent modernisation of all factories more so those involved in export production. The implication is that manual machines need replacement by modern power operated machines on the shop floors.

In fact, a lot more of automation at each stage of garmenting, i.e., cutting, stitching, button fixing etc. is essential to improve productivity. The programme of modernisation must target 'fabricators' on priority, who form the backbone of the apparel export production in India. We must strengthen the flexible decentralised production system based on linkages between exporters and fabricators. In order to strengthen these linkages, Govt. intervention is needed to initiate modernisation of fabricators through the medium of exporters.

6.4.2 Along with infusion of state-of-the-art technology, adoption of modern management techniques, information technology and scientific tools may be encouraged to improve the productivity and quality of the clothing.

6.4.3 Another factor that needs urgent attention is the efficiency and productivity of capital which is crucial to the success of the garment sector. The high cost of capital limits the access of manufacturers to required capital and also their margins. Another worrisome aspect is the productivity of the capital employed in turning the various inputs into the final product in the most cost-effective and competitive way. A study by the Asian Development Bank has revealed that the energy utilisation by the Indian textile industry is not very cost efficient, thereby affecting the productivity of the capital employed thereon. There are external factors adding to the costs, thereby affecting the productivity of capital. Lastly, is the question of time costs and the transaction costs. In a sample study made by the EXIM Bank on the role of transactional costs on all sectors including textiles, it has been observed that they constitute as much as 15 percent of the present export earnings. Such costs as reflected in the delayed payment of the export benefit imply a cost to the exporters. The incidence of transactional costs affects the productivity of the scarce capital. All these require simultaneous attention for tackling the question of increasing productivity.

6.4.4 The question of labour productivity also needs serious attention. Apart from the poor technological levels of the apparel industry, the low levels of skills of the workers involved are equally a matter of concern. Looking at the history of recruitment of the work force for the apparel industry, it is generally found that it has been created by inhouse training by the units. It is only of late that serious attempts have been made to recruit new hands after professional training and, to a lesser extent, impart in-service training to the existing hands. Mention must be made in this connection of the efforts of the NIFT, the ATDCs and scores of other institutions spanning from the junior technical schools (JTS) to the IITs. Looking at the situation in the developing countries like Sri Lanka and Bangladesh, it is seen that facilities were created there right from the beginning to train the work force to meet international standards. The need for professional work force in the clothing sector has become all the more important in view of the growing competition both internally and externally, of the launching of the Technological Upgradation Fund Scheme introducing hi-tech machinery requiring skilled hands to operate, of the introduction of new techniques of production and management like CAD/CAM, EDI etc. The

example of the Hong Kong Training Institute which trains raw hands into skilled hands within 4-6 months is worth emulating. The necessity is not only one of upgradation of skills of workers but also of achieving such upgradation in respect of maximum possible workers in the minimum amount of time.

6.4.5 While development of human skills is crucial at the shop floor and managerial levels, equally important will be those at the entrepreneurial level. EDP courses are conducted in a piecemeal manner; but it is imperative that a new breed of techno-savvy entrepreneurs be created through deliberate action and policy. A modern Entrepreneurial Development Institute can be thought of exclusively for meeting this felt need.

6.4.6 The Committee recommends that serious efforts should be made to improve the productivity of the factors of production. Measures may, inter alia, include :

- a) Promoting joint ventures or strategic alliances with leading international manufacturers to bring in world's best practices in manufacturing.
- b) Establishing a Technology Demonstration Centre on the lines of the Textile Clothing Technology Centre, USA, or the Hong Kong Productivity Council. A dedicated "Productivity Cell" to specifically address the issues related to productivity in the textile and apparel sector needs to be organised with the active participation of the NIFT/ ATDCs and other industry associations.
- c) Expanding the network of the NIFT, ATDCs, JTS and IITs in a planned manner to meet the training needs of the clothing sector.

6.5 **International competitiveness**

6.5.1 Though garment export constitutes an important segment of the exports of India, it is characterised by the narrow range of products, which is evident from the following :

- Textile exports constitute about 35 percent of India's exports.
- Of that, garment exports constitute 40 percent.
- Of the above, garment exports to quota countries constitute about 64 percent, and
- Of the above, about five categories constitute 75 percent.

This illustrates the close relation between these five categories and their relative importance in the quota exports, garment exports, textile exports and total exports successively. This depicts the narrow base of our product range of clothing exports.

6.5.2 In this connection, it is relevant to note certain projections of EU sourcing of clothing for the year 2005. India has moved up from the 8th to 6th position in terms of market share by value between 1988 and 1994 and by volume from the 7th to the 5th during the same period, but there is a downfall in the unit value from 16.1 ECU per kg. to 14.2 ECU during the same period. The same projections forecast for the year 2005 for the five most restricted products reveals that India holds the top position in respect of T-shirts (cat. 4), blouses (cat. 7) and men's shirts (cat. 8), the second position in pullovers (cat. 5) and nil position in trousers (cat. 6). Other indicators of competitive position are hourly wage costs & cost/standard minute for production of a standard apparel, in which China, Sri Lanka, Bangladesh etc appear to be more favourably placed. These observations also confirm the sensitivity of the clothing exports to the narrow base of the clothing exports. This merely illustrates the consolidation of the existing position with no possible product diversification. And it is this diversification which is the need of the hour.

6.5.3 Another disquieting aspect of our apparel export is the value realisation. It is a matter of general satisfaction that we have been able to fully utilise our quotas which include the annual levels with growth factors. But this is to be read with the near stagnant value realisations which indicate that the unit value realisation is also near-stagnant or on a downward trend. This is only likely to worsen in the times to come. Once the quotas are removed, the number of suppliers, both internal and overseas, is bound to increase. With the trends like strict inventory control, quick response, reformatting of the retail network, decreasing importance of apparel in the shopping list of consumers in the overseas markets, the demand is not likely to grow to a very large extent. A combination of these two factors, of supply and demand, would only underline a squeeze in prices and the unit values.

6.5.4 India's product range being too narrow, exposes itself to high levels of internal rivalry in pricing resulting in a weak competitive position. Focus on cotton garments has led to missing out on the dominant part of the international markets, i.e., man-made and blended garments. The prospects for global demand for synthetic fibre clothing are bright, with considerable increase in its share, with wool and rayon surrendering more share to synthetics. While we have a strong presence in the cotton textile products, our overall share is pulled down due to our miniscule presence in the man-made/blended sector.

6.5.5 It would be of interest to know about India's rating as a source of apparel supplies. A rating of 30 countries was made on country factors (transport, customs, communications, and investment risk), product factors (product development skills, raw material availability, consistence of quality), service factors (lead time, minimum order, reliability of on time delivery) and cost factors (labour cost, duties). India ranked 3rd in price, 8th in product and price, 13th in product and 21st in product and service. This amply illustrates the receding importance of the price factor and the emerging importance of service factors. The last mentioned is assuming greater

importance in view of retail consolidation, strong verticalisation, tight inventory and stagnant demand experienced in the overseas markets. This also illustrates the urgency to be attached to addressing these issues simultaneously along with emphasising the price issues. On the production front, improving the global competitiveness would crucially depend upon the creation of a quality oriented manufacturing environment right from the raw material stage, the modernisation of the preceding sectors, with emphasis on weaving and processing and modernisation and consolidation of the highly fragmented low-tech apparel industry. The high tech manufacturing facilities at each stage of the value chain of clothing is essential for achieving uniformity, quality and consistency in the clothing, the first and foremost requirement for obtaining large and repeat orders. In addition, item based line of manufacturing facilities should be set up instead of setting up facilities for a band of items in order to be able to cater to the demand for large orders at competitive prices from big retailers and distributors.

6.5.6 The first point for consideration will be that relating to the total de-reservation of the garment sector from SSI reservation. The situation prevailing at the time of reservation is no longer available presently due to some important developments that have taken place since then. In fact, the range of products has grown exponentially to such an extent that the minimum level of investment needed to face external competition in respect of many products of importance is much higher than that prescribed. It may be noted that this is the case with respect to many of the 225 RMG tariff lines in chapters 61 and 62 of the excise/customs tariffs. Exports of certain products from India, like men's suits, jackets and blazers for men, coats and jackets for women and jerseys/pullovers command a world share of less than 0.1 percent. These products are generally those commanding high unit value realisation, and investments required for their production are way above the ceiling prescribed for the SSI sector.

6.5.7 Besides, the EXIM policy and the fiscal policy should be so oriented as to make available the inputs and capital goods to garment makers and exporters at reasonable costs. This is imperative in the light of the margins undergoing tremendous pressure with no sign of any let up.

6.5.8 While these address the price issues, those relating to service issues are equally important. For improving the quickness of response, the infrastructural issues have to be tackled, but these issues are largely economy wide and not specific to textiles, let alone garments. However, the specific steps that can be taken relate to acclimatising the exporters to e-commerce technology. Another recommendation is the installation of the rating system of exporters which will be internationally acceptable. It would enable them to acquire acceptance by the retail chains, which are becoming an important link in the distribution network. Indian exporters also have to change their 'chalta hai' attitude to quality, response time and punctuality in delivery schedule in order to gain the buyer's confidence. Change of image of the Indian exporter to a

quality conscious, conscientious and punctual supplier has to be ensured to survive and prosper in the quota-free free-for-all global trade.

6.5.9 A quantum jump in Indian exports requires a united effort by exporters, their supporting manufacturers, fabric suppliers, processors in the trade on the one hand and a number of official agencies on the other. It is beyond the scope of the Ministry of Textiles alone to create the environment necessary for a quantum jump in exports. It requires co-ordinated efforts from the Ministries of Commerce, Finance, Civil Aviation, Surface Transport, Environment, Industry and the Reserve Bank of India. It also requires support from and involvement of term lending institutions, concerned State Governments, more particularly of Delhi, Maharashtra, Tamil Nadu, Karnataka and Haryana, where bulk of export production is concentrated.

6.5.10 Given the pivotal importance of textiles as the largest gross and net foreign exchange earner for the country, a Cabinet empowered Inter- Ministerial High Level Standing Committee in the Ministry of Textiles may be thought of to co-ordinate and take decisions relating to all matters of clothing exports.

6.6 **Raw material for the clothing sector**

6.6.1 The export base of readymade garments is very narrow and the basket of such products suffers from fabric concentration, regional concentration and product concentration. The need for diversification has never been felt stronger than now. Many policies have been evolved to widen this base by improving the input base, chiefly of fabrics. Still some more action is called for. The two basic and vital raw materials for clothing segment are (i) fabrics (knit and woven), and (ii) trimmings and embellishments.

6.6.2 As regards fabrics, the predominance of cotton fabrics has resulted in linking the fortunes of apparel exports to the availability of cotton fabrics at reasonable prices, which in turn depends upon the availability of yarn at reasonable prices to the weavers. Exporters of yarn and fabrics form a distinct and exclusive class by themselves, deriving the benefits of exports. Exports of value added products are, no doubt, a national priority, but this concept is circumscribed by commercial considerations at the exporter's level. In other words, unless an exporter of yarn has facilities for weaving and finds it worthwhile exporting the resultant products, he would export only yarn. The same compulsion is operative in respect of a weaver. Therefore, suitable policy instruments are required to be put in place, in that supplying the inputs to the next activity of value addition should be made commercially attractive at least on par with direct exports so that inputs are made available to clothing exporters from domestic sources and value addition is retained more and more in the country itself. One important impediment here is that the suppliers of good quality fabric are normally in the organised sector who turn out fabric in large volumes, thereby expecting an off- take of the fabrics in like volumes. The garment

makers who are in the decentralised sector are unable to place orders in such volumes on account of their smaller volumes of production. Here again, one comes back to the question of SSI reservation which favours, apriori, smaller units.

6.6.3 One of the possible ways of greater access to local inputs is to expand the concept of deemed exports so that the sale of fabrics to garment units for conversion and exports should be accorded a 'deemed export status'. All the benefits that are due to exports, including export packing credit should be given to fabrics that are sold to garment units for conversion and exports. This becomes all the more important in respect of weavers of man-made fibre/blended fabrics. The scope of garments made out of such products should be fully utilised so that it leads to product diversification and higher unit value realisation which is the pressing need of the hour.

6.6.4 Another source of fabrics is import. Export firms in Korea, Taiwan, China etc. can import all types of fabrics under easy terms through the national policies to the extent that ready stocks of such fabrics are available in their warehouses. The demand of the industry has been that an easy scheme for importing such fabrics and accounting for them should be evolved so that the desired product diversification in the apparel sector can be achieved.

6.6.5 What is said of the fabric imports applies to trimmings and embellishments also. The need of such accessories cannot be overstated. They enhance the uniqueness and marketability of the products and ensure higher unit values. In order to encourage production of these accessories in India, manufacture of these products should be included in the list of industries where 51 percent FDI is allowed on an automatic clearance basis. Besides, for setting up of manufacturing units for any of the accessories, zero duty imports may be permitted for machinery related to the manufacturing of these items with no indigenous angle. This will encourage domestic industry to grow to international standards. In addition, exporters may be permitted import of all types of trimmings and embellishments to the extent of 2 percent of their export turnover without any restriction, on 'duty free' basis.

6.7 **Industrial reservation policy for clothing**

6.7.1 The policy relating to the garment industry in terms of reservation has been a subject of extensive study and frequent discussions in the Govt. and industry circles. The present policy defines a small scale industry as one in which the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or on hire purchase, does not exceed rupees three crore. Ironically, the upper limit has been announced to be brought down to Rs. one crore recently, though not effected so far. Garments are products exclusively reserved to be produced by such industrial units. Any expansion of investment above the limit referred to is allowed only with an attendant export obligation of 50 percent.

6.7.2 The objective of reservation might have been to preserve the employment interests of a large number of workers employed in this sector, estimated to be over 2 mn. The absence of the practice of purchase of branded products could be cited both as the cause and consequence of this reservation. Besides, the fact that the exporters make use of the present work force in its present form successfully perhaps did not lead to any restructuring. But, with the increasing competition faced by Indian garments overseas and the incipient competition in the domestic market itself in the wake of opening of the markets in the post-MFA era, a hard relook at the policy has become necessary.

6.7.3 It is only of late that the strains on the apparel sector, primarily on account of the reservation policy, have become evident and apparent. These have been mostly in the inconsistent quality of products, service issues, and poor unit value realisations. With the overseas competitors having no such restraints of reservation, a time has come to question the very need for the continuance of this policy in respect of the Indian clothing sector. It is being increasingly felt in many circles that de-reservation of this sector is highly desirable. This was, in fact, referred to in the World Bank document as one of the action points to be followed. It is felt that in order to derive maximum advantage arising out of the economies of scale and scope depending upon the entrepreneur-exporter's assessment of financial and commercial viability, the level of investment may be left to the discretion of the concerned entrepreneur by de-reservation of the garment sector.

6.7.4 It is relevant to recall here the finding in a study conducted by the NIFT, on the question of technology upgradation needs of the readymade garments industry, sponsored by the Department of Small Scale Industries. The sample exhibited a high degree of confidence among the clothing manufacturers to be able to survive or compete without the props of reservation or protection. In fact, some of them indicated that their comfortable position to face competition after de-reservation arose from their having surpassed SSI limits already. This can be ascribed to the fact that the market will provide scope for both high value and low value products and high volume and low volume products to coexist and prosper. Besides, converters will always be in demand for low volume specialised or customised items. From the employment point of view, even large high-tech units will use a fairly high level of work force except perhaps for designing and fabric cutting. Thus, the rationale for the continuance of reservation does not obtain any more.

6.7.5 In today's fast changing fashion-driven demand for clothing, there are hardly any takers for knitted fabrics, and the importers prefer to import knitted fashion apparels rather than source only fabric and get them converted before marketing and in the process, lose precious time and competitive advantage. This means that the knitted fabric sector will ideally grow in tandem with knitwear sector either as composite units or as supplier to knitwear units. Therefore, the knitting sector needs to be taken out of the SSI reservation so that greater integration between knitting and

knitwear sectors and technology upgradation and greater economies of scale etc. in the former are achieved.

6.7.6 The launch of the TUFSS and coverage of clothing segment under it also calls for the dereservation of the clothing sector in order to enable it to derive maximum benefit of the scheme by upgradation of technology.

6.7.7 Therefore, the Committee would like to reiterate its strong conviction born out of the hard realities of the emerging global trends and economic compulsions that the garment and knitting sectors should be removed from the purview of the SSI reservation forthwith.

6.8 **Foreign Direct Investment policy**

6.8.1 Foreign Direct Investment (FDI), another important policy area, is emerging as an effective instrument of globalisation. Secondly, if properly activated, this would mean for India creation of additional employment opportunities for the unskilled, semi-skilled and skilled workers. This would particularly be useful in the creation of employment for women. Thirdly, the demand for Indian raw materials will receive a boost. Fourthly, apart from the above factors, such improvements will be in respect of an industry which is generally eco-friendly. However, the experience so far indicates very limited entry of foreign investment in garment making as compared to the preceding sub-sectors. The possible reasons are the insufficient level of investor-friendly environment, SSI reservation preventing large capacity creation, labour issues and infrastructural issues. During discussions, the industry circles did not show any dis-satisfaction about the implementation of the present FDI policy. What matters, however, is the inclination of the overseas investors. It has also to be borne in mind that even outside India, garment factories are still not very capital intensive. Looking at the external scenario, the present trend seems to be one of consolidation of retail formating resulting in such strengthened retail structures accessing garments as per stringent conditions laid down by them. These underline the need for putting up viable and credible manufacturing units which could be integrated in the newly emerging distribution system, effortlessly.

6.8.2 It may be noted that foreign direct investment in China helped substantially in putting it in the top slot of garment exporters. Even neighbouring countries like Bangladesh and Sri Lanka, with almost no raw material base and much shorter history of apparel making, have created huge, state-of-the art clothing capacities and are emerging as major exporters, in the process creating a lot of employment for their masses. Hence, India needs to have a pro-active policy for inviting foreign direct investment, through a special scheme allowing up to 100 percent equity participation and exempting such units from the prescribed export obligations.

6.8.3 The textile and apparel industry is still outside the list of industries enjoying the automatic approval for 51 percent FDI. The Committee is of the view that such

approval can be thought of in some areas considered crucial for the garment sector, like specific apparels necessitating high investment, manufacture of accessories, knitting etc. It would be better still to have a dedicated FDI policy for the apparel sector spelling out the areas where such approvals will be automatic and where they will be on a case by case basis. The Committee recommends that the areas of automatic approval should be immediately identified and operationalised and also reviewed / enlarged from time to time.

6.8.4 The Govt. can provide thrust to the joint ventures by creating the necessary climate by collaborating and entering into MOU with major textile countries. The textile units of different segments of the textile value chain may thereafter enter into joint ventures with the textile units of such countries for mutual benefit, on the pattern of the automobile sector.

6.9 **Apparel park**

(i) Presently, the concept of mono product parks/zones are being promoted vigorously. Such a concept can be tried for garments, where common facilities for embroidery, quilting, washing, needle detection etc are available with minimum investment size and profile. The advantage of this concept lies in the cluster approach to development, saving considerable resources on infrastructure otherwise to be spent. The apparel park can be set up independently or as a component of a textile park. However, all parks whether textile park, apparel park or processing park, they should be "self contained". The labour laws in such parks should also be liberalised. Further, 'display centres' for fabrics should be set up close to or inside the apparel parks to enable the clothing manufacturers to have access to the entire fabric scenario in one place.

(ii) Emphasis in equal measure should also be laid on improving the inadequate or missing infrastructure facilities in existing large apparel clusters or townships, viz., Tirupur, Ludhiana etc. This issue has been dealt with in greater detail in the chapter on 'Infrastructure'.

6.10 **Human resource development**

The apparel sector offers not only vast potential for export but for employment as well. But the training facilities available in the country for various levels of operatives and managers is not adequate. Human skill is much more crucial to the quality of the finished product in garment sector than in any other textile manufacturing activity. While some private fashion institutes and NIFT provide courses at the designing and managerial level, ATDCs and a few private institutes provide the training for workers and shop floor supervisors. However, most of the ITIs do not have textile or apparel related courses. With the projected growth of the sector, there will be need to expand this facility much more in a time-bound manner. This issue has been dealt with in greater details in the chapter on 'Human Resource Development'.

6.11 Labour policy

Another important area craving for urgent attention is the labour policy. The apparel industry is predominantly decentralised, with a great deal of sub-contracting, occasioned by a tendency to avoid a large work force under a single roof which, in turn, is for extracting the maximum advantage of managing a small work force and not inviting hassles of our restrictive labour legislations. A congenial labour environment is necessary to ensure maximum productivity and skills upgradation. The perception of the industry is that the present plethora of labour legislations are one sided tilting heavily in favour of labour and consequently, lead to interference from both the enforcing agencies and the unions. This has come in the way of optimising the low wage cost into a competitive advantage. The labour laws need to be amended suitably to provide garment manufacturers certain degree of flexibility in organisational restructuring. The labour issues which have essentially economy wide implications are dealt with in detail in the chapter on "Industrial Relations".

6.12 Long term marketing strategy

6.12.1 It is very evident that textiles is a growth area at the global level. The consumption of textile products is estimated to rise from 40.2 mn. tonnes in 1995 to 51.5 mn. tonnes in the year 2004, the compounded growth rate averaging 2.3 percent. This is on account of both growing population and increase in per capita consumption. This, combined with the institutional reforms resulting in a two way market access for apparels (along with the other textile products), calls for a dynamic strategy. Such a marketing strategy should cover all components of marketing mix-product, price, promotion and place.

6.12.2 As regards products, i.e., readymade garments, their exports are characterised by fibre (cotton) dominance, category concentration, destination concentration and sourcing concentration. The combination of all these has resulted in a very narrow base of products and producers, with the result that any disturbance to this base has an injurious effect on the overall export efforts. Unless concerted efforts are taken, dismantling of quotas, instead of opening up of opportunities, would only take away the shelter provided so far.

6.12.3 The need of the hour is a shift in the emphasis to non-cotton and blended garments, especially for synthetics. Innovative fabrics have started entering the markets, which should be adopted for conversion by the garment units. Our exports are predominantly cotton based while international trade is predominantly non-cotton fibre based. While this decision has to be taken at the unit level, providing access to these products in a smooth and cost effective way through appropriate import and fiscal policies rests with the Govt., both in the medium and long term.

6.12.4 Talking about product concentration, only five products constitute 75 percent of the apparel exports. Quotas for some high value garments literally go abegging. All these require a change in the mindset of the entrepreneurs, and smoother provision of necessary inputs through appropriate policy measures.

6.12.5 There remain quite a few products for which special additional quotas are given, if produced under special programmes like OPT. Such programmes are presently available with the US, EU and Australia (which is a non-quota destination). For various reasons including entrepreneurial inertia, these facilities are not being used. Efforts are called for at the level of units to enter into such areas, suitably supported by adequate policy interventions by the Govt. It is gratifying to note that the Govt. has initiated certain measures in this regard which should help not only the creation of more business, but also towards the establishment of linkages which are crucial for Indian exporters in the light of the changes that are taking place in the distribution system.

6.12.6 Stepping outside the confines of quota items, any number of items are still available for production and export, viz., products like industrial clothing, institutional clothing, nightwear and lingerie. The Committee is of the view that Indian exporters should concentrate on such items where the unit value, volume demand and scope for market penetration are attractive.

6.12.7 With the fall in prices of synthetic fibres and yarns, shifting of our export focus to synthetic garments partially, will enable the garment industry to have its presence felt in importing countries throughout the year instead of the present seasonality in demand for Indian garments.

6.12.8 There are several apparel items which are yet to be addressed in export market. The garment industry will have to expand its production base from traditional 6-7 apparel items to other non-traditional items including industrial and technical textiles demanded in world markets. The industry can enter into joint ventures with manufacturers abroad for manufacturing such garments where required know-how may not be fully available indigenously. The industry will have to set up large units of 800 to 1000 machines under one roof, along with traditional small units which are known for their flexibility and quick response to markets.

6.12.9 Industry also needs to improve its export market base by making a dent in newly emerging markets like South Africa, Latin America, West Asia and Far Eastern Asia etc.

6.12.10 Another important strategy with regard to the products lies in improving the intrinsic and extrinsic worth of the product through design features, utility features and the like. Such design and utility features being perishable in nature, constant innovation is the only answer. On its part, the Govt. can provide an infrastructural framework, viz. CAD/CAM facilities, training of designers, providing fashion design intelligence etc.

6.12.11 A strong nexus is required to be developed between designers, weavers and clothing manufacturers to respond speedily to the dynamic market scenario.

6.12.12 To improve the value addition, it is essential to set up high-tech processing facilities by taking advantage of the TUF Scheme. Such processing facilities can be set up by the professional associations or apex societies. Even a group of clothing

manufacturers can set up processing plants for captive consumption. The individual entrepreneur can also be incentivised to set up common processing units in the clusters of clothing and knitwear units.

6.12.13 As already mentioned, the pricing initiative is no longer available in the hands of the exporters in view of the intense competition presently experienced and which is expected to grow further. For a given item to secure a higher unit value realisation, efforts are called for at the unit level from the exporters. This is possible by only increasing the 'value for money' by improving the innovativeness in the products referred to above. As the price is almost an exogenous factor, the initiative, if any, is left to the unit only in controlling the costs of production. It is equally true that if service issues (quality, QR, punctuality etc.) are adequately taken care of, price is only a secondary issue. Here again, the initiative primarily rests with the individual unit. However, some specific issues merit mention as described below:

- (i) Promotion efforts are already on through the efforts taken by individual exporters through the traditional channels like advertising, participation in exhibitions and trade delegations, both at the official and industry level etc.
- (ii) One of the effective promotional strategies is brand promotion. With a view to establishing cost-effective and high quality modern production lines, some of the units will have to pick up certain items of core competence and specialise in them. The entire set up of plant and machinery for sewing, finishing, packing and storage will have to be in line with this concept. Special emphasis will have to be paid towards packing, containerisation and other modes of shipping so as to save reconditioning and distribution costs to the customers. The sourcing of fabrics and other raw materials will have to be done at the cheapest prices for both domestic and overseas markets. In other words, the entire effort will have to be towards fighting global competition. For some other exporting units, it will be more advantageous to enter into licensing arrangements for manufacturing branded goods for sale domestically and for export in a market where no licensing arrangements exist so far. The strategy for such units will need serious R. & D. for all latest raw materials developed worldwide so as to establish a position of leadership. The licensing principals will import such knowledge at all times in their own interest.
- (iii) However, all these call for employment of considerable resources. Hence, a separate 'Brand Equity Fund' for the textile industry may be set up.
- (iv) The onset of web marketing is bound to occupy a prime place as a promotional tool replacing the traditional ones mentioned above. In view of the smallness of the garment units, adoption of this tool may be beyond their financial purview. However, a common promotional

scheme through the web can be thought of with the AEPC taking the initiative. The concept of brand promotion for Indian tea can be extended to this sector, incorporating this new tool for such promotion.

- (v) Apart from the creation of new brands and popularising them, acquisition of brands from overseas, is also a strategy worth trying. It is reported that China has set a target for itself for acquiring within a fixed timeframe a certain number of brands for their garments. The issues relating to 'Made in India' label and brand equity fund are discussed in detail in chapter on 'International Trade'.

6.12.14 Turning to the distribution question, it is reported that there are very significant developments taking place, both in the US and the EU with regard to retailing operations. The important retail trend changes are concentration of retailers, emergence of non-textile retailers and vertical chains, private labels and direct sourcing. These are collectively called verticalisation. Through concentration, the buyers provide large volumes and big lot sizes. These retailers have normally better competitive edge due to lower cost of materials consumed. Due to the emergence of private labels like Marks and Spencer, John Leaeis, Selfriges etc., price, material and overall quality have become more important criteria than brand names. They get into verticalisation to improve margins and to control quality. They source the fabric on their own, specify yarn qualities and determine upstream suppliers (spinners). They have the garment made through job work in Asia, Turkey or North Africa.

6.12.15 As a result, the Indian exporters have to readjust to the emergence of these new trends. Retailers will have to be accepted as a new type of customers who have different purchase behaviour from wholesalers with regard to buying pattern, delivery schedules and quality approach. These should be perceived actually as new growth opportunities by the exporters though their present arrangements have to be revamped to meet new production and logistic requirements. Instead of selling to whosoever is available, the future strategy lies in identifying the emerging powerful retail champions and becoming an integral part of the sourcing chain.

6.12.16 One of the most important developments of operational significance is the powerful entry of e-commerce, not as a matter of choice or convenience but as one of compulsion and cost cutting necessity. Documentation costs being estimated at around 10 percent of the costs, e-commerce is being made a pre-condition for the export business by many importers. Efforts are called for to adopt this technology by the clothing exporters with suitable policy support from the Govt.

6.12.17 In view of quicker communication and globalisation, the role of strategic alliances between export firms and foreign partners needs to be promoted at a faster rate than ever before. Such alliances in the form of joint ventures (equity participation, brand licensing, technology transfer, know-how transfer, training, buyback arrangements, distribution arrangements, access to market, existing or new), licensing arrangements, (brand licensing, provision of designs, buyback arrangements,

distribution arrangements and exclusive import of licensed goods) or provision of technology and know-how (technology transfer, know-how transfer, training, buyback arrangements, distribution arrangements, joint product development) have to be carefully chosen with reference to the strategic objectives of the companies involved.

6.12.18 What the Committee has recommended above with regard to the export of clothing, applies equally to the domestic apparel sector as the distinction between that sector and the export sector is getting blurred day by day. As a matter of fact, this distinction will vanish after 2004 AD as exporters from other countries will have by then full access to our domestic market where consumption of ready made garments is steadily growing.

6.12.19 The international reputed fashion designers should be encouraged by the govt. to promote Indian fabrics and clothing.

6.12.20 International apparel mart should be set up to facilitate display of different kinds of apparel produced in the country at one place for foreign buyers. Display centres should also be set up in different parts of the country to enable the clothing manufacturers to display their products. In the display centres space may be leased out to manufacturers on a yearly basis. Such centres will increase the exposure of the small clothing manufacturers who may not otherwise have time and money to invest in the marketing of their products on a large scale.

6.13 **Linkages between the retailers and clothing manufacturers**

6.13.1 The Committee has observed that there is strong linkage between the clothing manufacturers and retailers in European countries, which has led to the growth of this sector. Therefore, the Committee decided to study this aspect in the Indian scenario also. In India, the retail chains are very weak owing to the disorganised form of retailing. It may be recalled that the marketing mix is largely influenced by the production function prevalent in India. Garment making has been reserved as an SSI activity which has contributed to the shaping of the retail trade. Another important factor is the price sensitivity of purchase of garments which has perpetuated the system of production of garments through the tailoring shops instead of their purchase from retail shops. The purchase practices are shaped by considerations like the purchase power of the consumer, rural-urban orientation, value for money consideration etc.

6.13.2 It has been found that rural areas do not obviously favour readymades, the consumers preferring to get the garments stitched from local tailors. Another possible reason is the relatively low impact of western culture. Of the garments retailed, ladies-wear was found to have the maximum market share. There is a regional variation of market penetration of various types of garments, viz., mens-wear having highest market in Assam and lowest in Gujarat. It has been estimated that 58 percent of the outlets are multi-product outlets. It has been found that readymade garment sale in the urban areas account for almost 90 percent of the total domestic sales.

6.13.3 It has been mentioned earlier that most of the garment making units are in the small scale sector and to that extent they are likely to be working as fabricators to the retail outlets supplying the wares on credit terms. At the lower end of the market,

there does not appear to be any serious marketing efforts. As one approaches the higher end of the market, real marketing efforts are undertaken either by the producers or by the retailers. As regards the former, the reference is to the few big players. They are no doubt constrained by the SSI reservation, but they seem to have got around this problem through a system of franchises. Various types of retail formats are available to such players like exclusive show rooms, franchised show rooms etc. Such show rooms normally are multi-product outlets, the reason perhaps being the commercial non-viability of exclusive apparel outlets. Serious marketing efforts also include brand promotion, attractive sale offers etc.

6.13.4 As regards middle level makers of garments, the concentration seems to be on exports rather than on retail sales. To that extent, there seems to be a water tight compartmentalisation. The main reason why exporters do not show any interest to supply to the domestic market seems to be the hassles of receivable management.

6.13.5 As regards marketing efforts by retailers, the concept of store brands is yet to develop in our country in contrast to the situation prevalent in the developed West (e.g. Marks & Spencers).

6.13.6 All this is bound to change after 2004 with the opening up of the Indian market to apparels from overseas. It is likely that forewarned by the experience of overseas producers of white goods in the Indian market, large scale operations may not be launched. If any, only joint ventures with local entrepreneurs might be preferred in the short term. However, the retail market is bound to undergo structural changes in the long term. The Committee is of the considered view that given the real possibility of serious competition from foreign branded as well as cheaper products in the post MFA era from 2005, there is a very strong case to de-reserve the apparel and knitting sectors from the shackles of SSI stipulation, so that not only adequate high-tech, big-capacity units are set up in the country to prepare them to face the competition in the remaining 5 years of the protected trade regime but also open up the smaller operators to internal competition first before facing the overseas ones and also to build up stronger converter - exporter relationships. Not doing so even at this rather late stage would be a blinkered view of protectionism leading to medium and long term disaster.

6.13.7 As the retail marketing is purely in the private sector, the Committee is of the view that the role of the Govt. would be, to that extent, limited. However, certain areas would still call for govt. intervention in the larger public interest. To facilitate the standardisation of production, an exercise is called for to organise an anthropometric survey in the country accommodating the regional variations to provide a benchmark for the garment manufacturers. Likewise, under the Consumer Protection Act and/or quality standardisation of apparels, labelling eco and health parameters and other consumer protection measures are called for to protect the interest of the consumers.

CHAPTER-7

JUTE INDUSTRY

7.1 Introduction

7.1.1 Jute industry occupies an important place in the national economy. It is one of the major industries in the eastern region, particularly in West Bengal. It supports nearly 40 lakh farmer families, besides providing direct employment to 2.5 lakh industrial workers and livelihood to another 20 lakh people in secondary and tertiary sectors. The principal outlet for jute goods is in the packaging area. Jute meets, all the standards for 'safe' packing in view of its inherent advantages of being a natural, renewable, biodegradable and eco-friendly product.

7.1.2 The jute industry consists of 73 composite jute mills, 59 of them (81 percent) in West Bengal, with an installed capacity of around 19.5 lakh metric tons per annum, a large part of which remains unutilised due to a mis-match between demand and supply. The decentralised sector consists mainly of a number of twine and spinning units, a few converters-cum-processors and some units in the handloom and handicraft sectors, there being no independent powerloom units.

7.2 Present scenario of jute industry

7.2.1 In recent years, problems of the jute industry have multiplied and it is struggling for survival. The difficulties faced by the industry have arisen from several structural weaknesses. These are : (a) **Instability in production of raw jute** - Sharp fluctuation in production and prices of raw jute has been witnessed from season to season and within the season, primarily on account of influence of weather and unremunerative return to the growers. This has been a cyclical phenomenon. The lack of matching buying support from trade and industry and inadequate market intervention by the institutional agencies have compounded the problem. (b) **High labour cost** - The labour cost in the industry is exceptionally high and accounts for 35 - 40 percent of cost of production. Payment of wages is not linked to productivity. The low labour productivity, coupled with bloated man - machine ratio, has resulted in a high mandays per tonne which is commonly used for measuring productivity. This varies from mill to mill and ranges between 30 - 50 mandays per tonne, with majority of the mills having 40 - 45 mandays per tonne. The industry has been carrying a large surplus labour force who have already reached the retirement age and the industry is unable to retire these workmen due to shortage of funds. All this has pushed up the wage cost tremendously. (c) **Demand erosion** - The unequal and growing competition from synthetics has posed a serious problem in the domestic market. The markets for packing cement, chemicals and fertilizers (except urea) have been totally lost to low-priced synthetic packaging. Even in the case of urea, more and more synthetic bags are being used in violation of the statutory reservation order issued under Jute Packaging Materials (Compulsory Use in Packing Commodities)

Act of 1987. The principal commodities which are still using jute bags are foodgrains, oilseeds and sugar. However, the packaging demand from these agro-based commodities are seasonal and fluctuating in nature and hence, the industry is not assured of a steady demand from these sectors round the year. Moreover, sugar industry has recently been allowed by the Govt. to use 20 percent non-jute packaging material in the event of 'temporary shortage' of jute bags. Export demand has stagnated at around 2 lakh tonnes per year due to intense and growing competition from Bangladesh which is freely offering jute goods at discounted prices in markets abroad. World export of jute goods has remained virtually static at around 8/9 lakh tonnes per year due to introduction of bulk cargo handling and inroads from synthetic packaging. **(d) Obsolescence of machinery** - The industry has been working with obsolete equipments and technology with a disproportionately large workforce and excessive power consumption. Proper upkeep and maintenance of machinery has suffered. Suitable new technology machinery with higher efficiency and speed are, by and large, not manufactured within the country and import of such equipments is very costly. **(e) Uneconomical working** - While cost of production has been ballooning due to inefficient factors of production and inexorable rise in cost of wages and other inputs, realisation from sales has substantially lagged behind cost and as a result, the gap between cost and realisation has further widened.

7.2.2 The combination of these factors have resulted in widespread sickness in the jute industry. The cases of as many as 29 out of 59 jute mills in West Bengal have been referred to BIFR and many of them are now being run under rehabilitation arrangements reached with the approval of BIFR. In addition, a few sick units are running under court orders. Statutory dues like PF, ESI, sales tax etc. have run into huge arrears from a number of mills and bank account in respect of several mill companies have become irregular. Placed in this situation, adequate resources are not available with majority of the mills for funding large-scale modernisation and renovation of machinery.

7.3 Policy prescriptions in the past and impact thereof

7.3.1 Curiously, the existing Textile Policy of 1985 has made no reference to jute industry. In fact, for jute textiles, there is no integrated policy. However, Govt. of India had taken various measures and formulated several schemes from time to time to promote modernisation, diversification, product development, R. & D. efforts, exports, and also to generate demand for the packaging material in the domestic sector. Of these measures, the most important ones were Jute Modernisation Fund Scheme of Rs.150 crore, Special Jute Development Fund of Rs.100 crore, inclusion of jute in multifibre textile policy, enactment of Jute Packaging Materials (Compulsory Use in Packing Commodities) Act, implementation of GOI-UNDP assisted National Jute Development programme, grant of external market assistance on selected value - added jute products, permission for duty-free import of jute machinery for a limited period, setting up of National Centre for Jute Diversification, cost-plus purchases of

jute bags for packing foodgrains, etc. While some progress has been made under these schemes in the areas of R. & D., product development, extension of diversification activities in the decentralised sector, modernisation programme which was implemented under the Jute Modernisation Fund Scheme made limited progress with disbursal of a mere Rs. 51.73 crore, due mainly to non-availability of indigenous machinery and prohibitive cost of imported machinery coupled with high incidence of import duty and large scale sickness in the jute industry. The Special Jute Development Fund of Rs.100 crore was set up to provide financial support for implementation of a number of activities in raw jute sector, industry, labour, R. & D. and product development related to jute. While progress of utilisation of earmarked funds for agriculture, R. & D. and product diversification was by and large satisfactory, that for industry/labour sector did not make adequate progress due to various practical difficulties encountered and unsatisfactory utilisation of JMFS package with which it was closely interlinked. The jute industry has not derived the desired benefits from the operation of mandatory jute packaging order due to large-scale violation since its inception by the cement industry and inadequate enforcement. The Export Market Assistance Scheme being administered by JMDC has had a good impact on export of yarn and certain other value-added products. However, non-availability of adequate funds with the Council has led to huge arrears of payment of EMA claims. Each of these measures was well-intentioned to support the jute sector, but the desired impact could not be realised as implementation suffered from various hurdles. As a result, both domestic and export demands have stagnated and the incidence of sickness in mills is growing. Cost of production has been rising steadily and markets for traditional packaging materials have been shrinking rapidly.

7.3.2 A number of central and state agencies, of which the Jute Commissioner is the principal one, and support organisations, viz., Jute Manufactures Development Council(JMDC), Jute Corporation of India (JCI), National Centre for Jute Diversification (NCJD), Directorate of Jute Development, Indian jute Industrial Research Association (IJIRA), Central Research Institute for Jute and Allied Fibres (CRIJAF), National Institute of Research on Jute and Allied Fibre Technology (NIRJAFT), Bombay Textile Research Association (BTRA), (South India Textile Research Association (SITRA), (Ahmedabad Textile Industry Research Association (ATIRA), Wool Research Association (WRA), Institute of Jute Technology (IJT), etc. are involved in various jute-related activities, but there is very little co-ordination between these agencies and organisations. The Committee is of the view that there is an urgent need to formulate an integrated jute policy encompassing all activities in the jute segment which should work under the overall guidance of an apex body for co-ordinating the activities of different organisations and effective monitoring of the development programmes at the field level so as to harness the benefits thereof in a more focussed manner. Since in the Committee's opinion the future of jute lies in jute diversified products (JDP's) involving other fibres and textile processing systems,

involvement of the Textile Commissioner in the apex co-ordinating body will also be desirable.

7.3.3 The main focus of the integrated policy should be to achieve an increase in productivity and upgradation of quality of raw jute on the one hand and to stimulate additional demand for jute goods both in domestic and international markets on the other. It should also aim at development of new generation, cost-competitive and performance-effective jute and jute-blended products through upgradation of spinning and weaving technology to achieve higher rate of productivity and value addition. While steps for product improvement, modernisation and diversification of product-mix towards value-added items should be actively encouraged and liberally supported by funds, greater attention would need to be paid for promotion of packaging material for both conventional and new end-uses, with emphasis on bio-degradable and eco-friendly attributes of jute as a natural fibre so that the industry does not depend solely or primarily on mandatory packaging regulations.

7.4 **Sickness**

7.4.1 Of 73 jute mills in India, 29 units have been identified as sick and many others are approaching sickness due to growing disparity between cost of production and price realisation which has eroded their economic viability.

7.4.2 In order to remedy the situation, the following areas have been identified by the Committee for attention on a priority basis :-

- (a) A radical change in the approach for improving quality-composition and productivity of raw jute backed by matching, need-based marketing support;
- (b) Liberalised import policy of capital goods including second hand imports;
- (c) Cost reduction through technological up-gradation and indigenisation of machinery manufacture with adequate fund support from the Govt. on softer terms;
- (d) Manpower rationalisation through liberalised labour policy and introduction of productivity-linked wage structure to bring down high wage cost;
- (e) Setting up power plants, including captive generators, to cut down mounting power cost, and improving the quality of power.
- (f) Greater emphasis on diversification in both organised mill sector and decentralised sector and gradual integration with other fibre textiles

through diversified jute products (JDPS) except perhaps for the traditional commodity packaging component.

- (g) Intensification of R. & D. efforts towards product development for performance-effective and cost-competitive packaging and non-packaging products;
- (h) Vigorous thrust on expansion of marketing outlets for both traditional and diversified jute products within and outside the country through active support from the Govt., wherever necessary;
- (i) Intensive campaign for promoting jute packaging for coffee, cocoa and other edible items. Hydrocarbon--free jute bags have been found completely safe for packing of coffee, cocoa beans and edible nuts in European countries. Thus, compulsory use of jute bags may be stipulated for a limited period for identified products in the country to promote use of jute bags.
- (j) Accent on HRD for building up a trained manpower cadre at the plant level; and
- (k) Setting up an apex body for securing greater co-ordination between different agencies operating in the jute sector.
- (l) The Govt. may work out criteria in consultation with TRAs and AIFIs for potential viable and non-viable sick mills. The viable sick mills may be revived through rehabilitation fund while non-viable sick mills be permitted to close down and allowed sale of assets to pay the statutory and other dues. For easy exit policy, the Committee has recommended liberalisation of the I.D.Act. The issue has been discussed in detail in the chapter on “Industrial Relations”.

7.4.3 The Committee has spelt out the specific measures required, in the relevant paragraphs of the chapter. Some issues like labour laws and human resource development, which are common to all segments of the textile industry are dealt with comprehensively in the relevant chapters.

7.5 Productivity of raw jute and upgradation of quality thereof

7.5.1 The area under jute cultivation ranges between 7 and 8.5 lakh hectares and that of mesta has remained at around 2 lakh hectares. While there has been an increase in productivity (11 bales / hect.) in case of jute, which is more or less at par with Bangladesh, that of mesta has remained stagnant at around 5-6 bales / hect. as against over 14 bales / hect. already achieved by China. Since further area expansion is not feasible due to pressure from other competing crops, concerted efforts are required for

increasing the productivity of raw jute and improving the quality. Production of superior grades needs to be stepped up for meeting the increasing requirements for diversified jute products and reducing import-dependence.

7.5.2 Productivity of jute and mesta can be improved through development of short-duration and drought-resistant, improved/hybrid variety of seeds which could withstand water-logging to some extent and fit in rotation of transplanted paddy. The production of breeder, foundation and improved seeds needs to be stepped up so that around 90 percent of total area can be saturated by high-yielding strains as against the present 50 percent. While CRIJAF can take care of the entire production of breeder seeds, the existing arrangements for production of foundation seeds and multiplication of improved seeds would need to be strengthened. At the same time, the distribution channel for certified seeds would also need to be restructured so as to ensure timely positioning of seeds at various distribution points within easy reach of growers. No new variety has been released in the last two decades except one olitorious variety. Again, for mesta, certified seeds are not available and the seeds which are now being used are multiplied by private agencies, there being virtually no control on their operation or quality parameters. The problems in these areas would need to be resolved.

7.5.3 As for upgradation of quality, there are two major areas which would need to be tackled. These are adoption of (a) line sowing on a large scale backed by improved technology for weeding and thinning and (b) improved methods of retting through application of ribbon retting technology and enzymatic treatment.

7.5.4 Jute agriculture is labour intensive and the average requirement of labour works out to about 300 mandays / hectare, of which nearly 100 are required for weeding and thinning operation. The mandays / hectare. could be reduced to a large extent through use of weeders and application of suitable weedicides.

7.5.5 Provision of adequate marketing support to growers is crucial for bringing about planned improvement in productivity and quality as the returns to the farmers influence their decision to bring the area under jute cultivation. The present system of marketing of raw jute suffers from various imperfections, with a large number of intermediaries functioning between the grower and the final buyer. This is the main obstacle standing in the way of realisation of a remunerative price by farmers. Effective intervention by JCI can remove the marketing maladies to a great extent and stabilise raw jute prices at reasonable levels. As jute and mesta development programme (JM DP) is implemented through the concerned State Govt.s, they will be required to accord highest priority to bring about an improvement in productivity and quality. Price support operation by JCI, whenever required, can be enlarged if co-operatives, particularly village-based primary societies, are activated for involvement in procurement under the protective umbrella of JCI. The Committee is of the opinion that the concerned State Govt.s should play a positive role for gearing up the co-

operative network to provide effective marketing linkage to jute farmers as agents of JCI for proper implementation of MSP. Most of the jute markets lack the essential facilities of smooth trading like grading, auctioning, weighment, storage etc. inspire of collecting a levy for operation in these markets. There has to be greater co-ordination between the concerned Central and State agencies for effective implementation of the various developmental schemes. The Committee is of the view that better attention be paid to improving the productivity of jute. Once the production is increased, market forces will then take over, and the need for market intervention by JCI may not be all that necessary.

7.5.6 The Committee is of the view that a Technology Mission for Jute (JTM), on the lines of Cotton Technology Mission would be a step in the right direction for effective implementation of JMDP and also for strengthening of marketing infrastructure including involvement of jute industry through adoption of pilot areas for supply of necessary inputs at subsidised prices, demonstration of improved package of practices, extension of adequate marketing support to farmers etc. The Mission may consist of two mini-missions - one to look after improvement in productivity and quality to be administered by the Union Ministry of Agriculture and the other for improvement of infrastructure for marketing arrangements for raw jute to be operated by the Ministry of Textiles. The operational modalities and fund requirement may be worked out jointly by the Union Ministries of Agriculture and Textiles.

7.5.7 For effective implementation of the proposed JTM, active involvement and participation of the concerned State Govts. is essential. For this purpose, the Committee recommends that a joint working group consisting of senior representatives of the Union Ministry of Agriculture, Ministry of Textiles, main jute/mesta producing State Govt.s, R. & D. organisations and representatives of jute consumers etc. should be set up for periodically monitoring the implementation of the programme at the field level.

7.6 Productivity of jute industry

7.6.1 Given the present inherently uneconomical cost structure, an organised drive should be launched to cut down the mounting costs of (a) raw material (b) wages and (c) power in order to ensure competitiveness of jute products. For achieving cost reduction, technology up-gradation should be accorded top priority to achieve higher rate of productivity through gradual indigenisation of machinery manufacture in critical areas like preparatory, spinning and weaving. Incidence of wage cost could be reduced by achieving 30 mandays per tonne considered to be practicable with the available machinery (20 after upgradation of technology) with the active co-operation of workers and their agreeing to a proper man-machine ratio. The resultant redundancy of labour could be adjusted against natural wastage, redeployment and retirement of a large number of super-annuable redundant workers after payment of gratuity dues from sale of its surplus assets, i.e., land asset. The industry

representatives pointed out that at least 50 percent of wages should be linked with productivity over a period of time. The Committee is supportive of this suggestion and recommends that a dialogue should be initiated with the labour unions with the active intervention of the State Govt.(s) so that the concept of linking wages with productivity is accepted in the long term interests of the workers and the industry and its coverage is increased in stages.

7.6.2 Jute mills may be freely allowed to set up their own power plants including captive generators to cut down mounting power cost and improve the quality of power. The present stipulations requiring the approval of the State Govt. for installation of captive power generation should be done away with and mills should be freely allowed installation of captive generators without any restrictive conditions.

7.6.3 Product mix should be gradually changed by the industry with the main emphasis on development of lighter, stronger and small-sized consumer packs with aesthetical appearance and features like moisture barrier, fire retardancy, water proofing, rot proofing, dyeing, bleaching, printing etc as per customers' requirements.

7.6.4 As units in the decentralised sector largely depend on jute mills in the organised sector for supply of yarn (including blended yarn) and cloth, a close linkage between the two sectors should be forged with requisite support from organisations like NCJD and JMDC. Production of jute blended yarn and fabrics in admixture with fibres like ramie, flax, cotton, wool, viscose, etc. should be encouraged.

7.6.5 There is an urgent need for co-ordinating the activities of various R. & D. institutions engaged in development of diversified jute products to ensure transfer of technology and commercialisation of products at the unit level. They should also pay greater attention to the introduction of a new product range in the packaging sector through improvement in machine and labour productivity, conservation of power, in-process quality control and manpower training, with accent on eco-friendly and bio-degradable attributes of jute products.

7.6.6 The other area requiring attention is standardisation and quality control of both traditional and non-traditional jute and jute-based products. The Committee recommends that establishment of a brand name or symbol like 'Jutemark' comparable to the 'Woolmark' may be used on jute consumer products which will involve laying down of acceptable quality parameters and establishment of facilities for testing and quality assurance marking. This will generate greater confidence in the minds of consumers and help promote sale of these products.

7.6.7 Entrepreneurs including the existing units in the organised sector should be encouraged to set up spinning, weaving, processing, finishing and packaging units in areas where the main users are located. This will result in considerable cost-saving and enlarge the usage of jute in packaging and non-packaging areas. With lower wages and low overheads and better market-driven demand and production profile, these units will be an economically viable proposition. For the establishment of such

units, entrepreneurs should be extended necessary financial incentives that are presently available for new industrial ventures. The recently launched Technology Upgradation Fund Scheme (TUFS) would come handy for this purpose.

7.7 Strategy for modernisation of jute industry

7.7.1 The strategy for modernisation should consist of a dual approach for technology upgradation and adaptation, one to upgrade the existing machinery for production of conventional items of jute goods at a competitive cost by development of low-cost conversion kits, and the other to induct new technology equipments for production of value-added diversified products. Suitable new technology machinery is not available indigenously except for a few and import of such new equipments is not cost-effective. However, fairly good quality second-hand equipments are available abroad and quite a few mills have imported them for value-added exportable items like carpet, yarn etc. Hence, the main thrust of the policy should be to make all-out efforts for gearing up indigenous manufacture of high-speed high technology equipments at affordable prices to reduce cost of production and improve product quality. The Committee is happy to note that a beginning in this direction has already been made under the UNDP - supported programme. These efforts would need to be intensified and the R. & D. cost for such machinery should receive liberal fund support, preferably as a grant, from the GOI-UNDP support programme. This will enthruse leading machinery manufacturers to take up development of appropriate jute machinery with high-speed energy -efficient and other advanced features. As, however, indigenisation of new technology machinery will take some more time, import of both second-hand and new equipments by jute mills should be allowed on a duty-free basis for keeping the cost of investment manageable for jute mills.

7.7.2 The Committee noted that the utilisation of funds under Jute Modernisation Fund Scheme of Rs.150 crore, which was introduced in November,1986, was not satisfactory due to (a) non-availability of improved machinery from indigenous sources; (b) poor financial health of the mills; and (c) strict terms and conditions laid down by financial institutions which made many mills ineligible for assistance under the Scheme. Till 31st April'95 only Rs.51.73 crore could be disbursed for 16 cases out of the sanctioned amount of Rs.97.72 crore covering 25 cases. This Scheme was terminated from 1st April'95.

7.7.3 As stated before, the Govt. has recently launched a Technology Upgradation Fund Scheme (TUFS) for textile and jute industries. The representatives of the industry, however, pointed out to the Committee that the jute industry, with a large complement of sick units, would not be in a position to take advantage of the TUFS as most of them would be unable to meet the conditions laid down under the scheme. They suggested that (a) a provision should be made for sanction of special loan on softer terms to meet a part of the promoters' contribution for weak but potentially viable units as otherwise it would be difficult for them to mobilise the required

promoters' contribution out of their own resources ; (b) since new machinery with advanced technology are, by and large, not manufactured commercially within the country and import of such equipments is prohibitive, upgradation of existing technology machinery with additional attachments for higher speed and efficiency and acquisition of appropriate second hand machinery should also be permitted ; and (c) interest reimbursement of 5 percent would not be adequate considering the widespread sickness in the jute industry and, hence, another 5 percent may be made available from enhanced cess collection for which a proposal is pending for consideration of the Ministry of Textiles.

7.7.4 However, given the thrust of TUFSS on technology upgradation across the textile economy and not rehabilitation of sick units, it will be difficult for the Committee to recommend drastic departures for one sector. The Committee feels that in the absence of availability of new machinery of appropriate technology, all other issues become redundant, and hence, maximum emphasis must be laid, with liberal govt. support, for massive time-bound R. & D. to produce high-tech machinery indigenously in the next 2 years or so and commercialise them so that the industry can have access thereto within the 5 years of TUFSS operation. In the immediate context, a liberal import duty structure on import of new or second hand machinery and a more liberalised vintage stipulation of, say, 10 years instead of the present 5 years would help the healthier units to access TUFSS funds for technology upgradation. Together with VRS facility provided in the TUFSS, such units should not find it difficult to make themselves lean and fit. Sick units will have to follow the BIFR route and those found not viable should be wound up. The Committee is of the considered view that sick and unviable units have no place in a market-driven economy and oxygen of concessions does not serve any worthwhile propose. It is better that such resources are utilised for creating new viable assets and jobs. However, the Committee has recommended setting up of a rehabilitation fund to bring the potential viable units upto the credit worthiness level of the TUFSS so as to enable such units to avail of loan under TUFSS in due course.

7.8 **Product diversification**

7.8.1 With the shrinking demand for traditional packaging products, greater attention would need to be paid for improving performance of conventional products and manufacturing diversified and eco-friendly products. Under GOI-UNDP assisted national jute development programme, a number of promising technologies have been developed for manufacture of diversified products like jute composites, fine yarn including blended yarn, jute non-wovens, etc. with the active involvement of both jute and textile research organisations in the country. Commercialisation of these identified technologies needs to be accelerated. This will call for greater co-ordination between jute and textile research associations of the country for development of techno-economically viable technologies and building up of a strong linkage between jute industry and R. & D. institutions for effective translation of proven technologies

into marketable projects. Development of improved technology machinery within the country has been taken up under this programme, but it would need to be intensified. The Committee was informed that this programme would be expiring in March, 1999 and that UNDP-CCF 1 (Country Co-operation Framework) programme covering four product groups including jute would commence from April, 1999 for three years. The Committee is of the view that considerable follow-up activities in different fields would need to be undertaken in order to consolidate the achievements under national jute development programme so as to reach a level of sustainability.

7.8.2 Quite a few items like shopping bags, floor covering, decoratives, wall hanging, etc have already been developed which have a large potential market both within India and abroad. Production-base of such diversified products needs to be strengthened and an aggressive marketing strategy adopted for promoting such products. Since packaging items will continue to be the mainstay of the industry, efforts should be made to upgrade such products so as to reduce cost and improve performance. New generation, cost-competitive and value added packaging products as well as fabrics made with jute blends of other fibres like wool, ramie, flax, cotton, rayon, etc. should be developed. These products should be treated as diversified products and need-based assistance provided for stepping up their production and marketing.

7.8.3 The use of jute-based geo textiles in areas like erosion control, separation, filtration and drainage and soil reinforcement has already been established through extensive field trials in different states. An aggressive marketing campaign requires to be launched for promoting their use in these areas, for which extension of necessary support by the Govt. is required as most of the user agencies like roads, irrigation, railways, forest, ports, etc. are either in Central or State sector. Similarly, there is a very large potential for expanding the use of food grade jute bags for packing various food products like cocoa beans, coffee beans, shelled nuts within India and abroad. In addition, the possibility of commercial introduction of these bags for packing other edible products would need to be explored. For this purpose, there should be a continuous dialogue between producers and users with the active support of JMDC. The eco-friendly and bio-degradable properties of jute should be propagated both in international and domestic fora for promoting the usage of various jute products.

7.8.4 To encourage investment in diversified jute projects, import of plant & machinery including second hand machinery with no indigenous angle may be permitted with 'zero' duty. Income Tax holiday for a period of five years and accelerated depreciation at the rate of 125 percent may also be allowed for such units.

7.8.5 The Committee was informed that the Special Jute Development Fund of Rs.100 crore set up in 1986-87 stands exhausted. Given the inadequacy of even the revised cess funds to meet an developmental needs of the jute sector, particularly JDP's, a special fund to supplement the cess collections may be created for funding

various development related activities in the jute sector, which will require heavy investment. The Committee would, therefore, recommend that the jute industry should be assisted by the GOI by establishing a revolving fund of at least Rs.300 crore exclusively earmarked for implementing different identified schemes for long term growth and development of the jute sector which should, inter alia, cover product development and R. & D. support, HRD, development of new generation jute mill machinery, venture capital assistance for manufacture of diversified jute products, labour rationalisation through retirement of superannuable redundant workers after payment of gratuity and other dues, and other similar short and long term developmental/ restructuring programmes.

7.9 **Marketing strategy**

7.9.1 The external market assistance scheme being operated by JMDC out of cess fund collection for giving marketing support for export of diversified and value-added jute products produced by the organised and decentralised sectors should be continued at least upto the end of the 9th Plan. The scheme should be enlarged to cover geotextiles (which have a large potential in export markets) so as to neutralise the incidence of higher ocean freight and market development costs.

7.9.2 JMDC should accord equal priority for promotion of markets for both packaging and diversified products through participation in trade fairs and exhibitions, buyer-seller meets, visit of delegation and other promotional efforts.

7.9.3 The fund generation of around Rs. 20 crore per year through levy of cess on jute goods at present rates is not adequate to meet the assistance required at various levels. The Cess Act should, therefore, be amended suitably to augment cess collection so as to permit broad-based fund utilisation by JMDC covering the activities envisaged in JMDC Act. This could be done by changing the present system of levying cess at specific rates per tonne to ad-valorem rates and fixing it at 2 percent of the value of different items through restructuring of the Cess Act. This could generate an annual sum of Rs. 60 crore. In addition to market promotion for jute goods, this amount could be utilised by JMDC for funding activities in new areas of R. & D., HRD, raw jute development, indigenisation of high tech jute machinery etc. The Committee was informed that payments against claims of exporters under export market assistance scheme (EMA) being operated by JMDC have run into huge arrears (Rs.65 crore approx.) due to non-availability of adequate funds. The Committee is of the view that a dedicated fund may be created to be administered by the Ministry of Textiles. Jute cess should flow to this fund. The cess is basically not a tax but a charge for services provided. Therefore, it should flow to a dedicated fund created in the Ministry of Textiles for meeting the developmental needs of the industry.

7.9.4 The Mandatory Jute Packaging Order stands diluted, with the coverage reduced to only two principal commodities, i.e., foodgrains and sugar and, to a very limited

extent, urea. Admittedly, jute industry can not survive for long on such an artificial prop in a free market environment. However, the case for continued legislative protection for jute packaging in the domestic market rests on the following genuine considerations :- (a) jute industry has not derived the intended benefits from this order due to flagrant violation by cement sector since its inception; (b) the constitutional validity of this order has been upheld by the Supreme Court; (c) serious concern has been expressed in many responsible quarters about the environmental and health hazards from use of synthetic bags, particularly for foodstuffs, with demands for banning their uses altogether; (d) the industry will take some more time to step up production of diversified products through technological upgradation which can not but be a gradual process; and (e) jute can never be fully cost-competitive with synthetics, and alternative measure of protection, say, through fiscal mechanism loaded against synthetic bags is neither practicable, nor can it wipe out the price disparity. In this background, the Committee is of the view that the continuation of this order for jute packaging without any more dilution till the end of the 9th Plan, barring any unforeseen developments, would be necessary. Some new items like oilseeds, processed food, spices etc., in addition to foodgrains and sugar, may be considered for inclusion in this order to help the industry to recover from the adverse impact of recent dilution for packaging end-uses. Hydrocarbon-free jute bags have been found completely safe for packing coffee and cocoa beans and edible nuts in foreign markets and there is no reason why atleast partial compulsory use of these bags can not be stipulated within the country also. However, care should be taken by the Govt. to ensure that a fair pricing mechanism through an independent authority is put in place so that the jute industry does not utilise the mandatory packaging regulations to exploit its consumer or pass on its inefficiency costs.

7.9.5 The establishment of a central composite processing unit with all equipments for printing, bleaching, dyeing, designing, etc. of jute bags and cloth as per customers' specifications has assumed importance. Setting up captive facilities of process house by mills will be an unviable proposition till adequate volume of business is generated. The Committee was informed that Bird Jute & Exports Ltd. (BJEL), a subsidiary unit of NJMC, has such facilities of processing of jute and blended fabrics. However, its plants and equipments are very old and out – dated in the context of modern processing techniques. The Committee was advised that entrepreneurs in the private sector may be interested to set up such composite processing plants, provided requisite financial support from the Central Govt. and / or financial institutions is made available. The Committee feels that since processing units are covered under TUFs, professional associations or groups of manufacturers may jointly set up such units for captive consumption. Independent entrepreneurs may also be motivated to set up such units under TUFs to provide the processing services to the jute industry.

CHAPTER-8

TECHNICAL TEXTILES

8.1 Introduction

8.1.1 The textile industry is expected to be dominated by technical application of various textile materials in different forms in the next millennium. Globalisation of science and technology has been propelled by three emerging technologies, viz. bio-technology, micro-electronics and material science. While bio-technology and micro-electronics are going to restructure the global pattern of production, consumption and trade in a significant manner, new technologies like fine chemicals, optical fibres, high polymer plastics and resins, temperature-resistant textile fibres, fibre-reinforced composites etc. have offered better substitutes in the form of technical textiles. Unlike conventional textiles used traditionally for clothing or furnishing, technical textiles are used by other industries of non-textile character in high tech and high performance applications. Such user industries cover a wide range of fields like advertising, agriculture, automobile, aviation, civil engineering, chemical, electrical industries, environment protection, fishing, food processing, furniture, horticulture, leather, medical, mining, petroleum, packaging, pharmaceutical, printing, rubber, transportation, etc.

8.1.2 According to a study by David Rigby Associates, U.K., released by Messe Frankfurt Services in connection with Tech-Textile 1997 – International Trade Fair for Technical Textiles, an average growth of 4 percent for technical textiles is expected during the period 1995 to 2005. With average global growth rate of 4 percent of technical textiles, total sales which were estimated at approximately US \$42 billion in 1995 will reach US \$61 billion by 2005. Further work is already showing that final sales value of technical textiles could be as high as US \$72 billion in 2005 while sales value of converted products will be even greater. World end use consumption of technical textiles is at present estimated at over 10 billion kgs annually, worth at least \$54 billion even before undertaking additional value addition processes such as coating and conversion to end-use form. In most of the developed countries, technical textiles already account for over 40 percent of total textile production and consumption. Even in developing countries, the proportion is not likely to be below 10 percent. Within Asia, Japan and China account for maximum consumption followed by Korea and Taiwan. Although, India's present contribution is not significant, the view floating around in international journals is that India will emerge as an important end user by the year 2005.

8.2 Present status of technical textiles in India

8.2.1 The Committee is disappointed to note that a country like India with vast geographical area and the second largest population in the world does not find a significant place for its global contribution by way of production or consumption in

the area of technical textiles at present. So far the contribution of Indian textile industry towards technical textiles was restricted to a few low technology and less sophisticated items like tarpaulins, industrial filter fabrics, bolting cloth, decatizing fabrics, tyre cords and beltings, though in the last five years, the use of textiles for luggage application has increased substantially. The total production of specialty fabrics production in 1997 was less than 20,000 tonnes. The other areas which have shown a perceptible sign of growth in recent years are that of textiles for strategic applications, i.e., national security, automotive textiles, backlit awning for advertisement, structural canopy, geo-textiles for various applications including construction activities on infrastructural projects, medical textiles and health care textiles. As an emerging economic power, India has tremendous potential for production, consumption and export of technical textiles projected to touch 60 to 70 billion US \$ worldwide.

8.3 Approach & strategies

8.3.1 Our textile industry has a strong base in terms of raw materials, skilled man power, low wages and entrepreneurial talent. However, for various reasons, available resources have not been augmented and updated with changing trend in application of textiles, with particular reference to technical textiles. We need to augment our existing resources, mainly technical resources and marketing resources to produce technical textiles. It is also observed that the textile policies formulated from time to time have made no reference to technical textiles. Perhaps this could be the reason that no specific policies to encourage the growth of technical textiles have been framed by the Govt. so far. The Committee, however, is of the view that India has a potential to grab a 10 percent share of the world market of technical textiles by 2010 if a serious, pragmatic and integrated approach and supportive policy is formulated and implemented. A share of 10 percent in the technical textile world market will enable India to increase its export earnings substantially. Besides the global market, the domestic market also provides an excellent potential for technical textiles in times to come. Concern about environment protection and sustainable development particularly will offer growth areas in technical textiles, helping environment-friendly production processes and materials.

8.3.2 In deciding priority, the most important strategy would be to ensure indigenisation in the areas of national importance. Immediate export potential, social upliftment of weaker sections, space research, defence and national security are but a few to name. Given a thrust in these areas, the country can save huge foreign exchange outgo and help our scientists and technologists to achieve what only developed countries have monopolised so far. Strategically, technical textiles should be divided into two groups, i.e., (a) arising out of 'need'; (b) arising out of market 'demand'. While both the groups are important, the technical textiles in the first group, i.e., 'need based' will have social connotation in terms of desirability. With this background, there is a need to ensure that technical textiles should be indigenised

and strengthened to the required level in areas of safety, medical and health care, agriculture etc so that the country as a whole is benefited. Spin off of such indigenisation automatically will also benefit the industry in not only protecting its domestic market but also carving out a share in this niche segment of the competitive global market. The demand-driven technical textiles, however, will have a much stronger economic connotation and therefore, that much easier to establish and sustain.

8.3.3 In order to promote the production of technical textiles, the first and foremost need would be to attract entrepreneurs in the field of technical textiles. Entrepreneurs had kept away from the technical textiles in view of the following deterrents :

- Technical textiles and marketing aspects of technical textiles are highly complex. Indian entrepreneurs in textiles have so far not faced this complex situation and therefore, may have genuine doubts and apprehensions.
- Specific technical textiles demand specific raw materials, machinery and equipment to be imported, demanding huge capital towards the project cost.
- Technical textiles being at the evolving stage in India, generation of technology for product development and establishing varied specific markets with adequate volumes require huge working capital for a minimum period of 5 years before the entrepreneur can expect fruits of high value addition, usually associated with technical textiles. Besides, market development will require sustained promotional efforts which need substantial investments as well as lead time.
- Developed countries have reached a point of saturation or maturity in technical textiles and they are gearing up to enter developing countries including India in competitive manner in a globalised economy. They have the backing of overall experience in various facets of technical textiles, while Indian entrepreneurs have little or no experience in this direction.
- India being a developing country, the existing norms and mandatory requirements of technical textiles for specific end applications are either outdated or non-existing. As a result, entrepreneurs have an uphill task of introducing technical textiles to end users in the Indian market.

8.3.4 Under these circumstances, it is obvious that venturers feel shy of investing in projects dedicated to technical textiles. However, in this context, the following aspects need consideration:

- India is an emerging economy and whether technical textiles can be indigenised or not, their markets are bound to grow on globalisation.
- The value addition in technical textiles is slowly but steadily shifting and drifting from raw materials to down stream industries in which India has a strong base and need only augmentation.

- Down stream processes generate relatively more employment and are influenced by labour cost. The labour cost in India is competitive compared to developed countries.
- Although the present contribution of India in technical textiles in the global perspective is insignificant, the tiny decentralised sector has attempted something in the areas of technical textiles related to defence, national security and aerospace applications. This unfolds the fact that given an opportunity and the right incentives, the technical aspects and technocrats would not allow the country to lag behind in the field of technical textiles.
- Projected global business of technical textiles estimated at US\$ 61 billion by the year 2005 will have a share of more than 50 percent in Asia. The growth rate in Asia is expected to be 5 percent with the projected growth rate being merely 2.2 percent in the developed countries. This demands that India must take serious initiatives in technical textiles with committed and focussed but realistic targets based on sound strategies.
- In spite of serious challenges, technical textiles provide great opportunities for containing imports by indigenisation and encouraging exports of technical textiles which are known for high value addition.
- The role of technical textiles has become so eminent that the future of the textile industry in the next decade will be determined by its performance in the area of technical textiles.

8.3.5 It is, therefore, prudent and in the interest of the country to attract entrepreneurs in areas of technical textiles. The Committee feels that the technical textiles may be treated as a 'thrust' area and priority may be accorded for its growth and development in the country. In order to recommend appropriate policy formulations to boost the production, consumption and export of technical textiles, the existing capability of the industry has to be examined thoroughly in terms of existing capacity, availability of appropriate raw materials, technology gap, requirement of R. & D., quality management, testing facilities, regulatory laws and controlling measures, to ensure balanced growth of this segment of the industry. The Committee has examined each of these areas and recommended measures to facilitate bridging the gap between availability and potential requirement and capabilities. Such measures are likely to make investments in the technical textiles attractive for the entrepreneurs.

8.4 **Raw material**

8.4.1 Technical textiles consume all fibres starting from usual natural fibres to high performance speciality fibres. India is a traditional producer of many natural fibres like jute, cotton, hemp etc. which can be utilised in certain bio-degradable technical textiles. Nylon, polyethylene, polyester, fibre glass etc. also have taken a firm footing in India and high tenacity industrial synthetic fibres are also being produced in this country. However, other technical yarns in the form of multi-filaments, continuous

tapes and split film as well as staple spun products, and made from all major textile polymer systems, including polyester, polyamide, polyolefin, viscose, acrylic and high performance speciality materials such as aramides, carbon fibres, high modulus polyethylene(HMPE), polytetrafluoroethylene (PTFE), polyphenylene sulphide (PPS), polybenzimidazole (PBI) novoloid(Phenolic) fibres, polyetheretherketone(PEEK) elastanes, polyvinyl alcohol (PVA), polyvinyl choride (PVC) etc. categorised as high performance fibres forming polymers are yet to be produced in the country, and it is unlikely that technology and know-how of production of these polymers/fibres will be transferred to India in the near future. Nevertheless, they are commercially available and can be imported. The identified and customised raw materials, which are not produced indigenously should be permitted to be imported on duty free basis. The Committee is of the view that in the event of growing viable demand for such yarn, there is possibility of creation of indigenous manufacturing facilities to fill the supply vacuum.

8.5 **Processes, machineries and equipments**

8.5.1 Production of technical textiles needs conventional as well as state-of-the-art equipments depending on the application, desirable quality parameters, fulfilment of functional parameters, when one considers that technical textiles envelope common applications like tarpaulin, sports wear etc. to complex applications like aerospace, airbags, reinforced textile architectural products. Depending on the type of application, degree of precision required for the end use requirement and rigidity of the governing specifications, the product processes, machinery and equipments are to be selected. However, it is observed that for large areas of conventional application, India has a fairly good infrastructure of spinning, weaving, knitting, wet-processing, impregnation and lamination etc. which, in the present form, are capable of producing varieties of technical textiles. At the most, certain addition of machinery and equipments may be necessary to compete in the global market.

8.5.2 The Committee is of the view that no country in the world can claim to be self-sufficient in all respects of production of technical textiles - basic materials or their end products. As far as India is concerned, existing raw materials, machinery and know-how can be geared to produce certain range of technical textiles. Existing spinning, weaving, knitting and non-wovens, together with wet-processing facilities with suitable modifications, can be harnessed with the minimum investment to promote technical textiles and their market. However, in order to ensure adequate impact in globalisation, we must adopt a strategy of exploiting existing facilities as well as go for modernisation so as to indigenise, be self-sufficient and enhance capability with export orientation, analysing strength and weakness of our textile industry. To promote production of technical textiles, the plant and machinery for technical textiles with no indigenous angle should be allowed to be imported on duty free basis with actual user condition.

8.6 **Technology and know-how**

8.6.1 The range of relevant technologies for technical textiles is far more diverse and larger than ever before, permeating all aspects of operational logistics and certification as well as materials, processing and application technologies. Innovation and modification to optimise a selective route of production, depending on the access to available best possible technology, is the best course of action open to most manufacturers operating in the specific end use and geographical market. Textile manufacturers need to consider the level of their in-house technologies, know-how and competence and make concerted efforts to modify them to the extent possible to the requisite level. If it is required to import technology in high-tech areas of technical textiles, it is essential that efforts should be to acquire state-of-the-art technology as far as possible and to be prepared to assimilate, innovate and improve the technology to create improved version of the technology in a minimum period so as to avoid fast changing obsolescence. To encourage development of technology, the cost of technology on developed and approved products should be 100 percent tax deductible.

8.7 **Research & Development**

8.7.1 For India, the Committee feels that research and development, planning and consultancy, hold the key to the success of capturing a substantial share of the increasingly competitive global technical textile market. R. & D. activities in the country will need to have focussed attention to guide and steer the industry to exploit the emerging market, to enable it to not only survive but thrive with minimum engagement in basic research. The publicly supported R. & D. organisations must develop a comprehensive data and information base and products and processes integrated with market development to meet the 'felt needs' of the industry. It may also be worthwhile for these institutions to specialize in a few selected areas where they can offer expertise and excellence of international level. It will also be required that the R. & D. institutions committed to the R. & D., consultancy, technical service in a field of value added technical textiles are encouraged and financially supported by the Govt. as a policy measure considering the huge potential of technical textiles globally. In the high growth economies of Asia, R. & D. on technical textiles has assumed new significance as these countries have been striving to accelerate the growth of technical textiles from almost no where to contribute significantly to the global demand. China, Korea and Taiwan have set up appropriate programmes for their research institutes. Countries in South America, particularly Brazil have started reorienting themselves in R. & D. activities and towards production of technical textiles from the somewhat inward looking and protected internal market of earlier period. The Indian R. & D. institutions may have to emulate the example set by these economies to provide the desired thrust to the growth of the indigenous technical textile industry.

8.8 Testing facilities

8.8.1 One important aspect in both development activities and production of technical textiles is adherence to certain specified standards for dependable and sustained performance of such products for intended purpose. The international standards for most of the common products have been laid down by agencies like ASTM, BS, EN, DIN, GHOST etc. Because of wide diversities of products using technical textiles, it is very difficult for a centralised test laboratory to cater to all such testing services and performance evaluation. It is, therefore, prudent on the part of the manufacturers of technical textiles to install the essential testing rigs and equipments to keep a strict control over the quality. But in view of the exorbitant cost of such equipments, centralised test facilities are required to be created in strategic locations, particularly for the small and medium scale units. Since testing facilities and related certification by accredited laboratories will play a major role in coming years, particularly for export purposes, the Committee recommends that Govt. may initiate an urgent action plan for creation of testing facilities in the appropriate textile research association's (TRA's) laboratories in a planned manner. At the moment, only one TRA, viz., SASMIRA, Mumbai is getting geared up to create facilities for testing and evaluation of technical textiles though other TRAs like WRA have also done some work in this field.

8.9 Quality Assurance

8.9.1 Unlike conventional textiles, the products of technical textiles are governed by much stricter tolerance of parameters and will, therefore, have little value, if they do not conform to the rigid specifications. Therefore, it must be ensured that the quality assurance system incorporated by the manufacturers of technical textiles is grounded on quality management based on zero-defect concept. In other words, 'Right First Time Approach' has to be adopted. Since the resultant products are comparatively costly with high value addition and bound by stringent functional requirements, any element of rework for rectification will have disastrous effect on the quality of the end product and finances of the manufacturer. Therefore, the Committee is of the view that it is worthwhile for the manufacturers to plan an in-built quality assurance system for the plant(s) producing technical textiles. Irrespective of the scale of production, adherence to strict quality assurance measures always help in the long run to sell products to a wide range of customers all over the globe. Specialised consultancy for certification as per ISO-9000 Standards for quality systems may prove an effective tool in this regard. The Govt. may take up on a large scale, through its field formations, the 'awareness programme' in this regard.

8.10 Regulatory measures

Since technical textiles are quite different from conventional textiles requiring strict adherence to stringent functional requirements of safety, environmental hazards,

space or defence application, as the case may be, it is expedient that the issue of mandatory regulation and legislation are incorporated in the production and use of such textiles. For example, every year there are reports of loss of human life due to accidental fire in public places like the 'Samiana' fire in a Haryana village a few years back, Upahar cinema hall fire in Delhi, restaurant fire at Thane etc. In order to promote technical textiles, there is a need to incorporate regulations within the normal laws or enact a special legislation so that on the one hand, technical textiles are produced in the country and on the other hand, user segment is adequately benefited on account of imparting enhanced safety and prevention of loss of life and wealth due to accidental fire. The Committee is strongly of the view that in line with many advanced and progressive nations, there should be appropriate legislation in India for mandatory and compulsory usage of fire retardant (F.R.) textiles for application areas with higher probability of fire hazard such as theatres, restaurants, hotels, commercial complexes etc. Similarly, compulsion for use of technical textiles in areas involving human safety, environment, hazardous chemicals, appropriate legislation may be necessary. A special, comprehensive legislation for protection of consumers and environment with special emphasis on technical textiles will meet the objective. This may also obviate the need for continuance of textiles under the Essential Commodities Act.

8.11 Fiscal support to the entrepreneur

8.11.1 For the purpose of attracting investments in the area of technical textiles, fiscal support may be provided in the following manner to the prospective entrepreneurs :

- (i) Technical textiles are covered under TUFs and are eligible for interest reimbursement to the extent of 5 percent but additional support in terms of relaxation of financing norms may have to be provided for facilitating establishment of projects in this area. The requirement for margin money for specified high cost, sophisticated technical textiles may be reduced from existing prescribed limit of 20 percent under TUFs to 15 percent considering the capital-intensive nature of the projects, and soft loan to the extent of 50 percent of the margin money requirement may be provided at the interest rate of 5 percent. There is also need to suitably increase the period of moratorium in view of the fact that establishment of the market will take longer time.
- (ii) Specified technical textiles should be exempted from sales tax for atleast a period of 10 years. There should be exemption of local levies including octroi also for a period of 10 years, both for capital goods and raw materials required for technical textiles. The Central Govt. may take up this issue with the state governments for appropriate action.

- (iii) Income Tax holiday for a period of 5 years may be prescribed for technical textiles units or alternatively, the following should be considered as deductible expenditure while arriving at taxable income :
 - (a) Cost of technology.
 - (b) 125 percent of marketing expenses.
 - (c) 125 percent of income earned from exports.
- (iv) Electric power cost being one of the significant costs of the technical textiles needs some concession. The entrepreneurs should be encouraged to install captive power generation plants. For this purpose, the ceiling of 25 percent of the specified plant & machinery incorporated in the TUFs for other investments including captive power generation may be suitably relaxed for technical textiles projects, if found necessary.
- (v) The technical textiles may be treated as 'merit goods' and excise duty on such goods may be prescribed at the merit rate of duty, i.e., 8 percent.
- (vi) Given the high cost of capital goods and raw materials for technical textiles, duty free import of identified and customised raw materials and capital goods with 'actual users' condition is also recommended.

8.12 **Nodal Centre for technical textiles**

To accelerate the growth of technical textiles, the Committee recommends that it will be prudent to entrust the assessment of the application areas vis-à-vis market development, development of products, co-ordination etc. to an R &D /technical organisation having adequate competence, input and commitment. Complex behaviour and technology of many technical textile products involving large number of disciplines in various areas of science and technology require a nodal agency to initiate, accelerate and enhance the speed of development of products, markets and provide back-up support to the industry. New raw materials, new machineries, new areas of application in global arena will require effective information technology back-up which can be entrusted to such a Nodal Agency. Besides, such Nodal Agency will need to be entrusted with the responsibility to create awareness, conduct workshops, seminars and impart useful training to develop human resources in this specialised area of textile science and technology. Technical textiles will require specialised testing equipments and evaluation, international standards and specifications, competent know-how which can be channelised through the Nodal Agency. The Nodal Agency will also be able to identify and monitor priority areas. High-tech areas, viz., space application, defence and national security, textile architecture using composites, safety measure, social upliftment, environmental concern, etc. are increasingly opening up new arenas of technical textiles. A fast growing vast global market is awaiting to be captured by the competent and prepared Asian countries within a few years from now. Establishing a Nodal Agency for

technical textile will go a long way in helping the indigenous textile industry in a focussed manner to cope with the challenges of the next century. The funding for the Nodal Centre may be provided through the Textiles Committee from textiles committee cess. A part of the textiles committee cess may be earmarked in the budget of the Textiles Committee for the Nodal Agency for technical textiles. The Committee feels that SASMIRA which has already taken initiative for promoting technical textiles and done a lot of spade work in this direction may be designated as the Nodal Agency for technical textiles. The Nodal Agency may also serve as a 'knowledge and reference base' for technical textiles entrepreneurs. It should also provide information on user segments in different areas of application.

8.13 **Market promotion**

8.13.1 Though technical textiles are having multifarious applications, awareness about such textiles is generally lacking. The regulatory measures as recommended by the Committee in the Para 8.10 would generate awareness and create market demand for technical textiles to some extent. Still there is a need for massive promotional/educational awareness programmes for developing demand for technical textiles. The govt. must also sponsor and support, awareness programmes, interactive marketing, workshops and expositions and exhibitions for promoting technical textiles in different parts of the country on a regular basis atleast for a initial period of 4 to 5 years. For this purpose, a Technical Textile Cell may be opened in the office of the Textile Commissioner and with close co-operation with the Nodal Agency for technical textiles such awareness programmes may be organised. The Technical Textile Cell would act as the interface between the Nodal Agency and the Govt. To encourage entrepreneurship, the Minsitry of Textiles should institute a national award for excellence in the field of technical textiles. Adequate measures may also be taken to protect intellectual property rights. Technical textiles should find place in curriculum of textile academic institutions. NCUTE should be requested to examine this issue and incorporate the same in their proposed curriculum and syllabus for appropriate textile courses. The Ministry of Textiles should interact with the relevant Ministries such as Ministry of Human Resources and Ministry of Science & Technology etc. to ensure that technical textiles are included in the existing curriculum of different branches of Engineering and Science. For example :

- (i) New civil engineers should know about geosynthetics;
- (ii) New Automobile Engineers should know about automotive textiles;
- (iii) New Medical Technicians should know about medicinal textiles;
- (iv) New Agrotechnologists should know about Agrotexiles; and so on.

8.14 **Market support**

8.14.1 Certain products demand regulatory norms to promote their markets. For example, fire retardant textile products are bound to cost more than the conventional

products and only appropriate legislation can force the concerned agencies to use such fabrics in place of conventional fabrics. This would help in promoting emerging technology and market on one hand and would ensure safety on the other. The issue has been discussed in para 8.10. Further, the Ministry of Textiles should interact with other ministries to promote technical textiles on the ground of well-founded justification. For example, highly visible textiles should be used by traffic police, railway line men, and airport authority ground service personnel. To encourage independent manufacturers of technical textiles, technical textile products developed in India should be given priority and leverage, particularly in Govt., public sector and govt. connected organisations to the extent possible. The Govt. should also prohibit the use of non-eco friendly and hazardous material by phasing them out over a period of, say, 5 years to ensure that environmentally and health-wise hazardous materials like asbestos are banned and replaced by superior high performance textile fibres. Govt. should also encourage atleast in public sector/govt. departments use of new technical textile products against conventional products used presently. For example, railway and bus seats can be replaced by RTM (Reinforced Textiles Material).

8.14.2 Govt. may also set up a Task Force to set up Indian standards for different technical textiles to promote indigenous technical textiles.

8.14.3 We have already recommended for deduction of 125 percent of marketing expenses incurred in marketing of technical textiles. Further, a market development/product development fund may be created to capture atleast 10 percent of the global market in a defined foreseeable future, say, 10 years.

8.15 **Registration of technical textile units**

In order to avoid the misuse of the govt. support recommended hereinbefore, the registration of units of technical textiles with the office of the Textile Commissioner may be made compulsory. To monitor the progress of this industry in physical and financial terms, suitable formats may be devised by the office of the Textile Commissioner for compulsory submission of returns of production by the technical textile units in line with CST forms submitted by other textile units.

8.16 **Venture Capital Fund**

A Venture Capital Fund should be established with a corpus of Rs.150 crore for developing the technical textiles. The Ministry of Textiles should encourage atleast 5 projects each year with project cost of Rs.15-50 crore on venture capital basis where the venturer should raise about 10 to 15 percent of the total project cost, the remaining amount being provided from the Venture Capital Fund. The projects to be funded may be decided by the Govt. in consultation with the Nodal Agency and other technical experts in the field.

CHAPTER - 9

INFRASTRUCTURE

9.1 Introduction

9.1.1 The availability of well-developed, quality infrastructure is imperative for the overall economic development of a country. Several studies have established strong links between the development of infrastructure such as railways, telecommunications, power, paved roads, airports and seaports, safe adequate water and the development of the country's economy in general and industry and trade in particular.

9.1.2 India has, unfortunately, neglected the development of its infrastructural facilities and, consequently, even after 50 years of independence, such facilities are abysmal. The dismal state of infrastructure in the country can be gauged from the ranking of India on this aspect by the World Economic Forum in its Report on World Competitiveness Yearbook of 1997. In terms of infrastructural competitiveness India has been ranked 45th amongst a group of 46 countries. Taking other factors of competitiveness into account, India is placed at 41st position, the top 3 ranks being occupied by USA, Singapore and Hongkong.

9.1.3 In the context of the policy to bring about liberalisation and globalisation of the Indian economy being followed since 1991, it becomes all the more imperative that the infrastructure within the country should be urgently upgraded and expanded so as to attain international standards. Since the Committee feels that India should aim at a position of pre-eminence in the world in the field of textile manufacturing and trade, it thought it fit to devote a separate chapter on the significance of infrastructure development to the growth of the textile industry, while recognising and underlining that infrastructure development is sector-neutral and impacts on the entire economy.

9.1.4 Infrastructure contributes to economic development both by increasing productivity and by providing amenities which enhance the quality of life. Infrastructure services are intermediate inputs to production and any reduction in these input costs raises the profitability of production, thus permitting higher levels of output, income and employment. They raise the productivity of other factors, including labour and other capital. The Committee strongly feels that good quality infrastructure is a critical factor in making the Indian textile industry globally competitive. Moreover, it is a determining factor in attracting foreign direct investment into the country. Many joint venture proposals have, reportedly, fallen through due to the lack of proper and quality infrastructure facilities in India.

9.1.5 The country will have to mobilise massive resources in the next few years to bring the infrastructure levels to world standards and, therefore, both public and private and domestic and international sources of funding need to be harnessed. A recent World Bank study estimated that developing countries as a whole spend about 4 percent of their GDP on physical infrastructure. The East Asian economies have steadily increased, in the last decade, infrastructure investments in absolute terms and

as a proportion of their GDP (about 6.5-7 percent) thus spurring sharply increased investments and high economic growth rates. India must follow their example. The country needs to pay attention not only to raising adequate resources for infrastructure investment but also to improving the managerial effort to handle them efficiently.

9.2 **Roads**

9.2.1 A well-developed and well-maintained network of roads, especially National and State Highways, can considerably facilitate the movement of goods throughout the country by reducing the time and the cost of such transportation. While road traffic has been growing at the average yearly rate of about 8 to 10 percent, there has been no matching growth of the main road network. Since 1951 the National Highways have expanded only 1.7 times and the State Highways have doubled in length. Most of the investment has gone into rural roads to provide connectivity to the rural people but even here, about 50 percent of the villages are still to be connected by all-weather roads. More importantly, the quality of construction of road is still poor and maintenance is still poorer. In monsoon, the road condition becomes pathetic, leading to slow down of traffic and jams what to speak of hundreds of fatal accidents. No wonder, commercial vehicles in India are able to run only 200-250 kms. on an average per day as compared to 500-600 kms. in the developed countries.

9.2.2 The textile industry in the country depends heavily on road transportation because of the flexibility in the availability of vehicles, door to door service, reliability and speed. The strengthening of the road system in the country by expansion of the road network and better maintenance of the existing roads and the construction of bridges wherever necessary will improve the turn around of trucks and reduce considerably the costs of transportation of goods for the industry and thus contribute to making the industry more globally competitive. The reduction of octroi posts and other administrative barriers will also facilitate the smooth movement of goods throughout the country. In planning the road expansion, the authorities should particularly keep in mind the need to move exportable goods from the centres of production to the nearest air and sea ports in the quickest possible time.

9.3 **Air and Sea Ports**

9.3.1 For international trade, port facilities and their efficient operation have a considerable impact on the transaction costs of imports and exports. If India is to become a major player in world textile trade in the years to come, as envisaged in this report, very substantial investments have to be made in developing sea and air port facilities in the country and attention paid to improve their operational efficiency.

9.3.2 In India, the development of sea port facilities has not kept pace with the growth of the country's international trade. Traffic in the major seaports has been growing in the last decade at 9-10 percent per annum but the port facilities have not been expanded to cope with the increased traffic. Moreover, the management of the major sea ports is so inefficient that productivity levels are very low when compared to Singapore and Hongkong though their capacity utilisation is 100 percent or more. The average turn around time in Indian ports is as high as 7 days. The handling of cargo is still manually done in most seaports, thus leading to delays and raising of

costs. The warehousing facilities are grossly inadequate and only a few ports can handle containerised cargo.

9.3.3 Mother vessels belonging to international lines do not berth at the seaports in India because of the high turnover time and lack of basic facilities and manual operations. The cargo meant for exports has to be sent in smaller vessels to Colombo or Singapore to be loaded on to mother vessels which carry the cargo to Europe and the US. Many exporters expressed that they face considerable problems and mental anxiety in getting their exports loaded in time on the mother vessels and that they have to bear additional costs because of transshipment of the goods in Colombo and Singapore. They complained of congestion in the ports, lack of adequate equipments, such as fork- lifts, cranes and warehouses and the element of uncertainty due to frequent labour trouble. They also mentioned that rail and road networks linking the hinterland to the seaports are not developed adequately with the result that there is no smooth transfer and clearance of the goods from one mode of transportation to another. Different sets of documents are required to be maintained and the cargo subjected to inspection by several authorities at different points. There is a lack of proper co-ordination in the entire logistics chain. Though the Multi-modal Transport of Goods Act was passed in 1993, the Committee notes that the multi-modal transportation system has not yet developed to a significant extent.

9.3.4 The Committee recommends that the infrastructure at the major seaports needs to be improved to international standards without any further loss of time and the efficiency in the management and handling of export and import cargo at these ports raised immediately atleast to the levels of international ports in the South and South East Asian region such as Colombo and Singapore. Specialisation in cargo handling by the ports could help in bringing about marked improvements in the services offered within a short time. Privatisation of ports' development and of port operations will also help in improving infrastructure and management levels.

9.3.5 A complete EDI system with adequate cargo information service is essential if the country is to bring its cargo handling system in line with world standards. While most of the bulk textile cargo is exported by ships, some of the cargo, particularly apparels, is exported by air especially when there is a need to meet tight delivery schedules. An efficient and cost effective air transportation will help to reduce transit time and ensure timely deliveries.

9.3.6 The existing cargo complexes in the international air ports are not adequate. Privatisation of air cargo terminals will lead to modernisation of equipments and facilities and will introduce an element of competition in providing services and facilities to the exporters and importers. Besides physical infrastructure, management of the cargo at the airports should also be modernised. Shippers, exporters, clearing agents, insurance companies, customs offices should be encouraged to adopt international standards for packing marking and numbering of packages. EDI system needs to be urgently introduced.

9.3.7 The important centres of textile manufacturing and export should be linked by rail and road to international airports which can handle wide-bodied planes which can

carry cargo directly to Europe and USA, the major destinations for the country's textile (and particularly apparel) exports.

9.3.8 The exporters complain that most inland container depots (ICDs) and container freight stations (CFSs) do not have requisite equipments and facilities nor full complement of staff of Customs and other inspection agencies. In some of the ICDs, the Customs department does not allow clearances under certain export promotion schemes such as Duty Exemption Pass Book (DEPB) and Duty Exemption Entitlement Certificate (DEEC), reportedly because of non-availability of experienced staff.

9.3.9 The insistence of the Customs department that there should be full recovery of costs at the new ICDs is a major inhibiting factor for the setting up of and the growth of new ICDs. Promotion of export trade and providing requisite facilities especially for cargo from interior areas are major objectives of the Govt. and it is for the Customs department to bear the entire cost of staff of ICDs/CFSs as in the case of major sea ports.

9.3.10 The textile exporters complained that sufficient number of public telephone booths, cargo storage sheds customs clearance offices have not been provided in the most ICDs. Traffic management problems at ICD delivery gate were also highlighted. These become major irritants to the export trade.

9.4 **Power**

9.4.1 The Indian industry suffers greatly due to the high power cost in the country. The spinning, weaving, knitting and processing sectors of the textile industry being power-intensive, the impact of high power cost is severe on this industry.

9.4.2 The industry representatives drew the attention of the Committee to the wide variation in the power tariffs from state to state in the country and also to the frequent and unsustainable increases in the power tariff over the years. Some of the powerloom clusters have also complained of power shortages to the extent of 40 percent. They have also mentioned that with this extent of power cut, it is not feasible to install sophisticated machinery in the powerloom units as such machinery require continuous uninterrupted power supply. Several spinning industry representatives also represented that they prefer to install their own captive power generation sets as the cost of such power is lower and the quality better when compared to the power supplied by the Electricity Boards. However, they complained that the local Electricity Boards are averse to permitting captive generation of power since they want revenues from the industrial consumers to be protected so as to cross-subsidize the agriculture sector.

9.4.3 In India, one of the main reasons for the power tariffs to the industrial sector being on the higher side is the policy of the Governments to cross subsidize the power supply to the agriculture and domestic sectors.

9.4.4 It is gathered that the average price of power in the world is about 6 US cents, i.e., Rs. 2.52 per kwh (at the current exchange rate of Rs. 42 for a US dollar), while

in India it ranges from Rs. 2.05 per kwh in Pondicherry to Rs. 4.12 per kwh in Karnataka. In most of the major textile states, the power price is in the range of Rs. 3.50 to Rs. 4.20 per kwh.

9.4.5 The Zurich-based, International Textile Manufacturers' Federation (ITMF) regularly conducts comparative studies of the cost of production of textile items in 7 countries, viz., Italy, Indonesia, Korea, Turkey, USA, Brazil and India. This study for the year 1997 has indicated that the cost of electric power (in US cents per kwh) was 10 in India as compared to 6 in Brazil and Indonesia, 8 in Italy, 7 in Turkey and 5 in Korea and USA.

9.4.6 Considering the predominant position of textiles in the country's total exports and the need to enhance the competitiveness of the country's textile industry, the Committee is of the view that the disadvantages suffered by the textile industry on account of the high power cost must be alleviated at the earliest and it is not fair or economically wise to hold the industry prisoner to the inefficiency of state electricity boards in supplying adequate and quality power. Towards this, it is strongly recommended that captive generation of power by textile units be allowed by the Governments and that state electricity duty and excise and customs duties on power generator sets should be removed until the availability of sufficient and quality power is ensured to all segments of the industry. H.S.D. and L.D.O. may also be made available to the industry at international prices or, atleast, duty-free. The MODVAT facility may also be made available on the purchase of H.S.D. which would result in significant savings of an estimated Rs. 0.37 per kwh to the industry.

9.4.7 Needless to say, the SEBs must improve their plant load factor, reduce transmission loss and generally improve the quality of distribution. These by themselves will improve their bottomline and reduce the temptation for frequent price revision to recoup the deficits. It is also recommended that joint generation of power for captive consumption by a number of units must be freely allowed. It should not be viewed as a case of sale of power and subjected to different levies on that basis. The Committee believes that a liberal policy for captive power generation by industrial units is not necessarily anti-SEB as it will spur the SEBs to shed their monopoly-induced complacency and improve their efficiency so as to minimise loss, maximise returns and improve quality of power. Their improved performance and service alone will be the best antidote to clamour for captive power generation and not a negative attitude.

9.4.8 The Committee is also of the view that it is not fair to burden the industrial sector with the power subsidy extended to the farm and domestic sectors, more so when the industry is now expected to compete with international firms even in the domestic market. However, the Committee recognises that this is a national issue and not a sectoral one. The Committee, therefore, recommends that this issue to charge the industrial sector on the basis of normative pricing be strongly taken up at the Govt. level and that the subsidy to the other sectors should be borne by the Govt. through more transparent and fair budgetary provisions.

9.5 **Water**

9.5.1 Water is another resource which forms an important element of the manufacturing activity of the textile industry, particularly the processing activity. The availability of good quality water for industrial purposes is inadequate in most parts of the country. The cost of water is also very high, particularly in urban agglomerations like Mumbai and Chennai. Many of the pollution control problems occur due to the bad quality of water made available to the processing units. The lack of good quality water at a reasonable price increases the cost of the textile products making them internationally non-competitive.

9.5.2 In the fiercely competitive world textile markets, the textile industry and, in particular, the processing sector can survive if, amongst other inputs, adequate quantity of good quality water at reasonable cost is made available.

9.6 **Telecommunications**

9.6.1 A modern, state-of-the-art telecommunications network is essential if the Indian economy is to be effectively integrated with the world economy. The telecommunication sector has undergone a major transformation the world over in the last decade. Technological advances have revolutionised the quality and range of services available to the users. The developments in information technology and new forms of communication such as data communication through e-mail and the internet and mobile phones have changed the entire way international business is transacted.

9.6.2 The Indian exporters must be provided access to these new technologies so that they can benefit from the faster, cheaper and more reliable means of world-wide communications. Importers from developed countries are already shying away from India because of poor communications systems.

9.6.3 Though the Govt. has taken major steps to privatise the telecom sector and to bring in an element of competition in providing the services, there are many impediments to the change over to the new system which are well known. The Committee does not think it necessary to go into the details of the various problems in improving the telecommunications infrastructure but would merely like to underline the urgency of the need to overcome such problems and bring about reforms without any further delay. Large scale use of information and telecommunications technologies directly impacts on productivity, cost effectiveness, access to rapid changes in demand trends and price movements, all of which enhance the competitiveness of the industry. The textile, garment, toy and consumer electronics industries in Taiwan and the Philippines have shown high growth rates because advanced telecommunications services established close links between commercial distribution networks in USA and Europe and local small scale production units in these two countries. Poor telecommunications facilities in terms of availability, quality and pricing are a major handicap for the Indian exporters today.

9.7 **Textile Parks**

9.7.1 To bring the wide range of infrastructure facilities in the country such as roads, ports, telecommunications, industrial water supply, power etc. to international

standards would require massive investments. Moreover, considerable time and effort will be needed to make the necessary policy changes and put in place new systems. In order to maximise the returns on the limited available resources for investment and to put in place reasonable quality infrastructure in the quickest possible time where it is most needed, the Committee recommends the cluster approach to developing the textile industry. The clusters can be existing ones or new clusters developed through the means of textile parks. Sometimes environment considerations may also dictate relocation of a cluster of processing units at a more appropriate location which can be better accomplished through this approach. Industrial parks have been used as engines of growth by many South East Asian countries such as Malaysia, Singapore, Thailand and Indonesia. The Committee recommends setting up of 'Textile Parks' in various parts of the country either to relocate the units suffering from congested space or location, or to expand the textile manufacturing activity. The textile parks should have units of all the stages of the textile production chain, from spinning, pre-weaving, weaving/knitting, processing, upto clothing/made-up manufacturing. In some areas, based on the potential or felt need, only 'apparel parks' can also be set up independently while in others, apparel parks may form component of the composite textile parks. The independent apparel park should have all facilities connected with garmenting, i.e., embroidery, quilting, washing, needle detection etc. Good quality infrastructure, particularly uninterrupted power, treated water, world class telecommunication facilities, banks, post offices, insurance agencies, container services, fire engines, custom offices must be provided in the parks. Common facility centres for arranging continuous training of workers, buyer-seller meets, conference halls, libraries and market intelligence data centres would enhance the attractiveness of such parks. Emphasis in equal measure should also be laid on improving the inadequate or missing infrastructure facilities in existing large textile or apparel clusters or townships, viz., Surat, Tirupur, Ludhiana, Panipat, Bhiwandi etc.

9.7.2 In order to prevent illegal labour strikes in export-oriented parks, the State Governments can declare the units set up in such parks as public utilities under Section 2(n)(vi) of the Industrial Disputes Act provided the units are exporting atleast 25 percent of their turnover. The Govt. should provide flexibility in labour laws in such parks as was done in China for the Special Economic Zones, for instance, flexibility in the deployment of workers from one section to another depending of exigencies of work, flexible working hours, temporary recruitment of labour, retrenchment and lay off whenever necessary depending on the vicissitudes of business but subject to adequate, reasonable compensation, eligibility to labour union membership limited to workers within the factory and so on. It is felt that with such provisions, the export-oriented units within such parks will be able to have more flexibility of operations and achieve higher labour productivity which can help them become globally competitive. Foreign textile companies can be encouraged to set up their units in such parks. Large units, export-oriented units, enjoying the benefits of economies of scale, are likely to be attracted to these parks.

9.7.3 Investments in new processing units are, to an extent, inhibited by the possibility of subsequent public interest litigations in Courts on the grounds of

pollution of the environment. The State Governments can consider identifying specific areas for the location of processing units after assessing area-wise pollution loads, after getting environment impact studies done and after getting a general clearance for such units from the Pollution Control Boards.

9.7.4 The Ministry of Textiles, Govt. of India, can consider introducing a scheme to provide infrastructure grants to State Governments for the setting up of such Textile Parks. At present, the Ministry of Commerce is providing such assistance to export-oriented parks under the Critical Infrastructure Balancing Fund and the Ministry of Industry is providing assistance to industrial parks under the Integrated Industrial Area Development Scheme. The introduction of similar schemes by the Ministry of Textiles will provide a special focus to the Textile Parks. The Ministry of Textiles can draw up a scheme in consultation with the State Governments and industry representatives.

9.8 **Strengthening of infrastructure in Service Organisations**

9.8.1 Textile Research Associations (TRAs)

The Committee was informed that the testing laboratories of the TRAs have been strengthened in the last 3-4 years through a plan scheme by providing latest testing equipments including eco-testing ones. However, there is considerable obsolescence in the equipments being used by the TRAs for R. & D. purposes. They also argued for govt. support to procure incremental instruments to undertake research in emerging technology areas. The Committee was informed that the Govt. is considering this request of the TRAs. The Committee recommends a one time Govt. grant to replace the obsolete R. & D. equipments of all TRAs and also to provide additional equipments on felt need basis.

9.8.2 Powerloom Service Centres (PSCs)

- (i) PSCs need to be strengthened in a time bound manner in terms of hi-tech looms, testing equipments, manpower and other infrastructure facilities. The trainers of PSCs should also be trained on hi-tech looms to impart effective training to the weavers of the decentralised sector. Apart from basic communication facilities like telephones and fax etc. the PSC's should also have 'online' and internet connectivity to ERMIU and web site of NIFT for dissemination of relevant information to the weavers. PSCs should also be equipped for 'out reach' activity.
- (ii) To facilitate creation of new design and improvement of the design in keeping with the latest trends in fashion, market demand etc. the network of CAD/CAM facility in PSCs should be strengthened and expanded. The library of PSCs should also stock latest journals on technical and fashion, design aspects etc. to improve the knowledge base of the trainers and trainees.
- (iii) In the area of concentration of knitting activity the powerloom service center may be converted into composite powerloom and knitting service

center. Major knitting centres without an existing PSC may be equipped with a Knitting Service Centre.

9.8.3 Weaver Service Centres (WSCs) / Indian Institutes of Handloom Technology (IIHTs)

WSCs/IIHTs may also be strengthened on the lines of observations made for PSCs.

9.8.4 Apparel Training & Design Centres (ATDCs)

The network of ATDCs ought to be expanded on felt need basis and strengthened in terms of course content and latest stitching/garmenting machinery, quality inspection machinery, well-equipped library etc.

9.8.5 Export Promotion Councils (EPCs)

With the quota regime on the way out, the EPCs will have to reinvent their relevance to exporters through service and service alone. For that purpose, the EPCs need to strengthen their data intelligence and dissemination base. They have to build up the necessary infrastructure to erect an EDI set up for regular inter-action with industry, exporters, airports, seaports, customs, DGCIS, Ministry of Textiles, NIFT etc. They must develop the capabilities to source and update commercial intelligence and disseminate the same to the exporters for timely follow up action.

CHAPTER- 10

REGULATIONS & CONTROLS

10.1 Introduction

10.1.1 The textile industry has historically been a highly regulated industry subject to numerous controls and regulations. In the fifties, the textile industry and trade was regulated/controlled through six control orders and forty six notifications, increasing to nine orders and 150 notifications by the sixties, controlling almost the entire gamut of activities connected with textile manufacturing and trade. Almost all of these regulatory orders and notifications were issued under the Essential Commodities Act, 1955 or its precursors. The same position continued till 1986. With the promulgation of the Textile Policy of 1985 which recommended a liberalised approach towards textile industry and trade, the various regulatory orders and notifications then in force were reviewed and a large number of out-dated control orders were dispensed with by retaining only three control orders and thirty three notifications. On further review in the wake of the liberalisation of industrial and trade policy in 1991, these were further brought down to two control orders, i.e., Cotton Control Order, 1986 and Textiles (Development & Regulation) Order, 1993 both issued under the Essential Commodities Act, 1955 and nine notifications issued under these two orders which are in force even now. The jute industry is subjected to two control orders, namely, Jute (Licensing and Control) Order, 1961 and Jute Textiles (Control) Order 1956, both issued under the Essential Commodities Act, 1955. Besides, three more statutes, i.e., Jute Manufactures (Cess) Act, 1983, Jute Manufactures Development Council Act, 1983 and Jute Packaging Materials Act, 1987 are also applicable to the jute industry. The silk industry has its own set of Acts, i.e., Central Silk Board Act, 1948 and the Karnataka Silkworm Seed, Cocoon and Silk Yarn (Regulation of Production, Supply, Distribution and Sale) Act. Apart from these, there are interest group-specific statutes aimed at protecting specified segments of the industry, viz., Handlooms (Reservation of Articles for Production) Act, 1985 and SSI Reservation under ID&R Act, 1951, are also applicable to the textile industry (Table 10.1). Even statutes like the Cotton Cloth Act, 1918, the Textile Cess Act, 1948 and the Cotton Ginning and Pressing Act, 1925 which have lost all relevance or practical utility and practically unheard of also continue to decorate the statute book. The last of them has just been repealed after repeated hiccups. A few other similar statutes viz., Cotton Transport Act, cotton stock notification have also been repealed in recent years due to loss of relevance and utility. However, the Textiles Committee Act, 1963 stands in complete contrast. Conceived as an all pervasive quality control body, it dominated the industry till the early nineties through compulsory inspection of export cargo and various other regulatory work. However, with complete dismantling of the compulsory quality control regime, the Committee has amazingly transformed itself into a much-loved voluntary service organisation providing singular service to the textile industry and

trade in the field of testing, industry survey, market survey, ISO consultancy etc. Amazingly, no amendments in the statute or rules thereunder was required to achieve this transformation.

10.1.2 The above details clearly bring out the fact that regulations and controls have gradually been reduced during the last one and a half-decade. It is noted that during the recent past, the Ministry of Textiles has constituted two Groups to review the statutes and regulations pertaining to textiles. The first Group was appointed under the chairmanship of Shri S. Narayanan, Jt. Secretary, Ministry of Textiles in the year 1993 and the 2nd Group in 1997 under the chairmanship of Shri D.P. Bagchi, AS & FA, Ministry of Textiles. Suggestions were made by these two groups for some deregulations which have also been acted upon. Still the textile industry is felt to be over-regulated, necessitating further review of the existing controls and regulations with a view to liberalising the textile industry further, so that it has the freedom to make economically viable decisions based on techno-economic norms to survive in the emerging competitive and integrated global economy.

10.2 **Essential Commodities Act, 1955**

The Essential Commodities Act, 1955 provides the most significant framework for the regulations and controls in the textile industry. There are at present 31 commodities declared as essential under the Essential Commodities Act, 1955 (EC Act), out of which 11 items including textile machinery pertain to the textile industry. These items straddle the entire gamut of textiles from cotton and jute fibres to all natural and man-made yarns, fabrics and made-ups/garments. EC Act, 1955 has been enacted for the control of production, supply and distribution of, and trade & commerce in commodities declared as essential under the said Act. The EC Act provides for the control of use and consumption, disposal, acquisition, storage, transport, etc. of essential commodities for the purpose of ensuring equitable distribution of essential commodities at fair prices to the general public and consumer industries, etc. The E.C. Act also provides for :

- i) regulating by licenses, permits or otherwise, the production or manufacture of any essential commodities;
- ii) collecting any information or statistics with a view to meeting the objectives of the Essential Commodities Act, 1955.

10.3 **Orders issued under EC Act**

10.3.1 In exercise of the powers conferred under Section 3 of the EC Act 1955, two Orders pertaining to the textile industry are, currently, in force (i) Textiles (Development & Regulation) Order (TD&RO) 1993 (as amended from time to time) and (ii) Cotton Control Order (CCO), 1986 (as amended from time to time). The brief outlines of the T(D&R)O, 1993 and the CCO, 1986 are given below :

10.3.2 **Textiles (Development & Regulations) Order, 1993**

This order, issued by the Central Govt. under section 3 of the E.C. Act, empowers the Textile Commissioner, inter-alia, to (i) impose stipulation for filing of Information Memorandum by the spinning, weaving and processing sectors; (ii) impose reasonable restrictions by way of giving directions to the industry regarding production, supply and distribution, trade and commerce, including use and consumption of cloth, yarn, tops and other textile products; (iii) specify markings to be made on cloth, yarn, tops and other textile products for enabling the consumers to get basic information regarding the various quality parameters of tops, yarn, cloth and other textile products; (iv) call for statistical information from different segments of the industry and trade. Major notifications issued under T(D&R)O are :

(i) **Textiles (Consumer Protection) Regulation, 1988.**

This notification, originally issued in 1988 under the precursor of Textiles (D & R) Order, 1993, is deemed to have been issued under Clause 9 of the Textiles (Development & Regulation) Order, 1993, and it encompasses the markings/stampings to be made on tops, yarn and cloth by the manufacturers, importers, traders, etc. This notification is in existence since 15.6.1988. This notification envisages that all tops, yarn and cloth should contain all the statutory markings for the general information of the public about the quality parameters, manufacturer etc. As per this notification, no person can offer or store for sale any cloth, yarn or top without statutory markings, irrespective of whether it is indigenously produced or imported. As the name and objectives indicate, this Regulation is intended to be a bulwark of consumer protection and welfare against possible unfair trade practices of the textile industry or trade.

(ii) **Display of stock of yarn.**

Through this notification dated 01/09/1994, directions have been given by the Textile Commissioner to the manufacturers and dealers of yarn to display prominently on a notice board in their premises the stock position count wise and mill wise of yarn and its prices, etc., which they possess at the beginning of every working day. This is essentially to ensure against exploitation of handloom and powerloom weavers through hoarding and arbitrary price charging.

(iii) **Notification on Hank Yarn Packing.**

Through this notification dated 20/03/1995, directions have been issued to the manufacturers of cotton and viscose yarn to produce certain quantities of yarn (50 percent of the yarn packed for civil consumption) in hank form so that sufficient quantity of hank yarn can be made available for the handloom weavers.

(iv) **Notification on textiles statistical returns.**

Through this notification issued on 26/12/1995, directions have been given by the Textile Commissioner to the various sectors of the textile industry for submitting relevant and vital statistical information pertaining to their unit in the prescribed formats and at stipulated periodicity. This data forms the basic input for planning, policy formulation and strategic decision making by the Govt. and the industry. The data compiled by the Office of the Textile Commissioner from these returns carries great value with various users thereof for its authenticity and reliability.

10.3.3 **Cotton Control Order, 1986**

This order has been issued by the Central Govt. in exercise of the powers conferred under Section 3 of the Essential Commodities Act, 1955. It empowers the Textile Commissioner for calling of information/statistical data from manufacturers of yarn as well as ginning & pressing factories etc. with respect to the quantities and varieties of cotton held by them. It, inter-alia, empowers the Textile Commissioner to specify, as and when required, the limit of storage/stock of cotton which manufacturers of yarn and ginning and pressing factories, etc., can have in their possession, at any point of time. Basically, it seeks to achieve the following three objectives :

- (a) Provide for enforcement of quality parameters in cotton processing and packing.
- (b) Regulate holding of the stocks by ginners, traders and yarn manufacturers during periods of acute shortage of cotton and abnormal price situations.
- (c) Ensure filing of periodical statistical returns for planning and policy formulation purposes.

(i) **Submission of statistical returns by cotton ginning, cotton pressing and cotton ginning & pressing factories.**

Through this notification dated 07/04/1994 (as amended), the cotton ginning, cotton pressing and cotton ginning and pressing factories are required to submit the details of their cotton processing activities and statistical data etc. from time to time.

(ii) At present, there is no stock/storage control notification in force since the cotton production, supply and availability position has been fairly stable for the last 4 years. The last such control was imposed during 1994-95 in the wake of repeated failure of cotton crop and skyrocketing prices.

10.4 **Handlooms (Reservation of Articles for Production) Act, 1985**

In exercise of the power under section 3 of the Handlooms (Reservation of Articles for Production) Act, 1985, the Govt. has issued Handlooms (Reservation of Articles for Production) Order 1985 (as amended from time to time). Under this Order, 11 textile product categories are reserved for exclusive production by the handloom sector.

10.5 **SSI Reservation Policy**

Under the existing SSI reservation policy certain items are reserved for exclusive production by the small scale sector as defined from time to time. The items reserved for SSI in the textile industry include hosiery, knitwear and clothing items. The non-SSI units, however, can produce such items by undertaking export obligation to the extent of 50 percent. The logic in favour of reservation as informed to the Committee by the Department of Small Scale Industries during its inter-active sessions was as below :

- (i) protection and maintenance of the employment intensity;
- (ii) entrepreneurial development caused by a multiplicity of units;
- (iii) prevention of emergence of monopolies or concentration of financial/economic power; and
- (iv) a balanced geographic development caused by a wider dispersal of small scale industrial activity.

10.6 **Central Silk Board Act**

The only enactment directly relating to the silk industry is CSB Act, 1948. This Act had its origin in the recommendations of the Silk Panel set up to revive the silk industry after the Second World War. No regulating functions are embodied in the Act except in the case of imposition of cess, which had never been done in the past. The CSB Act has mainly provisions to regulate the routine functions of the Board.

10.7 **Jute (Licensing & Control) Order, 1961 and Jute Textiles (Control) Order, 1956**

Only two Control Orders, namely, Jute (Licensing & Control) Order, 1961 and Jute Textiles (Control) Order, 1956 issued under section 3 of the EC Act, 1955 are presently operative in the jute sector. The first Order provides for licensing of dealers of raw jute, fixation of prices, control of production and requisition of stocks of jute textiles, regulation of stocks of raw jute with mills, etc. The latter Order provides for licensing of jute industry and concomitant powers to secure compliance.

10.8 Recommendations of the Committee

Essential Commodities Act,1955.

10.8.1 There was near unanimity in the different segments of the industry with regard to removal of textiles from the purview of the Essential Commodities Act. The Committee has also examined the issue and is of the view that textile industry should be free from all controls and restrictions except some regulations which are absolutely essential for the accelerated and harmonious growth of the industry and protection of consumers and environment. Further, the controls and regulations prescribed should be simple and easy to comply with and implementable as well as enforceable. For this purpose, it will be desirable to factor in the changes occurring in production processes, trade and commerce in a pragmatic way for easy acceptance and better chances of compliance.

10.8.2 The Committee was informed that some of the controls and regulations which were imposed in the wake of shortages experienced during and immediately following the Second World War are still continuing on textiles. There has been steady and phenomenal growth in the production of various textile items, i.e., fibres, yarns and fabrics over the last five decades. The textile market, in fact, has become a 'buyers' market'. Enormous capacities have been created and the process is on. There have been no complaints about shortages of fibres/yarns and fabrics during the recent years. The internationalisation of the Indian economy is also expected to unleash further competitive forces in the domestic economy, augmenting further the availability of textile items at competitive prices. In such a scenario, the out-dated and out of sync controls would only impede the growth of the textile industry. It is, therefore, recommended that all the textile items except raw cotton ginned or unginned and cotton seeds and raw jute & jute textiles may be removed from the purview of the Essential Commodities Act. Raw cotton, cotton seeds, and raw jute & jute textiles should continue to be under the purview of the Essential Commodities Act. Cotton is the base fibre for the textile industry and the production of cotton, inspite of positive long term growth, is still not stabilised in the country on a year to year basis. Cotton being an agricultural commodity and dominated by dry farming, depends to a great extent on the vagaries of nature and production of the same is subject to wide fluctuations. To ensure steady supply of cotton to the mills at reasonable and stable prices and remunerative prices to the farmers, govt. intervention may be required from time to time, though not all the time. To improve the cotton production and productivity, supply of quality seeds to farmers is a basic requirement. The current unsatisfactory situation with regard to availability of quality seed in the country also necessitates govt. intervention in the larger interest of the cotton farmers and cotton textile economy. Accordingly, the Committee recommends continuance of the Cotton Control Order also. The continuance of jute and jute textiles under the purview of the Essential Commodities Act for some more time is also necessary to enable timely

govt. intervention to revive the jute economy which is just beginning to explore avenues for diversified uses of jute in blend with other fibres.

10.8.3 As regards other textile items, be it fibres, yarns, fabrics or garments, supply and price stability are not a major problem any more. With steady growth of man-made textile capacities, the overall availability of various textile products has improved dramatically. Therefore, regulation of production, distribution, trade etc. are no more intractable problems nor do they require any strong, sustained regulatory framework to tackle unforeseen supply, distribution or price related crises, though occasional price fluctuations still do occur. But with an ever expanding production base, it should not cause undue worry. The only areas which still need govt. control/regulation on a sustained basis are related to “consumer and environment protection” and “collection of statistical data”. There is a growing consumer awareness the world over with regard to their right to get textile articles (for that matter, any kind of goods and services) of the desired quality conforming to the expected specifications. Unfortunately in India, given the low level of socio-economic development and general low level of consumer awareness, the consumer movement is not so strong. The scope for misclassification or cheating of consumers in terms of fabrics/apparel quality, fibre composition and processing standards etc. is strong. Therefore, it is necessary to have statutory provisions to enforce quality parameters on various textile manufacturers, importers and traders in respect of textile products manufactured or sold by them to protect the interest of the general public as well as the vulnerable industrial textile consumers like the decentralised handloom and powerloom weavers; to ensure supply of declared quality products to the said consumers so that production of desired quality goods at every stage of manufacturing process is ensured while keeping in view the protection of the interest of the ultimate consumers, i.e., common masses.

10.8.4 The present Textile Consumer Protection Regulations (TCPR) have been notified under T(D&R)O which, in turn, derives its legal sustenance from the EC Act. Consequent upon removal of textiles from the EC Act as recommended herein-before, it will become necessary to enact a Textiles Consumer Protection Act. It is recommended that a comprehensive Act for ‘consumer and environment protection’ in consultation with different segments of the industry and N.G.O.’s/Associations connected with consumer protection movement be formulated. The Committee is of the view that the existing stamping regulations should be reviewed and suitably modified so as to make them more pragmatic and more consumer friendly. Govt. may also examine the feasibility of extending the stamping regulations to the handloom fabric, khadi fabric, silk fabric, jute fabric, knitted fabric, non-woven fabric, industrial fabric, garments and made-ups. If consumer protection is the overriding consideration, then there is no reason as to why certain categories of textile products or producers should be outside its purview, more particularly since the Committee was told of multiple instances of cheating of illiterate, gullible consumers even in handloom fabrics by unscrupulous traders. Therefore, the Committee would urge the Govt. to

give a serious consideration to this recommendation. The stamping regulation may include, inter alia, manufacturer's name and blend percentage in terms of "not more than" and "not less than" instead of specific blend percentage as it is applicable now. But more importantly, finished products must contain information on colour fastness, shrinkage and washing instructions. The marking stipulations should be in simple form so that it does not unduly burden the producer and he feels inclined to comply with the regulations. As far as possible, stamping should be at the final stage where it reaches the final consumer. In the international market, stamping is used as a medium for publicity. In the Indian context also, the environment be created so that stamping should be treated as a medium for publicity. The Act may provide for giving quasi-judicial powers to the enforcement agencies for adjudication of cases. CERC, Ahmedabad, a consumer NGO has recommended that the Textile Commissioner may be made the regulatory authority like SEBI to impose penalties or fines for violation of regulations. This recommendation may be examined in depth by the Govt. for covering the same under the new legislation to be issued for consumer protection.

10.8.5 Planning, policy and strategy formulation requires collection of data on capacity, production, availability, imports, exports, prices etc. in respect of various segments of the textile industry. It is doubtful if anyone would provide information without an element of compulsion. In spite of present statutory provisions, constant pursuance and even prosecution of defaulters, the level of compliance for providing such information has never been cent percent. Given the vital importance of statistical information input in the policy planning process, it is absolutely essential to enact legislation for timely collection of data. For this purpose, a limited separate enactment to cover the need for periodic data collection may be issued. However, the penalty prescribed under this Act need not be as stringent as under the E.C. Act. Under the present dispensation, even for offences like non-filing/late filing of CST returns, penalty prescribed is imprisonment which is very severe considering the nature of offence. Under the new Act, minor offences may be made eligible for "compounding" at the level of the administering authority so that only the chronic offenders could be prosecuted for more severe punishment and that too, by way of penalty in terms of steeper fine and only in extreme, repeat cases, imprisonment.

10.8.6 The Govt. may also examine the feasibility of combining the consumer protection measures and statistical data requirements in a single enactment to avoid multiplicity of legislations. However, the Committee wishes to make it clear that its recommendation for removal of textile items from the purview of the EC Act, 1955 is contingent upon enactment of appropriate legislation(s) for consumer protection, environment protection and statistical data collection and not otherwise. If separate legislation for these purposes is not found feasible or practical, then suitable provisions may be made in the EC Act for compounding of minor, occasional/first time offences and giving such authority to the prosecuting agency, i.e., the Textile Commissioner.

10.8.7 Hank yarn obligation scheme

The Committee is firmly of the view that production of hank yarn is uneconomical, wasteful, very much labour oriented and impedes the healthy growth of the spinning segment of the textile industry. Given the right environment on input management, the handloom sector can survive without the hank yarn obligation scheme. Therefore, it is in the national interest that hank yarn obligation scheme should be removed with provision for assured supply of required yarn to the handloom weavers in a more structured manner. A scheme for supply of dyed cone yarn to handloom sector has been proposed by the Committee which is discussed in detail in the chapter on 'Spinning'. The proposed scheme of supply of dyed cone yarn to handloom sector will reduce the need for hank yarn significantly except perhaps for customised small volume coloured yarn for which the quantum of such requirement may not be more than about 100 mn.kg. For this quantum of hank yarn, hank yarn obligation may not be necessary because there are sufficient number of spinning mills which are producing substantial or even 100 per cent hank yarn due to the quality based premium they command in the market. The Committee has recommended for formulations of a time bound scheme of, say, 3 years for the purpose of setting up of yarn dyeing units in the clusters of handloom in the chapter on 'Spinning'. It is, therefore, recommended that Hank Yarn Obligation scheme may continue in a declining format to be completely abolished on achievement of the desired level of yarn dyeing facility.

10.8.8 Handlooms (Reservation of Articles for Production) Act 1985

The Committee is firmly against the reservation of items for production by the handloom sector. As stated earlier, 11 items are at present covered by the handloom reservation order under the Handloom (Reservation of Articles for Production) Act, 1985. However, a closure perusal of the list reveals that most of the items are umbrella items, more in the nature of product categories rather than specific products. Thus, the 11 items, in effect are 11 groups of products, numbering much more. In the liberalised regime with unrestricted imports with effect from 1st January, 2005, even items reserved for handloom sector will be permitted to be imported. Thus, in the liberalised import scenario, the reservation policy would lose its meaning and relevance and handloom weavers producing items which can be replicated on powerlooms in more cost-effective manner would not be able to survive the onslaught of imports. Hence, it would make no sense to prevent the domestic textile industry from producing such reserved items which will provide unlimited access to imports from abroad. The basic objective of the handloom policy should be to strengthen the handloom weavers producing unique items which cannot be replicated on powerlooms, in terms of design and marketing support and a planned, orderly conversion of the ordinary handloom weavers to alternative avenues, viz., garments, made-up manufacturing, powerlooms, yarn dyeing, etc. The policy initiatives to achieve the desired handloom policy objective have been discussed in detail in the

chapter on "Weaving". The Committee, therefore, strongly recommends that Handloom Reservation Act and the Order issued thereunder should be done away with.

10.8.9 SSI reservation policy

The Committee is firmly against the SSI reservation policy in regard to textile items. The reservation policy has impeded the growth of the textile industry, particularly the strongest and most important segment of this industry, that is the clothing and knitwear segments. In the context of liberalisation and globalisation of trade, it is anachronistic to adopt such a 'village approach' to progressive segments of the textile industry. The business decision should be left to be taken by the entrepreneur with regard to supply, demand and profitability considerations. The Govt. should not decide which industrial activity should be in the small, medium or big sector. Countries like Hongkong, Taiwan, Philippines, Bangladesh and Sri Lanka had no concept of such reservations and had been doing extremely well in the textile sector, particularly clothing segment. Besides India, only Korea had a system of reservation, and even in Korea, the reservation has been reduced from 300 items to a mere 72 while in India still 812 items are covered under SSI reservation. The reservation policy inhibits the unit from achieving economies of scale and dynamic growth and limits its capacity for technological upgradation. With liberalisation of trade, it has become all the more important for different segments of the textile industry to strengthen their technology base to compete in the global economy. Post-2004, the SSI reservation would not prevent liberal imports but stifle domestic competition. It would make sense to expose these SSI units first to domestic competition in the next 4-5 years before they face the global competition in their backyard. The feedback given to the Committee by these segments was that they had enough of protection and now they should be allowed to grow and the reservation policy be done away with. More importantly, the employment potential in the clothing/made-up segment is almost scale-neutral and the small units can survive and thrive as niche operators or converters for big firms and merchant exporters. Therefore the argument of the Department of Small Scale Industries that reservation policy protects and maintain employment intensity does not hold water. Hence, there is no logic whatsoever for continuance of this reservation policy even for a day more. Otherwise, we would be falling behind countries like Bangladesh and Sri Lanka which have made great strides in the clothing segment in recent years. The arguments of the Department of SSI are at best patronising and at worst, facetious and status-quoist. Therefore, the reservation policy should be immediately done away with in respect of clothing and knitwear segments. The said policy initiative has assumed more importance in the context of recently launched TUFs. The clothing and knitwear segments would not be able to avail of the benefit of TUFs to the optimum level unless SSI reservation is done away with. The Committee would, therefore, strongly recommend for complete removal of the reservation without any delay, to prepare the SSI sector to finally meet the international competition from 2005.

This issue has also been discussed in detail in the chapter on 'Clothing'.

Silk Industry

10.8.10 Central Silk Board Act

In the chapter on 'Raw material', the Committee has recommended for restricting the activities of CSB only to R. & D. aspects of sericulture, (i.e., R. & D., transfer of technology and training) and suitable re-christening thereof. The extension and developmental issues can be handled by a separate machinery. In other words, CSB's present functions will be split between two organisation. Hence, CSB as an organisation will cease to exist. The Committee, therefore, recommends that CSB Act, 1948 should be repealed and CSB's R&D functions, and extension and developmental functions are separated.

10.8.11 The Karnataka silk worm seed, cocoon and silk yarn, (Regulation of production, supply, distribution and sale) Act

The above Act applies only to Karnataka weavers. The Committee was informed that due to the enactment of the above Act in Karnataka with provision for heavy penalty in the form of fines and imprisonment to weavers, the Karnataka weavers are harassed and ill-treated in the State where bulk of the silk is produced. The weavers of other states are free from this problem since no other state has enacted such a legislation. The Committee was also informed that establishment of a Silk Exchange has indirectly affected the quality of the silk yarn. Karnataka was known for production of very good quantity of finer and uniform denier silk prior to the establishment of Silk Exchange in 1979. The silk weavers of Karnataka were earlier producing fine quality silk cloth both for export and domestic requirements, using silk yarn produced indigenously. Since the establishment of the Silk Exchange and due to the undue protection given to the silk producers, they have not bestowed the required attention for the production of quality silk yarn. The quality of silk yarn produced has deteriorated and driven the weavers to depend on imported silk for production of good quality silk fabrics such as chiffon, georgette etc. The Committee feels that it may be impressed upon the Karnataka Govt. to re-examine this issue in depth and to take appropriate steps to solve the problem of the silk weavers of the state which has indirectly also affected adversely the long term interest of and returns to the silk producers whose interest these steps are purported to subserve.

Jute Industry

10.8.12 Jute Textiles (Control) Order, 1956 and Jute (Licensing & Control) Order, 1961

After total delicensing of jute industry, the Jute textiles (Control) Order, 1956 has become redundant, except for the requirement for manufacturers to submit a declaratory memorandum regarding change in name of their factories/ownership for monitoring their activities. The Jute (Licensing & Control) Order has served some useful purposes for the jute sector. For instance, implementation of the statutory

scheme for compulsory production and requisition of the stocks of B.Twill jute bags from jute mills at prices fixed under the Act to meet the packaging requirement of FCI and State foodgrains procuring agencies has proved equally beneficial for the jute sector and public / state sector agencies engaged in procurement of foodgrains for PDS. Likewise, exercise of powers for regulating purchases and stocks of raw jute with mills are meant for protecting the interest of jute growers. The Committee noted that the question of streamlining various Acts, Control Orders, rules, regulations, procedures, etc. pertaining to different sectors including jute in the context of current liberalised trade regime was examined in-depth by several expert bodies appointed by the Govt. in the recent past. As per their recommendations, a draft amalgamated order, i.e., Jute and Jute Textiles Control Order incorporating the essential provisions of these two control orders is pending with the Govt. for a decision. The Committee does not see any cogent reason for non-acceptance of such a proposition and therefore, recommends that this matter may be finalised as early as possible.

10.8.13 The Committee was also informed that the above mentioned expert bodies have unanimously recommended amalgamation of Jute Manufactures Cess Act, 1983 and Jute Manufactures Development Council Act, 1983 with some modifications e.g. mandatory transfer of the entire cess amount collected to JMDC, vesting greater responsibility in the Secretary, JMDC for day to day functioning of the Council and increasing powers the Secretary/Chairman/Council to incur expenditure without having to seek prior approval of Central Govt. on case to case basis. It is noted that both these Acts have accordingly been amalgamated into one draft Act, i.e., Jute Manufacturers Cess and Development Council Act and this is now awaiting approval of the Ministry of Textiles. After approval of the proposed new Act, the Rules would be amended accordingly to make the day to day functioning of the council simpler as recommended. The Committee recommends that this matter may be finalised early though with some change. The Committee has recommended that a dedicated fund may be created and administered by the Ministry of Textiles and jute cess may flow to this fund to be utilised for meeting the developmental needs of the textile industry.

10.8.14 **Jute Packaging Materials (Compulsory use in Packing Commodities) Act, 1987**

The Jute Packaging Materials (Compulsory Use in Packing Commodities) Act, 1987 was intended for the benefit of the jute sector. However, growing competition from synthetics has posed a serious problem. The use of jute bags for packing cement, chemicals and fertilizers (except urea) has been virtually abandoned. The two principal commodities which are still using jute packaging materials are foodgrains and sugar. Even in case of urea, more and more synthetic bags are being used in violation of the statutory reservation order issued under the Jute Packaging Materials (Compulsorily Use in Packaging Commodities) Act, 1987. While attempts are being made to reduce the industry's dependence on traditional products through greater emphasis on diversification and modernisation which alone can bring about a

turn around in the jute industry, it will take some more time to achieve this objective. The Committee, therefore, recommends that this Act should be retained till the end of the 9th Plan without any further dilution except in case of an exceptional situation. Some new items like oilseeds, processed food, spices etc., in addition to foodgrains and sugar, should be included in this order to help the industry to recover from the adverse impact of recent dilution for packaging end-uses. However, vigorous steps must be taken to ensure that jute diversified products and jute blended spinning processes developed by various TRAs under the UNDP programme are commercialised at the earliest and on a large scale so that the need for compulsion in jute packaging is done away with by the end of the 9th Plan. The Committee has already recommended measures for promoting growth of jute diversified products and jute blended spinning process in the chapter on 'Jute Industry'.

10.8.15 Export Contract Registration Scheme

The Export Contract Registration Scheme for jute goods being administered by Jute Commissioner on a voluntary basis is not serving any useful purpose in the matter of export. The scheme of registration and the requirement of conformity with minimum export prices for registration purpose are no longer applicable to any export commodities except jute goods. This scheme is not considered to be consistent with the concept of free trade regime nor seen to be serving any worthwhile purpose, and, hence, it should be dismantled at the earliest.

CHAPTER-11

INDUSTRIAL RELATIONS

11.1 Introduction

One of the areas of weaknesses of the textile industry is in terms of the obsolete and antiquated labour legislation, which though sector neutral, has hindered the growth of the labour-intensive textile industry to a great extent. The Indian textile industry is basically a labour intensive industry because of pre-ponderance of the decentralised sector in most of the segments of the industry. Even in the organised sector, man-machine ratio is higher as compared to that of competing countries because of inability of the mills to scientifically rationalise its labour force even after installation of hi-tech machinery on account of outdated, restrictive labour laws. The textile units also find it extremely difficult to adopt new work-practices linked to productivity and efficiency for the same reason.

11.2 Current status

11.2.1 The restrictive industrial and labour laws restrain management's capability to respond professionally, effectively and speedily to fast changing dynamic international textile scenario. A number of labour laws were framed several decades back, some were formulated even before independence in the context of the circumstances and compulsions prevailing at that time and have outlived their utility.

11.2.2 For example, the requirement under Industrial Disputes (ID) Act, 1947, to approach the concerned state Govt. for permission to lay off/retrench the workers or to close down the unit and the State Governments' general aversion to grant such permission, has led to a scenario where the units have to carry on the burden of excess labour indefinitely, resulting in uneconomic working/sickness, ultimately forcing them often to resort to illegal closure. As per records of the Textile Commissioner's office, as on 31st March, '99, there were 313 closed mills, though only 55 were closed legally; 4 under Section 25(0) of the ID Act and 51 mills under court orders. The illegal closure of the mills deprives the workers even their statutory dues and places them under great financial and psychological stress. The laws which had been framed to protect the interests of the workers are, in fact, militating against their interests. Such labour laws arrest employment creation since the investment that materialises tend to be of capital intensive (labour replacement) variety. In short, inflexible labour laws only ensure a false sense of security for already unionised labour force which represents just a tiny minority. Such laws and institutions drive in neither fresh investments nor technological progress but just result in maintaining non-performing assets and imprisoning capital. The restriction on 'exit' automatically restricts 'entry' too. The lack of 'exit' raises potential costs, risks and so leads to fewer investments and fewer new jobs. It is understood that in the USA, about 8 lakh firms close down every year but 9 lakh new ones are created, 2 percent of work-force in the USA lose

their jobs every month and yet long-term unemployment is the lowest in USA. In such a system, liquidation is a way of redeploying land, labour and capital from less productive units (which close down) to more productive ones (new units). Thus, the competitive system keeps improving efficiency and incomes without rendering labour or capital idle. The policy of nursing the sick units has also led to huge idle capacity and idle wages etc. This policy requires constantly pouring scarce resources into inefficient entities at the cost of efficient ones. Thus, blinkered short term view of retrenchment/lay-off or closure often leads to long term damage to the economy wide employment potential – a situation of pennywise pound foolish scenario.

11.2.3 Conducive rational labour laws to balance the interests of the labour and management so that nobody derives the illegitimate benefit at the expense of the other is a sine-qua-non for healthy industrial relations and growth. Over the years, labour laws in India have increasingly become over-protective of organised labour, which has stymied the growth of progressive labour outlook and in its wake, has brought in growing labour militancy in the organised sector in stark contrast to the pitiable conditions of the vast majority of workers in the unorganised sector. Even progressive, growth oriented managements have not been spared avoidable strikes, production disruptions etc. Yet another reason for a change in the overall labour law scenario for a more balanced one is the change in ownership pattern of productive assets. Gone are the days when the industrialist was the sole or majority share holder of the firm and hence, prone to exploit the labour for profit maximisation. Today, most corporate entities have managements with less than majority stake in the equity base while equity holders with or without financial institutions hold the majority stake. On the debt side also, most often it is these two groups who carry the maximum stake. Thus, in a modern corporate entity, management has often a miniscule personal stake and most of the risk and stake is held by the non-management owners/lenders. Besides, the creditors also have a stake. With over-protective labour laws in place, the balance has now tilted to the other extreme in favour of organised labour to the detriment of the small stake holders, public fund managing FIs/banks and the society at large. Ease of Union formation and low threshold of membership requirements often leads to multiple unions and militant, competitive trade unionism, resulting in inter-union rivalry or even violence and irrational demands or illegal strikes. There is, therefore, a crying need for balancing the labour-management relations, trade union rights and formulation of fair and balanced exit policy to optimise the utilisation of scarce resources and improving productivity and competitiveness of the textile mills.

11.2.4 The Committee is firmly of the view that the present labour legislation scenario is loaded against improvement of work culture. Excessive security of jobs provided by these laws inhibit improvement in efficiency, productivity and work culture. In the wake of liberalisation of industrial and trade policy, it is essential to review and modify the industrial relations laws so as to re-orient it towards securing greater industrial harmony, enhancing production and productivity and creating an

environment to stimulate growth in domestic and foreign investments, besides ensuring the dignity of labour and quality of work force.

11.2.5 There is also a dichotomy in the labour situation in the textile industry in the sense that while there is overprotection towards the organised labour groups, there is no protection at all to the labour in the decentralised sectors, which preponderate in the textile sector. The overprotection of the labour of the organised sector numbering less than 1.5 mn. is having deleterious impact on the labour in the unorganised sector numbering over 25 mn. (direct). The cluster approach recommended by the Abid Hussain Committee to ameliorate the condition of the powerloom workers was not given serious consideration by the Govt.

11.3 **Policy initiatives in the past**

11.3.1 The Textile Policy of June 1985 has clearly laid down that capacity expansion by existing units and capacity creation by new ones would be permitted subject to the general industrial policy. As a corollary, units would be allowed to contract capacities, including closure of a unit or part thereof wherever necessary provided the interests of workers are fully protected. For protecting interest of displaced workers, the Textile Workers Rehabilitation Fund (TWRf) has been set up. The relief under the scheme is admissible to displaced workers of textile units which are closed after June, 1985 with the permission of the State Govt. or in cases where Official Liquidators are appointed by the High Court. In actual practice, however, the policy prescription in regard to capacity contraction and closure of units is rendered in-effective. Between June'85 and Jan.'99, additional 228 units closed down, but assistance under the TWRf has only been availed of by 34 units. The Abid Hussain Committee which was set up to review the Textile Policy has also emphasised on closure of non-viable units and has also recommended for coverage of workers of illegally closed mill under TWRf. However, such policy recommendations have not resulted in modifications in I.D. Act or eligibility criteria under TWRf.

11.3.2 The Textile Policy of 1985 has also stressed that where a sick unit has no expectation of becoming viable within a reasonable period of time, there may be no alternative but to allow the unit to close down provided the interests of the workers are protected. But in practice, workers' interests are sought to be protected by refusing closure under ID Act. To tackle the issue of industrial sickness including that of textile industry, the Govt. has set up the Board for Industrial & Financial Reconstruction (BIFR). However, BIFR has not succeeded in tackling the cases of sickness in the textile industry due to lengthy legal and other cumbersome procedures involved. Despite BIFR's recommendations for 'winding up' of non-viable mills, vested interests have been successful in either referring the cases to the AAIFR for reconsideration or have obtained stay orders from High Courts. Even rehabilitation packages prepared by the BIFR for revival of potentially viable mills have not met with success because of BIFR's inability to force the concerned parties to agree to the

sacrifices essential for revival of the mills as envisaged in the rehabilitation packages. The delay in implementation or non-implementation of the rehabilitation packages gradually leads to conversion of viable sick mills into non-viable mills fit for closure only. The BIFR has thus been a dismal failure in either reviving the potentially viable sick mills or closing down the non-viable mills. This situation puts the work force of such mills to great financial and psychological stress and inhibits the redeployment of the scarce capital which could, in turn, lead to augmentation of the employment opportunities.

11.3.3 The VRS scheme formulated by the Govt. or mill managements have also not been successful and suffer from 'adverse selection' bias and do no more than let the more productive labour opt for exit from sick units. It neither lessens the need for official handouts nor increase competitiveness or productivity. It is also not available to units under liquidation proceedings. Such proceedings are usually long drawn out, thereby requiring compulsory payment of idle wages for long periods.

11.4 **Suggestions made by the Labour Unions**

11.4.1 The major suggestions made by the Labour Unions during the course of the Inter-active session with the Expert Committee on Textile Policy are summarised below:

- (i) The integrated Textile Policy should also aim at maintaining/augmenting the employment level.
- (ii) Effectively disciplining the powerloom sector through an All India Regulatory legislation.
- (iii) Provision for welfare measures for powerloom workers in the form of medical, sickness, employment injury and retirement benefits etc.
- (iv) Revival of the NTC mills on the basis of the recommendations of the NTC Study Groups and several bi-partite meetings convened by the Ministry a few years back.
- (v) Withdrawal of the irrational excise exemptions provided to the powerlooms and processing segments.
- (vi) Provision for welfare measures for the workers of the clothing and processing segments.
- (vii) Identification of the health hazards to the workers of the textile industry and effective steps to remedy the same.
- (viii) Setting up of National Textile Wage Board to evolve a uniform national wage policy for all the textile workers.
- (ix) Amendment in employees' pension scheme to make it more effective and beneficial to the employees.

- (x) Improving the coverage of the TWRF Scheme by covering the workers of the illegally closed mills and also enhancing the wage-ceiling limit of Rs.2500 per month.
- (xi) Rehabilitation of the workers of the closed mills on the line of the recommendations of the Abid Hussian Committee.
- (xii) Human resource development aspects of the textile workers be given due consideration to improve the skills of the workers.
- (xiii) Priority be given to the statutory and legal dues of the workers in the event of winding up of a textile mill.

11.4.2 All the above suggestions of the labour unions were discussed at length by the Committee in its meetings and appropriate decisions were taken as indicated below:

(i) Augmentation of employment level

The Committee has focussed on the technology upgradation and modernisation of the different segments of the industry, which may, in the short-term, lead to contraction of the employment opportunities in certain capital intensive segments of the industry viz., spinning, processing etc. However the recommendations made by the Committee for improving the share of the Indian textile industry in the world market will certainly increase the production activity, particularly in the labour intensive downstream segments of clothing and made-ups, improving the over all employment potential of the textile industry. Further, the surge in the textile activity to cater to the clothing requirement of the increasing population will also augment the employment level of the industry.

(ii) Regulatory legislation for powerloom segment

The Abid Hussian Committee had recommended for setting up of Labour Enforcement and Welfare Agency (LEWA) in each powerloom concentration area as an implementing agency for enforcement of labour regulations and welfare measures. The Committee endorses this recommendation and recommends setting up of such agencies in the areas of powerloom concentration. This issue has been discussed in detail in para 11.5.18.

(iii) Welfare measures for powerloom workers

The Committee has recognised the need for the welfare measures for the powerloom workers and has accordingly recommended for modifications in the welfare schemes pertaining to powerloom workers/weavers, i.e., workshed-cum-housing scheme and group insurance scheme to improve the coverage and benefit to the powerloom workers/weavers. This issue is discussed in detail in the chapter on "Weaving".

(iv) Revival of NTC Mills

The Committee has also recommended that quick decision must be taken to revive the viable NTC mills and close down the non-viable mills, with provision for reasonably attractive terminal benefit payment to the workers through the sale of land etc. This matter has been discussed in detail in the chapter on "Weaving".

(v) Irrational Excise Exemptions

The Committee has examined the matter regarding the excise exemptions which have led to distortion and structural anomalies in the textile industry and has recommended for withdrawal of such exemptions. This matter has been discussed in detail in the chapter on "Fiscal Policy and Structure".

(vi) Labour welfare measures in Readymade Garment and Processing Units

The Committee has recommended for improving the skills of the workers, including that of clothing segment, to improve the quality of the products and also the earning capacity of the workers. The Committee has also recommended that contract labour may be permitted wherever warranted, with suitable stipulation that appropriate wages and other benefits like PF, ESI, etc. are paid by the contractors to the workers. Such issues are discussed in detail in the chapter on "Human Resource Development" and in para 11.5.4.

(vii) Health hazards

The Committee has recommended for modification of the Employees State Insurance Act 1948 and the powerloom workers' insurance scheme to make these Acts/schemes more effective.

(viii) National Textile Wage Board

This issue has been discussed in para 11.5.14.

(ix) Textile Workers Rehabilitation Fund Scheme (TWRFS)

The Committee has recommended modifications of the scheme to cover the workers of the mills permanently closed illegally and also for suitably enhancing the wage limit of Rs.2500 per month for eligibility under the Scheme. This matter has been discussed in detail in para 11.5.17.

(x) Rehabilitation of workers of closed mills

The Abid Hussain Committee had recommended formation of area based Textile Restructuring Asset Trusts (TRATs) in the identified areas to implement time bound area based restructuring plan to ameliorate the conditions of the displaced

workers of the closed mills. The Committee has endorsed the said recommendation in para 11.5.17.

(xi) Human Resource Development

The Committee has recognised the importance of HRD, particularly at the operational level, to improve the skills of the textile workers. This matter has been discussed in detail in the chapter on "Human Resource Development".

(xii) Priority to the statutory dues of the workers

The Committee has examined this issue and has recommended that the Government may provide overriding priority to the statutory and legal dues of the workers of the textile mills under liquidation for ensuring full payment of such dues of the workers. The issue has been discussed in para 11.5.13.

11.5 Recommendations

11.5.1 The Committee was informed that in line with the general approach towards liberalisation, the Ministry of Labour is engaged in considering various amendments to labour laws. A high level Core Group has also been set up to guide the exercise. Still, the Committee has attempted an exercise, within the short time available, to review the various sections of the Industrial Disputes Act and other related Acts, impeding modernisation /technology upgradation and improvement in productivity, and quality in the textile sector, with a view to recommending possible modifications. Those recommendations are as follows :

11.5.2 Industrial Disputes Act, 1947

(i) Uniformity in dealing with industrial relations

The Industrial Disputes Act, 1947, is applicable throughout the country. However, some of the State Governments have also enacted separate laws on the subject of industrial relations, notably Maharashtra, Madhya Pradesh and Gujarat. As a result, textile industry is not governed by a single legislation throughout the country and this has created disparity in the matter of industrial relations. A company having units located in Madhya Pradesh and Andhra Pradesh is governed by two different laws concerning industrial relations. There is, thus, no uniformity in the matter of industrial relations even in the same company. It is, therefore, necessary to have a single law on the subject of industrial relations throughout the country. This can be achieved by appropriate amendments in the I.D.Act.

(ii) Notice of change (Section 9-A)

As per Section 9A of the I.D. Act, no employer who proposes to effect any change in the conditions of service applicable to workmen in respect of any matter specified in the Fourth Schedule, shall effect any change without giving to the

workmen a notice of 3 weeks for change in the prescribed manner. Two of the matters included in the Fourth Schedule, which are relevant to the issue, are:

"10. Rationalisation, standardisation or improvement of plant or technique which is likely to lead to retrenchment of workmen.

11. Any increase or reduction (other than casual) in the number of persons employed or to be employed in any occupation or process or department or shift, not occasioned by circumstances over which the employer has no control."

In a fiercely competitive environment where decisions are to be taken at rapid pace for improvement of plant or techniques of production, the notice of 21 days duration is too long. 7 days' notice period would be more reasonable and appropriate since the above changes are normally carried out only after mutual discussion with the workers.

(iii) Practice of "Go-slow" /Work-to-rule/mass casual leave

In the recent times, the practice of 'go-slow/work-to-rule/mass casual leave', has become a major weapon of industrial action by the trade unions. Though go-slow is considered as an act of indiscipline under law, there is no penal provision for mass action on this account. The action of go-slow has been described by the Supreme Court of India as a 'highly pernicious practice', perhaps because in such a situation though full wages are earned by the concerned workmen, the industrial output suffers badly. The organisation keeps on incurring the input costs but output and/or its quality reduces drastically, whereby the entire objective of value addition through manufacturing activity is lost. In a market economy, the competitiveness of a unit is determined by the level of value addition, hence in a go-slow situation, the main objective of manufacturing is completely lost. To resolve the issue, the definition of 'strike' given in section 2(q) of the Act may be modified by including 'go slow', 'work-to-rule' or 'mass casual leave' in the definition and a subsection to the following effect may be added to determine go slow/work-to-rule practice in chapter VI of the ID Act under section 26-A :-

“(a) Go-slow/work-to-rule action shall be determined based on the production level achieved in the previous three months in relation to the availability of inputs. A go-slow/work-to-rule action on concerted basis will be said to have been caused if there is production drop of more than 20 percent provided all the inputs remained at the same level.

(b) In case of a concerted go-slow/work-to-rule action, a proportionate wage deduction shall be effected for the concerned workmen and the concerned workmen will earn proportionately less in their gross salary/wage.”

The 'mass casual leave' should also be appropriately covered under this section.

(iv) Lay off / retrenchment and closure

Chapter V-A was added in the Industrial Disputes Act, 1947 in the year 1953 to regulate lay-off and retrenchment in the industrial establishments. Chapter V-B was inserted in the Act in the year 1976 to provide for prior permission of the State Govt. for lay-off (Section 25(M)), retrenchment (Section 25(N)) and closure (Section 25(O)) in industrial establishments employing 300 or more workmen. This figure was reduced to 100 by the Industrial Disputes (Amendment) Act 1982. The net result is that in the establishments employing 100 or more workmen, lay-off, retrenchment and closure has been made practically an impossibility as State Govts. do not have the will to approve an application for lay off, retrenchment and closure.

(v) Lay-off under section 25 (M)

A plain reading of the provisions of 'Lay-Off' as defined in the ID Act and Model Standing Orders would reveal that the employers have got exclusive power to lay-off any number of workmen for the reasons mentioned therein and also for other reasons which are almost common, but under Section 25 (M) of the Industrial Disputes Act, 1947, special provisions have been introduced in the Act which speak of 'Prohibition of Lay Off' which, inter-alia, gives a very limited power to an employer to lay-off the workmen unless prior approval or permission from the Prescribed Authority is obtained. The section provides that appropriate govt., or the specified authority would give reasonable opportunity to the employer, workmen and persons interested, and grant or refuse permission to 'lay-off'. Thus, it is obvious that Section 25 (M) of the Industrial Disputes Act, 1947 (Central Act) has restricted the powers of the employer to 'lay-off' workmen as per the definition of lay-off and as per the Model Standing Orders. Therefore, it is recommended that the prior permission as stipulated therein should not be a pre-requisite. The employer should have sufficient rights/powers to exercise the option of 'lay-off' with appropriate lay-off compensation when the situation warrants, which may be due to severe shortage of raw materials, demand recession, labour unrest or inability to pay electricity charges, salary/wages etc.

(vi) Retrenchment under Section 25 (N)

The Committee is of the view that modernisation and technology upgradation projects cannot be economically viable unless accompanied by scientific labour rationalisation. As per the provisions of Section 25 (N) of the Industrial Disputes Act, employers are required to seek permission of the State Govt. for retrenchment. Since such permissions are rarely given, the above section should be modified to the effect that instead of requiring the State Government's prior permission for retrenchment by the employer, he should be given the right to carry out the retrenchment as and when required on payment of higher rates of compensation. The retrenchment compensation may be increased significantly to 60 days' average wages for every

completed years of service in place of the 15 days' wages as at present. In addition, penalty may also be imposed for non-payment of retrenchment compensation.

(vii) Closure under Section (25 (O))

Section 25 (O) prohibits the closing down of an unit without the prior permission of the State Govt. If a mill cannot run profitably, it is better to close the unit and dispose off the assets to clear the statutory and other dues and redeploy the remaining capital to set up new viable project. The denial of permission by the State Govts. for the closure of mills often leads to illegal closures and the workers are denied even their statutory dues. There are many textile mills in major industrial/cosmopolitan towns and most of them are sick and have got obsolete machinery and equipment, which need replacement in toto. Such mills do not have the funds even fractionally to undertake technology upgradation. However, they can upgrade provided they can sell their existing land or other disposable assets freely, thereby generating funds and making fresh investment in machinery at a new location in the hinterland. Thus, closure should be allowed to such mills freely and permission to sell land without any restraint by the central enactment. Therefore, the Committee recommends that Section 25 (O) of the Industrial Disputes Act may be deleted. An Inter-Ministerial Working Group on Industrial Restructuring appointed by the Planning Commission in October, 1991 had categorically recommended that the provisions relating to prior permission for lay-off, retrenchment and closure obtaining in Chapter VB should be deleted. In this connection, a judgement of the Allahabad High Court may be recalled where the Hon'ble Court has held that the employer need not take permission from the State Govt. before closing down the establishment. The case was litigated between Indian Oxygen Shramik Sangh and the Additional Labour Commissioner & Others in CMWP No. 4206 of 1991. A reference was made to Section 6 (W) of the UP Industrial Disputes Act. At para 6 of the judgement, it has been stated that the stipulation that the employer is to take permission of the State Govt. before closing down the establishment is ultra-vires of Article 19(1)(g) of the Constitution. The Court had held a similar view in an earlier case of Jay Shree Tea Ltd. Vs. Labour Court. This judgement of Allahabad High Court has, however, been challenged in appeal.

It would, therefore, be of interest to watch further development in this case. The Committee is firmly of the view that the employer, whether Govt. or private, should not be required to take prior permission in case it intends to close down an industrial undertaking under any section of the Industrial Disputes Act, 1947, or any State ID(Amendment) Act. The deletion of Chapter VB will also not lead to highhandedness on the part of employers because of the existence of Chapter VA, which also deals with lay-off, retrenchment and closure. However, prior permission is not necessary before effecting lay-off, retrenchment or closure; only intimation to the appropriate Govt. will suffice. If the Govt. were to find that retrenchment or closure was malafide, it may refer the issue for adjudication by the Labour Judiciary. This is ,

in our opinion, an adequate safeguard. We are of the opinion that the above formula will be conducive to the process of restructuring of the textile industry, particularly in the context of the TUFS.

(viii) Voluntary Retirement Scheme (VRS)

The Committee is strongly in favour of voluntary retirement scheme and recommends to make this scheme more attractive. To take care of the adverse selection bias of the existing VRS, both the number of years of completed service and the number of years of remaining service should also be taken into account to make the scheme balanced.

(ix) Labour courts

The Act provides for setting up of one or more labour courts by the Govt. for the adjudication of industrial disputes. The judge has to have appropriate and prescribed qualifications. Generally, the experience has been that the State Governments appoint Presiding Officers of Labour Courts with limited judicial experiences. Such presiding officers are known to succumb to local pressures and tend to give awards which do not stand judicial scrutiny in the Higher Courts. Such awards, however, result in sour industrial relations, increases litigation and costs all around. It is, therefore, recommended that Section 7 shall be suitably amended to ensure that only those officers who belong to the judicial service of either the Central or the State Govt. and have reasonable experience are only appointed as the presiding officer. Further, amendment may also be considered and the courts and tribunals made of two-member bench; one of them from the judicial service fulfilling the qualifications laid down and the second member from the administrative services, preferably of the Central Govt. on the pattern of CAT. The recommendation has been made keeping in view that the local pressures are withstood and the decisions are unbiased and objective.

(x) Law of limitation for reference of industrial disputes

There have been instances where an industrial dispute has been referred to a labour court or a tribunal many years after the disputes actually arose because the Act does not specify any limitation period. It is recommended that some limitation period, say, one year, shall be specified after which it should become time barred.

(xi) Negotiating councils

No provision for negotiating councils at present exists in the I.D.Act. It is recommended to introduce negotiating councils to enable the trade unions and employers to come on a forum for negotiations and sort out the issue amicably and speedily.

(xii) Grievance redressal machinery

No provision for grievance redressal machinery at present exists in the I.D.Act. It is recommended to introduce grievance redressal machinery within the

organisations with proper appeal provisions, so that maximum disputes are settled within the organisation itself and there is no necessity for either third party conciliation or adjudication.

(xiii) Exemption for R.& D. units

It is noted that the amendment to the I.D.Act passed in 1982 exempting R & D and educational establishments from the Act has still not been notified. It is recommended that requisite notification may be issued immediately.

11.5.3 Payment of Bonus Act, 1965

Conceptually the bonus is sharing of the profits of an undertaking. However, under Section 10 of this law, minimum bonus at the rate of 8.33 percent is payable compulsorily even if an industrial establishment incurs loss, thereby turning it into deferred wages and destroying the basic character of bonus. This places an unjustified financial burden on an industry during the period when it is incurring losses. The Committee is of the view that time has come to review the whole concept of bonus de novo. New scheme of payment should be evolved, considering the need to improve the productivity of the workers in the competitive environment. The payment in the nature of bonus, whether minimum or maximum, be linked to higher productivity and efficiency which will motivate the employees to give off their best and enable the unit to become cost competitive in the global economy.

11.5.4 The Contract Labour (Regulation & Abolition) Act. 1970

- (i) Section 10 of this Act empowers the appropriate Govt. to prohibit contract labour in any process, operation or other work in any establishment. There is no specific provision about the absorption of such contract labour in the establishment of the principal employer. However, the Supreme Court has, in a recent judgement, held that on abolition of the contract labour system, by necessary implication, the principal employer is under statutory obligation to absorb the contract labour. This decision has adversely affected the recruitment policy of the industrial undertakings in the sense that they are bound to take the contract labour under regular employment, despite the fact that they may not have the required age, qualification, physical fitness, etc. The Committee feels that the Act should, therefore, be suitably amended with a view to empowering the employer to absorb only those contractual employees who have the requisite qualifications for the job.
- (ii) The Committee is also of the view that the Act shall permit greater flexibility for engagement of contract-labour for jobs of non-perennial nature and where the activity is one of supporting infrastructure namely security, gardening, canteen and related to loading and unloading. The contract labour should also be permitted in weaving, pre-weaving and processing sectors where the units

are predominantly in the decentralised sector and often work on job work basis. The production also depends upon the seasonal demands and the employees in majority of cases are migrants. Certain wet processes require group of workers consisting of skilled, semi skilled and unskilled workers. Any action of a particular person may cripple the entire production of that machine. Under the circumstances, the contract labour should be permitted in such sectors of the industry with suitable stipulation that proper wages and other benefits like P.F., ESI, etc. are paid by the contractor to the worker.

11.5.5 The Madhya Pradesh Industrial Employment (Standing Orders) Act, 1961 and the Industrial Employment (Standing Orders) Act, 1946

The first named enactment is a law passed by the State Legislature and is applicable to all undertakings having more than twenty employees excluding those industrial establishments which are covered by the second Act, which is a central Act. Even though both the enactments deal with the working and the service conditions of the employees, both differ in their approach and this difference has created a situation which is to the disadvantage of the employers covered by the State Act. Under the central Act, employers are free to draft their own standing orders and get them certified by the certifying officer and until this is done, the model standing orders framed by the Govt. are applicable, while under the state Act, the Govt. has framed standard standing orders and has applied them to all undertakings covered by the Act. As a result, all undertakings are governed by standard standing orders whether they are suitable to them or not. There is a provision under which they can seek amendments subsequently but it is difficult to get them through. The distinct advantage available under the central Act is that provisions suitable for a particular industry can be made in the standing orders, while under the state Act, all undertakings are bound by the same set of standing orders. With a view to giving more autonomy to have provisions which are suitable to an undertaking, the central Act, i.e., the Industrial Employment (Standing Orders) Act, 1946 should uniformly be applied to all states to the exclusion of all state enactments on the subject.

11.5.6 The Employees Provident Fund and Miscellaneous Provisions Act, 1952

Section 6 of the Employees Provident Fund and Miscellaneous Provisions Act, 1952, stipulates the employer's contribution and employee's contribution towards the Provident Fund Scheme. The employees in the organised sector are already governed by various other statutory social security schemes like PF, ESI, gratuity, and leave etc. The 12 percent of employer's contribution to the provident fund is too heavy a burden for the industry. In the fiercely competitive business scenario, it should be rolled back to the original 8.33 percent for the textile industry. Section 6 needs to be amended to this effect.

11.5.7 The Employees State Insurance Act, 1948

In this Act, the administration of payment for sick leave compensation etc. are made by the Central Govt. authority and the collection of the cess is also made by

the Central Govt. However, the health part of the scheme, i.e., to give medical treatment etc. is entrusted to the State Govt. and the Central Govt. This system has resulted in total dissatisfaction amongst the workers for non-availability or inferior availability of medical treatment and employer has to spend extra for the medical treatment for their employees in case of accident or serious sickness. On the other hand, some workers take undue advantage of getting cash benefit of sick leave etc. by obtaining certificates from the ESI authority through undesirable means. The Committee therefore recommends that in such cases where employer and employee jointly demand for total exemption from ESIC, it should be permitted.

11.5.8 **Trade Union Act, 1926**

Existing labour laws permit unions to be led by outsiders. Such leaders generally coerce management into impossible demands. Sometimes, they lead the workers to strike even on extraneous reasons unrelated to their unit. Therefore, the Committee recommends that the union leadership at the unit level should be barred to outsiders and only unions from within the unit led either by one of the workers of the unit or workers of the same industry should be permitted to negotiate with management on all disputes. Such negotiation should be binding on both sides. At the most, at the industry level, not more than 25 percent of the leadership positions should be occupied by professional union leaders. Industry level negotiations should be confined to major industry wide issues only.

11.5.9 **The Factories Act, 1948**

Under the present provisions of the Act, prior permission of factory inspector is required for overtime working. The Committee recommends that overtime working may be allowed if workers are willing and appropriate extra payments are made to the workers. The employment of women in night shift should not be banned provided transport and other facilities including appropriate security are provided. Regarding the ambulances, dispensary etc. it should be totally dispensed with where it is covered under ESIC. In case of joint demand from employer and employees for exemption from ESIC and such consequential exemption, the factory management should take appropriate measures for ambulance, dispensary etc. The provision under the Factories Act of 1948, in respect of canteen should also be suitably changed. While it is the responsibility of the management to run the canteen, the worker's co-operatives should be encouraged to run the canteen whenever it is possible.

11.5.10 **Apprentice Act**

In textile and garment segments, the new workers obtain the training from their senior co-workers in the factory itself. The apprentices placed by the Govt. authorities under the Act are often not at all serious and the employers are also some times not able to pay due attention on the training part of the apprentice. The provisions of the Act for non adherence are too harsh while the well intentioned provisions do not serve any worthwhile purpose in the textile and garment sectors.

Under the circumstances, the provisions of the Apprentice Act should not be made obligatory in the textile industry.

11.5.11 Payment of Wages Act

Wages of textile workers have been relentlessly rising due to constant uptrend in Consumer Price Index. Since the increase in dearness allowance is linked to inflation and unrelated to productivity, wage cost per unit of production keeps escalating. This hits the textile industry where price sensitive demand pattern restricts the scope for cost plus pricing mechanism. While restricting inflation related DA rise or linking it to productivity may not be fair or practicable, alternative strategies have to be found to counter the deleterious impact of such wage cost rises. Therefore, scientific rationalisation of work assignment and achievement of higher productivity through multi-disciplinary training of workers and production process improvement are essential for mitigating the impact of wage rise.

11.5.12 Administration of Labour Laws

There are 2 different inspecting agencies for enforcement of various labour laws except ESI Act. (1) Labour Department. (2) Factory Inspectorate. Certain registers like muster roll, payment roll etc. are duplicated and are to be maintained in separate form for both these agencies. Instead, there should be a single agency for this purpose, with the prescription of a single set of registers.

11.5.13 Statutory and legal dues of the workers of the mills under liquidation

The Committee was informed by the Textile Labour Association, Ahmedabad that as per sections 529 and 529-A of the Companies Act, the statutory and legal claims of workers rank paripassu with the claims of the secured creditors in respect of units under liquidation. They strongly pleaded for giving a preemptive status to the statutory and legal dues of the workers above those of other creditors. The Committee recommends that the Govt. may examine this issue and provide over riding priority to the statutory and legal dues of the workers of the textile mills under liquidation over those of other secured creditors for ensuing full payment of such dues to the workers.

11.5.14 Uniform Wage Board

The National Textile Workers Union, Coimbatore and Bhartiya Vastrodyog Karamchari Mahasangh, New Delhi (affiliated to BMS) have, interalia, suggested for setting up of a National Textile Wage Board to evolve a uniform wage policy all over the country. The Committee deliberated on this issue at length and came to the conclusion that it might not be feasible to evolve a uniform wage policy in a vast country like India. The wage structure in any industry or locality would depend on number of relevant factors, viz., the level of industrialisation, cost of living, health of the industry and paying capacity of the industry or unit. In view of the varying levels of such factors in different parts of the country and even within a given area among different industries and units, the Committee feels that it will not be appropriate to evolve a uniform wage policy in respect of all the textile mills in the country.

11.5.15 100 percent EOUs/EPZ units/Textile parks

The Committee has recommended liberalisation of many provisions of the industrial and labour laws in the preceding paragraphs. It is recommended that such liberalised industrial and labour laws may be made applicable in the first instance to 100 percent EOUs, EPZ units and to the textile parks for removing the impediments in the growth of such units. It is also recommended that in EPZ units Development Commissioner of Export Processing Zones may be declared as ex-officio Regional Labour Commissioner by the Central Govt. and ex-officio Labour Commissioner by the State under I.D. Act and Factories Act. The EPZ units have been declared as public utility services, 100 percent EOUs and textile parks should also be treated on the same lines and declared as 'public utility services'. The Andhra Pradesh Govt. has declared the apparel export park at Gundlapochampally village, near Hyderabad as a public utility service.

11.5.16 Clothing Sector

(i) During inter-active sessions with the committee, the clothing industry was vociferous in its criticism of labour laws and even went to the extent of saying that without liberalisation of labour laws this industry has no future and would not survive the onslaught of imported clothing items. The apparel industry is predominantly decentralised with a great deal of sub-contracting, occasioned by a tendency to avoid a large work force under a single roof, which in turn is to extract the maximum advantage of managing a small work force and not inviting hassles of labour legislations. A congenial labour environment is necessary to ensure the maximum productivity and skills upgradation. The perception of the industry is that the present labour legislations lead to undue interference from both the enforcing agencies and the unions. This has come in the way of optimising the labour into a competitive advantage. It is a big hindrance to our export efforts and is likely to become more serious when the cheap imports are likely to land in the domestic tariff area in the days to come. Hence, to protect both our domestic and overseas markets, serious efforts are called for. This does not imply exploitation of labour and there is no case for exemptions from laws such as the Equal Remuneration Act, 1976, the Maternity Benefit Act, 1961, the Minimum Wages Act, 1948, the Payment of Gratuity Act, 1972, Payment of Wages Act, 1936, the Workmen's Compensation Act, 1973 etc.

(ii) More specifically, it is the perception of the employers that the workers tend to unionise with assistance and support from national/state level trade unions who are effectively looking after rights of the skilled and unskilled workers. The apparel and knitwear industry employs largely uneducated personnel, who can be easily misguided in the absence of right leadership. While legitimate trade union activity is welcome, shop floors handling production particularly export production cannot afford work stoppages or strikes. One way is to provide relaxation in existing labour laws. The exemption should cover a ban on strikes or work stoppage in such factories. In the event strikes are organised, management's should be able to dismiss such workers on

grounds of work stoppage adversely affecting production. It will be pertinent to note that Bangladesh, Sri Lanka and other Asian producer already have similar laws in operation and these countries are emerging competitors with important plank being low labour costs and high productivity.

(iii) One of the prime requirements for success in export marketing is adherence to delivery schedules. In an industry like the garment industry, units have to take care of many imponderables principally, timely fabric availability, quality of fabric, availability of all shades as desired by the overseas buyer and so on. If any one of these factors is delayed, the production schedule is upset. Garment units are, therefore, forced to work overtime at short notice. Under the present provisions of the Factories Act, prior permission for overtime working has to be obtained from the office of the Factory Inspector. This is a near impossibility – more so, where the office of the Factory Inspector is situated in a city distant from that of the unit. Such irritants need to be removed as these are taken advantage of by the officers in the Factory Inspectorate to harass the units. So long as appropriate extra wages are paid for overtime working, there should not be any further legal obligation on the unit except perhaps for an overall ceiling per week on grounds of the workers' health.

(iv) The industry has been, therefore, pleading for a special policy for garments to cover areas like recruitment, compensation and dismissal. This is particularly crucial for garment exports, where quick delivery and response are becoming more and more important than price issues. The only concession made available so far in respect of the Export Processing Zones is restricted to declaring the units therein as public utility units. Such declaration which has to be made by the respective State Govt.s to be renewed every six months. But this has not met with any enthusiastic reception from the beneficiaries and in any case, is not garment sector specific. The industry demands declaration of garment sector as an essential service under the Essential Services Maintenance Act (ESMA). However, the committee finds it difficult to accept this plea because garment manufacturing or trade cannot be considered as essential as, say, health services or water supply.

11.5.17 Workers of mills closed illegally

(i) The aversion of State Governments to grant permission for closure of mills under Section 25(0) of the ID Act and also the inability of the BIFR to get the mills closed legally has induced the practice of widespread illegal closure of mills. As on 31st March, '99, 258 mills were closed illegally with 2.56 lakh. workers on their rolls. The consequences of illegal closure have been very serious for displaced workers who get no terminal benefits including their rightful dues. This issue needs to be addressed immediately. The Govt. has the Textile Workers Rehabilitation Fund Scheme to provide interim assistance for a period of 3 years on a graded scale for the workers of the closed mills. However, under the scheme, only workers of mills closed with permission of the State Governments or where Official Liquidators have been appointed are covered. The Committee is of the view that this scheme shall be reviewed and modified to cover the workers of mills permanently closed illegally. The Committee also recommends for suitably enhancing the wage limit of Rs.2,500

per month for eligibility under the scheme and thereafter reviewing it periodically to account for increase in cost of living. A National Renewal Fund (NRF) Scheme has also been formulated for providing assistance for funding of VRS and retraining, redeployment of the workers of the closed mills. However, this scheme is only applicable to central public sector units. It does not cover state public sector or private sector units. The Committee recommends that the NRF scheme may be reviewed and modified to cover mills of private sector and state public sector also. The Committee also recommends formulation of an insurance scheme which may be created by Govt. with a small corpus which may become gradually self-supportive. The industrial units during their healthy phase and the employees, should contribute to this scheme, enabling them in the times of distress to avail of the insurance cover and take preventive/preemptive action without having helplessly to wait for their distress to degenerate into a desperate disease. The Committee recommends that a Task Force may be constituted to examine this issue in detail. Considering the resource constraints, the Committee also recommends that mills may be permitted to utilise the equity value of their land asset (lands held by industrial units to be partly sold and/or partly leased) for funding VRS scheme and/or clearing legitimate dues of the workers in the event of the closure of the mills.

(ii) The Abid Hussian Committee has recommended formation of area based Textile Restructuring Asset Trusts (TRATs) in the identified areas of concentration of textile workers to implement a time-bound area based textile restructuring plan. The major functions of these TRATs as envisaged under Abid Hussian Committee Report, inter alia, include: taking over of assets of sick textile units, payment of the legal dues of the displaced workers, training programme for displaced workers and redeployment of workers in new industries etc. The Committee feels that this recommendation of Abid Hussian Committee needs to be seriously considered by the govt. for ameliorating the conditions of the displaced workers of the closed mills.

(iii) The Committee has recommended an easy 'Exit Policy' through amendment of the I.D. Act, which perhaps would curtail the practice of illegal closure of mills. The legal closure of the mills would enable the worker to avail of the interim benefit under TWRFS. The Committee also recommends that a plan may be drawn up for wide ranging training programmes for the displaced workers of the closed mills to redeploy them in other growth oriented segments of the industry subsequent to appropriate training.

11.5.18 **Powerloom workers**

(i) The contribution of powerloom sector in overall cloth production has increased tremendously over the years. Currently, powerloom sector contributes about 63 percent to the total cloth production in the country. The number of powerlooms have also doubled during the last about 12 years from about 8 lakh in 85-86 to about 16 lakh (registered) currently. However, the working conditions of the powerloom workers is pitiable and they are exploited by the powerloom owners/weavers to the hilt. The powerloom workers work long hours for extremely low wages. They have

little or no job security, poor access to medical and educational facilities for themselves and their children and no organised forms of employment benefit. Most of the powerloom units are small with 4 looms and about 2 – 3 workers on an average, and thus, are not covered under the Factories Act and attendant labour laws. Though many powerloom owners have more than one unit, the prospect of coverage under the Factories Act deters them from consolidating their family holdings. The Committee recommends that the Govt. may adopt a two-pronged strategy to protect/safeguard the interest of the powerloom workers. Firstly, the powerloom owners may be encouraged to consolidate their small units into bigger viable units of, say, a 12 looms or more. While at first flush, this may appear as a harsh measure against small units, the fact is that most of powerloom owners have 12 looms per family but have fragmented them for actual or perceived gains. Such consolidation of 12 looms will still have less than 20 workers and therefore, the unit is unlikely to be covered under the Factories Act. But such units will be able to avail of the benefit of economies of scale to some extent. Once relatively bigger units are made viable, competitive and quality conscious, in course of time, fear of workers benefits are unlikely to deter them from growing into bigger and better units. In fact, cost control through better input and process management and maximisation of profit through value addition rather than through savings on workers legitimate dues would emerge, in due course, as the tools of management in such units. Alternatively, a separate special law for protection of decentralised powerloom workers' legitimate basic interests irrespective of the factory size may be considered for enactment. The second part of the strategy is to improve the social condition of the powerloom workers, i.e., working conditions, health conditions, education of their children, housing etc., so that the capability of powerloom workers is improved alongwith their bargaining power. The Abid Hussian Committee has recommended for setting up Labour Enforcement and Welfare Agency (LEWA) in each powerloom concentration area as an implementing agency for enforcement of labour regulations and welfare measures etc. The Committee endorses the recommendations of the Abid Hussian Committee and recommends that Govt. may seriously consider setting up of such agencies in the areas of powerloom concentration. It is recommended that powerloom sector should be exempted from various labour and other laws and institutional arrangements like LEWA should take care of the labour regulations and welfare measures etc.

(ii) The Govt. has also introduced a Group Insurance Scheme for powerloom workers in association with Life Insurance Corporation of India since 1992-93. However, the scheme has met with extremely lukewarm response in the sense that coverage of powerloom workers has been steadily declining under the scheme. During the year 1995-96, there were 69,000 workers covered under the scheme, the number declined to 22,000 in 1996-97 and 3600 during the year 1997-98. The primary reason for failure of this scheme is reportedly the meagre insurance coverage, i.e., Rs.10,000 under the scheme and reluctance of the State Govt.'s to share the premium. Besides, the Govt. has no monitoring mechanism or agency and tries to implement it from the Ministry with help of the concerned State Govts. when the

organisation of the Textile Commissioner could have been utilised and more actively involved in the implementation and monitoring of the scheme. Therefore, it is recommended that the Govt. may review the scheme thoroughly and incorporate appropriate changes including increase in the insurance coverage and reduction in the premium amount to be paid by the powerloom workers. The scheme may be administered through the Textile Commissioner rather than directly by the Ministry. State Govts. should also play a more pro-active role to ensure the success of the scheme as the sector provides large scale employment within their state.

11.5.19 The Govt. (Ministry of Labour) has appointed a Second National Labour Commission to, inter alia, evolve an 'umbrella legislation' for ensuring a minimum level of protection to the workers in the decentralised sector. This is a welcome step. The submission of report of this Commission may be expedited.

CHAPTER - 12

HUMAN RESOURCE DEVELOPMENT

12.1 Introduction

12.1.1 Even in this era of high-tech sophisticated machines, 'people' still remain the most important asset of any business organisation. A close examination of the most successful organisations throughout the world, be it in USA, Germany, China, Japan or even in India, usually reveals that quality work force or work culture has made the difference between mediocrity and excellence. The process of integration of world market has intensified the competition and in this competitive scenario to improve the market share in the international market and to face the onslaught of imported textile items in the home turf, it is necessary to address the problems associated with 'human resource development'. The basic idea is to use the 'intellectual capital' to the optimum to improve the productivity and quality of the textile products. HRD has to aim at developing a sense of 'pride in work', quality consciousness, organisational values; in fact, total personality development of management and workers of the textile industry. The training of the management and shop floor operatives and supervisors with state-of-the-art technologies will have synergistic impact on productivity and quality of textiles as well as marketing. With the launch of TUFs, which will facilitate the absorption of the state-of-the-art technologies, it has become imperative to upgrade the skills of the textile workers, particularly those working at the shop floor level. Increasing use of micro processors and electronic control equipments in modern textile machinery, application of computer for textiles like in process control, production planning and control, colour/shade matching etc. demand upgradation of skills of shop floor operatives, technician and supervisors for optimising the operation of such machines.

12.2 Present status

12.2.1 At the top end, there are technical institutes like IITs, VJTI, Mumbai, TIT, Bhiwani etc. which offer postgraduate, undergraduate and diploma courses in textile technology. They essentially cater to the top end of the textile industry and in due course also manage large textile units. However, there are gaps in the course contents and speciality courses offered by them, which need to be identified and filled up. More critical, however is the situation in the area of the felt-needs of the decentralised sectors in the weaving, knitting, processing and garmenting arenas where the capability of the industry to absorb highly qualified technical personnel is present but suitable ones are not available. The Govt. has set up some training institutes to cater to the qualified manpower requirement of the different segments of the textile industry, i.e., PSCs, WSCs, ATDCs, ICT, IIHTs etc. The TRAs also offer pre-employment and refresher training courses to the operatives. There are over a dozen mills in the country which have in-company labour training programmes. Other

institutions which extend systematic training are ITIs set up by the state govts. Textile machinery manufactures also offer training on the erection, operation and maintenance of machines as part of after sales service to the customers whenever new machines are purchased by them. For the decentralised handloom sector, IIHTs offer diploma programmes in handloom technology while WSCs offer short term refresher courses. For the decentralised powerloom sector, Govt. Powerloom Institute, Nagercoil, Tamilnadu offers ITI level certificate courses while PSCs offer short term refresher courses. For the knitting sector, only the Institute of Knitting Technology, Ludhiana offers regular course. For the garments and knitwear sector, NIFT and ATDCs are offering various courses. In view of the large labour force in the textile industry, the existing training institutes are not adequate. Considering the globalisation of the textile trade and gradual phasing out of the import barriers, there is urgency to promote training institutes par excellence and of international standard by setting up new institutes or by enriching the existing institutes with adequate facility. This should be done in a 'campaign mode'. While drawing up a policy for HRD, the relevant parameters to be taken into consideration in respect of each segment of the industry are the present technological status, the present labour profile, the factors influencing the employment profile, the present facilities available and facilities required.

12.2.2 The objectives of the training policy of the Govt. could be the following :

- Developing and training of skilled personnel to work as supervisors/line jobbers/fitters/trainers and operatives in spinning, weaving and processing sections of the organised sector of textile mills.
- To undertake research work in developing improved methods of working and overall system of monitoring and controlling the work at the shop floor to achieve outstanding levels of performance with respect to quality, productivity and overall resource utilisation to augment exports of textiles in a big way.
- To develop weavers/jobbers/loom owners for the decentralised powerloom sector to induct well trained and technically aware persons in this sector to promote a higher productivity and quality concept.
- Inducting a workforce to the industry having, besides technical knowledge and high skills, a deep sense of commitment and belonging, sharing the responsibilities with the management, thus promoting a healthy and constructive participation of the workforce in the management process.
- To impart training to the trainers who would, in-turn, train the workforce in the mills, thus ensuring continuity to the training activity at the shop floor.

- To undertake in-plant training of the existing workforce in the mills, in order to accelerate the endeavours at plant level to achieve quality and productivity excellence and/or job reorientation warranted by work exigencies or introduction of new technology.
- To extend all the above services to knitting, garment/made-up manufacturing and processing industry for the overall growth of this industry.
- To meet the training requirements of the 3rd tier of handloom weavers, who will either be converted to the 3rd tier of powerlooms or taking up other job avenues in garmenting, processing etc.
- To meet the training requirements of the 3rd tier and 2nd tier of handlooms who wish to graduate to the 1st tier.
- To impart training to the displaced workers of the closed mills.
- To meet the training needs of the 4th tier of the powerlooms graduating to the 3rd tier and powerlooms of the 2nd and 3rd tiers graduating to next higher level.
- To develop training manuals, audio-visual materials including development of video films to impart correct work methods and practices.

12.2.3 The Committee was informed that recently Govt. has set up a “Nodal Centre for Upgradation of Textile Education”. The centre aims at identifying specific areas of technology where manpower modernisation is needed and particularly, the need to bridge the existing gaps in textile education and training, both in volume and contents. This is sought to be achieved through short duration training programmes specially designed for teachers/trainers, preparing of educational software, revision of syllabi, etc. Such steps are considered necessary to improve our textile industry’s performance and ability to adopt new technologies, ensure strict quality control of products. The functions assigned to the centre are :

- Identification of areas of deficiencies in textile education.
- Preparation of educational softwares for use by all teaching institutions.
- Preparation of uniform syllabi for all degree and diploma level textile education institutions and making efforts for its implementation.
- Conducting training programmes/refresher courses for teachers and technical personnel of the Industry.
- Training of existing industrial manpower through training programmes/workshops.

- Generating industry-institute interaction by involving teachers of various textile teaching institutions and experts of TRA's in conducting industrial training programmes.
- Preparation of status reports on various aspects of textile education, manpower, technology needs of the industry, database of technical experts.
- The Centre will impart training to at least 450 personnel from the industry.
- Preparing schemes for upgradation of textile teaching institutes.
- Creation of net work through internet for uplinking with other institutes and industry for dissemination and sharing of information and educational material from the Nodal Centre to other institutes and to the industry.
- Creation of library of reference materials, books, journals on emerging new technologies and the educational softwares and making these accessible to the users from the industry, institutions and govt. departments.

It is noted that while the effort is in the right direction, not much headway seems to have been made. The task is herculean no doubt, but needs to be expedited within a rigid time-bound framework, more particularly to ensure that induction of high technology through TUFs should not leave a gaping gap in the HRD arena and a mis-match between man and machine. Therefore, the Committee is of the view that activities of this centre may be monitored on a regular basis to remove impediments in its functioning in order to achieve the desired objective in a time-bound manner.

12.2.4 In India today, we have enough of training institutes to supply supervisory and managerial cadres. However, the industry woefully lacks adequate training arrangement for operative levels and we have to make commensurate arrangements for producing workmen of requisite quality and standard conversant with use of latest equipments. Considering the number of people to be trained every year, the number of training institutes will be considerable. Existing ITIs which are not textile-specific are grossly ill-equipped in terms of quality as well as under-equipped to carry out this task. Therefore, the Committee recommends establishment of textile-specific engineering colleges, polytechnics and ITIs. Though such institutes will require considerable financial resources, but finance can be met by the Govt. through savings on idle wages outgo to NTC mills with the closure of NTC mills, which is one of the recommendations of the Committee. The Committee also feels that if the Govt. can subsidise NIFT to the extent of about Rs.10 crore per annum, which imparts training to a few, funds could be generated for setting up textile specific training institutes, which could train thousands of students and future workforce. The private

entrepreneurs may also be encouraged for setting up textile-specific institutes. To motivate private entrepreneurs to set up such institutes, incentive may be provided by the Govt. in the form of either capital grant or capital grant cum student related grant. To encourage contribution from the textile industry to the educational institutions, incentives may be provided to the industry. At present, contribution to the educational institutions by the industry is exempted from tax. The Committee recommends that weighted exemption @ 125 percent of such grants may also be provided to facilitate industry's liberal contribution to the textile educational institutes.

12.3 **Sectoral training needs**

The sector-wise training and HRD needs of the textile industry are discussed below :

Organised sector

12.3.1 The organised sector of the textile industry was set up by entrepreneurs with a background of trade. In the last 2/3 decades, only a handful of textile mills have managed to professionalise their management. Induction of modern technology, requires more professional managers with upto date knowledge on latest technology. In the context of the fast developing technologies and increasing use of electronics in machinery, short-term structured training programmes for various managerial levels need to be devised and conducted by 'textile-specific' Engineering institutes. Textile technologists working in production, quality control or even marketing areas will also need to acquire specialised managerial skills, for which the textile technology courses will have to introduce appropriate behavioural science and management courses to produce well-rounded technocrat-managers. More and more seminars and orientation programmes would require to be organised to usher & develop the capabilities of the supervisors and managers. To provide the right kind of education, the textile institutes have also to have the latest equipments which existing institutes are lacking. The Committee, therefore, recommends that the Govt. may assess the needs of the existing institutes with the help of the NCUTE at the earliest possible and provide the necessary funding or motivate the industry for the same.

12.3.2 Traditionally, the textile industry has been viewed as a low skill industry. As such, the industry managed to get along without any centralised training organisation for well over a century. It is only in the last two decades that institutions for training labour in the textile industry have come up. By and large, textile labour has been acquiring skills on the job without the benefit of systematic training programmes. However, in the competitive scenario, the lack of proper training, work culture and quality consciousness can not be ignored. Therefore, the Committee has recommended setting up of 'textile specific' ITIs to cater to the operational need of technology upgraded textile industry. As a matter of fact, the ITIs ought to design

courses for the entire gamut of textile and apparel manufacturing activities including RMG and made-ups.

12.3.3 It is essential to organise part-time courses for persons already in job and who cannot be released for full time training for knowledge upgradation along with technology upgradation.

12.3.4 The Committee has recommended for an easy exit policy under ID Act which would result in closure of a number of non-viable sick mills and displacement of the workers. Wide ranging training programmes may be organised for such workers to enable them to get the alternate avenue of job in the event of inability of the same segment of the industry to absorb them. The displaced workers should also be made eligible for stipend for attending training programmes to motivate them to join the same.

Handloom sector

12.3.5 Training in modern management techniques of production, marketing, accounting, cost analysis etc. is an essential input in the handloom development programme. There is also a need for personnel to be trained in design development and market trend analysis. Weavers Service Centres and Indian Institutes of Handloom Technology provide the basic R & D support base for the handlooms. However, they have been successful only in a limited way. They need to be used as trend setters in finding new technology and providing appropriate design inputs. WSCs should strive to develop new designs, new fabrics and new products and even adoption of designs from existing products onto new user products having market acceptance and commercial viability. Gradually, all WSCs/IIHTs may be provided with CAD and CAM systems. Intensive training should be given for their use. WSCs/IIHTs may also run training programmes on CAD/CAM. NID and NIFT may introduce a new course on Handloom Textile Designing.

12.3.6 The Committee has also recommended for the conversion of the third (lowest) tier of handloom weavers into powerloom weavers with certain benchmarked technology or even other textile-related activities, viz., garment manufacturing. A concerted effort will, therefore, have to be made by the Govt. to provide requisite training to convert these handloom weavers into powerloom weavers or other attractive employment avenues. Powerloom Service Centres and ATDCs should be suitably strengthened for the purpose. The converted and graduated workers should also be given stipend for attending such training programmes. The Committee has also recommended that the middle tier handloom weavers should be strengthened for weaving of high value cotton/silk sarees, furnishing etc. with continuous changes in patterns and designs suitable for market requirements, looms modernisation, technical training etc. for value maximisation. This would also necessitate a well defined programme of training.

Powerloom sector

12.3.7 The working conditions in the decentralised powerloom sector are terrible. Weavers have no job protection, and wage rates are, by and large, pretty low. The technology level of the sector is also low as it is catering primarily to the quality-insensitive lower end of the domestic market. Most of the weavers operate on plain looms obviating the need for specialised training. Further more, in many places powerloom weaving is a family tradition. From a very young age such weavers become acquainted with the operation of the looms and weaving activity. With the launch of TUFS, the technology levels of this sector are expected to improve, necessitating improvement in the skills of the powerloom weavers. Further, the Committee's recommendation for graded upgradation of technological level of the powerloom sector, necessitate organisation of training programmes on a large scale, particularly in the major powerloom centres. At present, the training needs of the powerloom sector are catered to by 43 Powerloom Service Centres (PSC's) spread all over the country. There are 13 PSCs functioning under the control of the Office of the Textile Commissioner and 30 PSCs under the Textile Research Associations/ State Govt. agencies. The powerlooms and other teaching equipments in the PSCs are obsolete. In addition, the equipments in the PSCs and the machinery existing in the industry in the certain areas do not match. In such a situation of demand-supply mismatch, it becomes very difficult to attract people from that area for training and consequently, the efforts and assets are wasted.

12.3.8 The Govt. should immediately upgrade powerloom service centres by installing hi-tech looms and by also upgrading skills of the trainers of the PSCs so that they are able to train the powerloom weavers/workers appropriately and adequately. The Committee was informed that the Govt. has sanctioned modernisation of 21 PSCs during the 9th Five Year Plan and the same is likely to be implemented soon. The Committee however, feels that given the vital significance of the powerloom sector to our weaving capacity, and the ongoing globalisation, the modernisation of the remaining PSCs cannot be delayed. The Committee was also informed that the PSC testing laboratories are under modernisation/upgradation through a plan scheme. With the planned conversion of the third tier of handlooms to powerlooms, the strengthening of the PSC training looms, equipments and facilities assumes greater significance. The Committee, therefore strongly recommends that modernisation of all PSCs be completed during the 9th Plan period itself. It is recommended that the powerloom weavers graduating from the lower tier to the higher tier may be given stipend for attending such training programmes.

12.3.9 During the recent years, the knitting sector has come up in a big way and at present contributes about 17 percent to the total cloth production. In the export arena also knitwear segment has made significant strides. Currently, there are no service centres operated by the Govt. for the knitting sector, which is mostly in the SSI sector. It is, therefore, recommended that powerloom service centres operating in such

centres may be strengthened in terms of machinery and staff which can provide training facility to the workers of knitting sector also. It is also recommended that more such powerloom and knitting service centres may be opened up in the area of concentration of knitting activity, if necessary. The focus in these service centres should be to train the powerloom weavers/knitters/knitwear manufacturers on the latest state-of-art looms and knitting/knit garmenting machines. Such a composite service centre may be redesignated as "Knitting and Powerloom Service Centre" (KPSC).

12.3.10 It is noted that pre-weaving and post-weaving facilities are extremely weak, impacting adversely on the quality of fabrics. Therefore, training facilities in the PSCs may be created to provide training on such aspects alongside the presently conducted on-loom training and loom-maintenance training.

Woollen sector

12.3.11 It is felt that the human resource development aspects have rather been neglected in the wool sector. It is, therefore, necessary to make concerted efforts to meet the training requirements of the woollen industry in collaboration with the industry and other wool producing countries.

12.3.12 Collaborative tie-ups should be taken up with Australia and New Zealand in the field of research, and training in the areas of farm management, sheep rearing, testing and report writing, wool marketing, processing of wool and woollen products, quality control as these countries have done reasonably well in the development of wool industries. A beginning has been made by the Indian Woollen Mills Federation. The Federation has signed a Memorandum of Understanding with the Govt. of Western Australia for introducing Wool Technology Elective Courses at the final year (B. Textiles) degree courses at four major universities of India, namely, Mumbai, Calcutta, Rajasthan and Punjab, with effect from the academic year 1997-98. Under the scheme, scholarships are awarded to selected students in the final year. Students would then be employed by the woollen mills at the conclusion of their degree courses and after having worked for two years at the mills, select students will also be exposed to overseas training to acquire knowledge of wool rearing primary processing and marketing in Australia. Such sort of collaborative efforts may be supported by the Govt. and also initiated in some other universities.

12.3.13 The Govt. had decided to put up an Institute of Carpet Technology at Bhadohi, U.P. almost a decade back. The institute has not yet been operationalised. This is an important institute and should be made functional on a priority basis in order to provide impetus to the growth of the carpet sector in the globalised economy.

12.3.14 There is a lot of scope for human resource development in shoddy and carpet industry. Weavers have to be trained with special emphasis on women workers, who participate in other processes involved in carpet making, but are kept away from

weaving. There is also a lot of scope for design development in the carpet industry specially as there is need to develop and sustain a unique Indian style in carpet making. NIFT must also be involved in preparing projects for product and design development in collaboration with the industry and the trade.

Sericulture

12.3.15 India is the second largest producer of silk in the world. There is immense potential for India to improve its production of silk because of the steady vacation of silk production in the developed world and even declining production in China. The improvement of silk production involves imparting extensive training to persons involved in silk activities from silk worm rearing and silk reeling onwards. The CSB organises a number of training programmes at its research and training institutes. However, there is still a wide gap which can be filled up by strengthening these activities.

12.3.16 The National Sericulture Project (NSP) was under implementation with assistance from the World Bank during the period 1989 to 1996. A study was entrusted to NISTADS for evaluation of manpower and infrastructure facilities requirement in post-NSP period keeping in view the requirements for the development of sericulture during the 9th five year plan period. It is understood that NISTADS has just submitted its report. The recommendations contained in the report may be examined and acted upon.

Clothing sector

12.3.17 A look into the technological status would be required before planning for human resource development in the clothing segment. Many garment units are of small size, having less than 20 machines and a study conducted by IIFT has estimated that only about 14 percent of the units employ more than 50 machines. Barring a few exporting units, others still use age-old machinery. Operations like cutting and folding, button holing, button sewing are performed manually. A study conducted by the ICRIER reveals the predominance of sewing machines and absence of pre-cutting, cutting, special and processing machines. The same profile has been confirmed in a sample study conducted by the NIFT sponsored by the Department of Small Scale Industries that only 3 percent of the units studied were of above average modernisation level.

12.3.18 The above mentioned profile of the technological status is reflected in the type of labour employed. Employees in the garment units do not generally perform dual functions, and specific activities are assigned to the individuals in these units. Those presently operating the machinery, acquire operational skills through long association with such machinery having very little professional skills through a process of conscious and structured scientific training. The fact that the machinery presently employed are very old severely limits the levels of their skills. Generally,

it is found that the fabricators are averse to getting their staff trained in-house on account of the expenses involved in putting them through such training, costs of alternative arrangements in place of workers under training, fear of losing such trained staff to competitors etc. In fact, a great deal of persuasion was needed to encourage students in the Apparel Training and Design Centers (ATDCs) to join various courses. If this is the case for in-service training, the situation is no different at the time of recruitment. The lack of awareness normally prevents many fabricators from recruiting trained staff in their ventures from the beginning.

12.3.19 However, efforts have been made to identify the training needs of RMG sector by the Textiles Committee and 25 categories of skilled manpower have been identified as essentially required to run a modern garment unit. But these cover only the operating hands and training is very much needed in the pre- and post-apparel manufacturing operations as well. This would include merchandising, marketing, IT – operations and other related skills.

12.3.20 Certain new developments also merit mention here. The most important of these is the Technology Upgradation Fund Scheme. To the extent the same is to be availed of by the RMG units in upgrading their technology and new high-tech units, newer skills and increasing number of workers will be required in operating such state-of-the-art machinery. Secondly, even otherwise many garment makers have started upgrading their productive machinery prompted by market imperatives, quota policy imperatives, EXIM policy imperatives (100 percent EOUs) etc. Some of them have rightly realised the importance of training their manpower by organising in house professional training wings. This trend is likely to intensify with the intense competition expected in the fully integrated textile trade regime from 2005 AD. Lastly, training skills are required to cover the marketing aspect. With the large influx of imported garments expected after 2004, the entire retail trade is expected to undergo a sea change requiring trained skills to cope up with this changed scenario.

12.3.21 A brief reference is necessary to the training facilities presently available with regard to the garment industry. There are many training institutions including private ones in different parts of the country involved in training in apparel manufacturing and related technology. The training offered by them differ widely in course contents, duration, emphasis and nature. Govt. affiliated institute like NIFT and ATDCs form a major chunk of such training facilities. A major drawback of such institutions is the gap between the training imparted and the potential and felt needs of the industry. Besides, the manpower that these training institutes turn out annually is only an insignificant percent of the total requirement of the industry. However, the graduates turned out by NIFT are received in the industry well. Many of them also freelance as fashion designers or even own and run boutiques, and export garments.

12.3.22 The industry currently requires training and upgradation of man-power skills at three levels, viz., supervisory, managerial and operational. Considering the size of this sector, it is estimated that a large number of persons, perhaps running into lakhs, would have to be trained not only to meet immediate needs but also for the replacement needs that would arise on a continuous basis. If the industry continues to grow as indicated by the export trends, the need for training will have to be further enlarged. In addition, the tailoring and readymade garment industry catering to local market also require trained manpower, especially in the wake of the expected post-MFA market access to overseas garment supplies and of the need to prepare the local industry to meet the competition. Even the employment potential of this sector can be successfully tapped to divert a part of the third tier handloom weavers and their children to garment making. Therefore, it is recommended that more ITIs may be tapped to offer textile courses with special emphasis on apparel manufacturing and more ATDCs may be set up, particularly in the clusters of clothing units. At present, ATDCs are set up by the AEPC funded through forfeited BG/EMD fund deposited in a P.D.A., but after dismantling of the quota system, the Govt. may have to finance ATDCs. It is recommended that NIFT which caters to a higher level of clientele with better paying capacity and excellent employment/self-employment opportunities should try to become self sufficient over a period of time and Govt. should taper off the grant provided to the NIFT by the end of the 9th plan and the funds at present, provided to the NIFT may be diverted for setting up additional ATDCs which cater to the lower end personnel requirements of the garment industry. Looking to the lack of paying capacity of the students (potential workers) and high potential of the ATDCs to solve unemployment problem on a large scale, such reallocation of the scarce public resources is certainly called for. Since fund requirement on a recurring basis for such institutes including capital cost will be substantial, suitable grant from the Textiles Committee cess fund may be given, which can be matched by the Govt. with an equal grant to fund all ATDCs including student stipends as required. Since the Textiles Committee collects cess from the RMG sector also, this recommendation is in order. The Committee recommends that the entire Textiles Committee cess could be administered by the Ministry of Textiles through a PDA through a suitable amendment in the Textiles Committee Act, 1963. This fund could finance all activities of the Textiles Committee including financing of ATDCs. ATDCs could then be jointly managed by the Textiles Committee and AEPC under the overall supervision of the Ministry of Textiles.

12.3.23 It would be interesting to note the initiatives taken by the competing countries for training of their workers. Some of them are known to organise hands-on training courses on garment machinery through suppliers of such machinery (eg. Sri Lanka). The best model seems to be the one available in Hong Kong. The Hong Kong Vocational Training Council and Clothing Industry Training Board draw up training programmes based on the felt- needs of the industry through firm level manpower surveys and collection of information about job-vacancies and need for trained personnel. This is followed by actual imparting of training by the Hong Kong Polytechnic which is reputed to turn out raw hands into trained hands within four to six months. Apart from open training course, innovative methods like

Teaching Company Scheme are also adopted with considerable success; this method having been developed on a model introduced by the Science and Engineering Research Council in the UK. The HK model also envisages a Clothing Industry Training Authority. This Authority organises pre-experience and post-experience training programmes. The Committee recommends that the Govt. may study the Hongkong model in depth and adopt it with whatever modifications are felt necessary to suit our requirements.

Jute sector

12.3.24 The jute industry will need properly trained manpower at all levels to derive maximum benefit from technological developments. At present, the Institute of Jute Technology (IJT), Calcutta has been catering to the needs of trained manpower for the jute industry by conducting diploma and degree courses and short-term training programmes. Under the GOI-UNDP-assisted National Jute Development Programme (NJDP), in addition to IJT, other institutions like PSG College of Technology (PSGCT), Coimbatore and Technological Institute of Textiles and Sciences (TIT&S), Bhiwani have been involved to meet the growing HRD needs of the decentralised sector through need-based short-term practical training, technology demonstrations, workshops, etc. for entrepreneurs, workers and artisans.

12.3.25 The human resource development for upgrading the qualities of senior, middle and junior level supervisors and also skills of operators need to be strengthened in the coming years, more particularly to cater to the emerging diversified jute product sector which has tremendous potential for not only production and export of value-added jute-blended textiles but also creating substantial employment. This can be achieved by introducing structured training and development programme for all categories of employees at the plant levels and also at IJT. For this purpose, IJT should work out detailed programme schedule for training of all levels of supervisory and managerial personnel and workers at the plant level. In addition, it should conduct a few short-term courses at the Institute with the objective of introducing concept of supervision at the lower and middle level. The proposed courses could be on (i) maintenance and maintenance auditing (ii) marketing skills; and (iii) management information system. Other institutions like PSGCT and TIT&S should continue their training activities for the growth of decentralised jute sector in southern, northern and western parts of the country.

Technical textiles

12.3.26 For meeting the training requirements of the technical textile sector, which will be mainly at the higher level, technical textiles should find place in the curriculum of at least some of the textile academic institutions. NCUTE should be requested to examine this issue and incorporate the same in their proposed curriculum and syllabus for appropriate textile courses and also identify the institutes that can undertake such courses. Further, the Ministry of Textiles should interact with relevant

ministries, such as Ministry of Human Resources and Ministry of Science & Technology etc. to ensure that technical textile are included in the existing curriculum of different branches of Engineering and Science. For example :

- (1) New civil engineers should know about geosynthetics.
- (2) New automobile engineers should know about automotive textiles.
- (3) New medical technicians and researchers should know about medical textiles.
- (4) New agrotechnologists should know about agrotexiles, and so on.

For promoting technical textiles, it is essential to cover it in curriculum/syllabus of different high level engineering courses.

Cotton selection and ginning & pressing

12.3.27 No formal training is being offered in cotton selection and seed cotton processing (i.e., ginning and pressing) by any institution in the country except for occasional courses of short duration organised by TRAs and CIRCOT. There is necessity to launch a six month's certificate course for cotton selection, ginning and pressing operations and management in major cotton producing and processing states like Gujarat, Andhra Pradesh, Maharashtra, Madhya Pradesh, Haryana, Karnataka, Rajasthan and Punjab not only to meet the needs of Cotton Corporation of India, mills under National and State Textile Corporations, co-operative spinning mills but also the requirements of private sector mills.

Non-tariff barriers

12.3.28 Training facilities may be provided for creation of a cadre of Indian lawyers and cost accountants who may specialise in the area of anti-dumping and anti-subsidy enquiries under WTO. This will eliminate or at least minimise our exclusive dependence upon foreign lawyers and professionals. The Indian Institute of Foreign Trade and other institutes including Institute of Cost Accountants and Law institutes may be involved for amending their syllabus/curriculum to provide training for this area of activity. The Govt. should also provide short-term training courses to exporters/related agencies in various aspects of the WTO especially covering anti-dumping/anti-subsidy regulations to enable them to fight their cases appropriately. The IIFT could be designated as the Nodal Agency for this purpose and the Ministries of Commerce and Textiles may jointly take the lead in conceptualisation and implementation of this action plan in a time-bound manner in the next 2 to 3 years. The Ministry of Law will also have to be associated in this exercise for obvious reasons.

Training for trainers

12.3.29 To meet the huge training needs of the textile industry, the trainers will also need to be trained. The training requirements of the trainers is a felt need in the textile industry. For conducting pre-employment training, refresher training and development programme for operatives, it is necessary and desirable to offer

programmes for the trainers. It is also necessary to develop training manuals, audio-visual materials, including development of video films to impart correct work method and practices as has been envisaged in the setting up of NCUTE. This needs to be expedited.

12.4 Once the NCUTE completes its task of identifying existing textile education and training resources, felt needs of the industry, existing gaps between the two and the required strategies to bridge this gap in terms of both quantity and quality (course contents, trainers and infrastructure including teaching equipments and aids), it will have to prepare the required sector-wise and course-wise syllabi, softwares, manuals, audiovisuals etc. to equip the existing and proposed training institutes with the necessary resources to fulfil the defined objectives of human resource development. However, since NCUTE is entrusted with this time-bound, one-time responsibility, there is a need to think about and plan for future management of this vital link in the textile value addition process on a permanent basis. To perform this task, the Govt. may establish a 'National Council of Textile Education' to oversee and channelise the textile industry's training mechanism. This Council can be set up on the pattern of one established in China, i.e., China Textile University. At present this university in China streamlines the entire textile education system. In view of successful experience of China Textile University, it is recommended that the National Council of Textile Education may also review and streamline the entire textile education system in India. The textile courses may be excluded from the purview of All India Committee of Technical Education (AICTE) and placed under the purview of proposed council. This council can also be entrusted with the task of an accrediting agency which will vouch for the standards and adequacy of the skills imparted and thereby on the courses themselves through an appropriate institutional framework. The council should not only decide on setting up sector-specific or multipurpose new training centres but also involve public and private sector institutions to run accredited training programmes. Once the council is set up, it should take up, as an ongoing responsibility, the task of modifications in and reformulation or formulation of appropriate syllabi for various trades and skills anticipating the changes for the future. In a nut shell, this permanent, professional council should take off from where NCUTE finishes its time-bound, one-time task. Needless to say, the Council has to be manned by appropriate experts on regular, contractual or consultancy basis. Given the vast employment potential of the textile industry, such a central agency is essential to plan, execute and monitor human resource development planning and strategies and provide policy input and advice to the Govt. for integrated need based action plan.

CHAPTER – 13

TEXTILE MACHINERY INDUSTRY

13.1 Introduction

13.1.1 In the next millenium, the Indian textile industry is poised to play a significant role both in the domestic and international arena. But given the obsolete or near-obsolete technology level in the textile industry, more particularly in the weaving and processing sectors, consequential need for massive infusion of latest technology, and foreign exchange constraints and other related reasons, strengthening and enhancing the technological capability of the domestic textile machinery industry (TMI) is vital for placing the textile industry on the trajectory of accelerated growth.

13.1.2 The TMI has progressed with the development of the domestic textile industry. Over the last five decades, with an investment of over Rs. 1500 crore, TMI has built up an annual production capacity of about Rs. 3600 crore including capacity of Rs. 350 crore for components and accessories. The TMI produces virtually the entire range of textile machinery for cotton, blended and man-made fibre textiles. There are over 600 units in the industry employing directly about 50,000 workers and exporting 15 percent to 20 percent of its annual production to over 60 countries including some industrially advanced ones. The TMI has also set up turnkey/semi-turnkey projects in Sudan, Tanzania, Malaysia, Indonesia and Sri Lanka etc.

13.2 Policy initiatives in the past and their impact

13.2.1 The Committee observes that the existing Textile Policy of June 1985 has very rightly laid emphasis on providing encouragement to the growth of the Indian TMI. Para 19.7 of the existing textile policy states that “The indigenous textile machinery manufacturing industry shall be given encouragement to reduce cost, upgrade technology and improve quality of machinery.” However, the ways and means and also the institutional mechanism for achieving the stated objectives were not fully elaborated in the policy statement and perhaps because of this lacunae, nothing specific appears to have been done in this direction. Also perhaps, the visible absence of any inter-action between the Ministry of Textiles and the Ministry of Industry which is the parent ministry of the TMI has led to the present situation where no co-ordinated and comprehensive plan of action for synergistic growth of the two industries was contemplated or taken. On the contrary, the liberalised industrial and trade policy which was initiated from the middle of 1991 has contributed to a number of problems for the capital goods industry in general and TMI in particular. The lowering of import tariffs and liberalisation of EXIM policy have resulted in a surge in import of textile machinery, both new and second hand. On the other hand, continued high import tariffs on raw materials, components and accessories, ever increasing excise duties on their finished products in a scenario where bulk of the prospective customers in the decentralised SSI sectors can not neutralise the duties through

MODVAT, and lack of any positive policy initiative to support and strengthen the R. & D. efforts, infrastructural inputs and modernisation through technology upgradation have inhibited the growth prospects of the TMI. In the year in which economic reforms were initiated (1991-92), the share of TMI in total domestic demand for textile machinery and accessories was 82 percent, which declined to 37 percent in 1996-97 and is estimated to be about 47 percent in 1997-98. In fact, the imports of textile machinery which was about Rs.312 crore in 1991-92 sharply rose to Rs. 726 crore in the following year 1992-93 in the wake of the trade policy liberalisation, Rs. 1202 crore in 1993-94, Rs. 1828 crore in 1994-95 and peaked at Rs. 2352 crore in 1995-96. Since then it has declined to Rs.1865 crore in 1996-97 and further to about Rs.1500 crore in 1997-98. The import of second-hand machinery is also estimated to be very substantial at over Rs. 500 crore per annum. The Committee has also observed that while the aggregate demand for textile machinery and spares has been growing at a faster average annual rate of 21 percent, the share of TMI has been declining at a steep rate of 9 percent per annum. The capacity utilisation of the industry has also dropped from a fairly satisfactory level of 72 percent in 1991-92 to less than 40 percent during the year 1998-99. The production of textile machinery, which had reached the peak level of Rs.1509 crore in 1994-95, declined to Rs.1500 crore in 1995-96 and more sharply to Rs.1291 crore in 1996-97. Though it recovered some ground in 1997-98, rising to Rs.1501 crore owing to increased activities mainly in the synthetic fibre processing manufacturing sector, it has again declined to about Rs.1300 crore in 1998-99. Thus, in the post-liberalisation years, the production of the TMI has been see-sawing in the Rs.1300-1500 crore range. In fact, net of the production of spares and accessories which is slowly but steadily rising, the production scenario of textile machinery is even more dismal as revealed by the disaggregated data on production during the relevant years. (Table-13.1).

13.2.2 The Committee is conscious that the policy of liberalisation cannot be retracted. However, the TMI definitely deserves a benign govt. policy that would encourage the growth and expansion of the single largest indigenous capital goods industry. The Abid Hussain Committee which had reviewed the progress of implementation of Textile Policy (1985) had referred to the huge demand potential for textile machinery in future and had commented that “The volume of modernisation requirement in the Indian textile industry is such that there is huge potential demand for textile machinery in the future. In fact, over the medium and long-term, it is also the case that powerlooms will be modernised as well. It is, therefore, very important that the Indian textile machinery industry be upgraded to produce most of the modern equipments that are needed by the textile industry. This does not mean that all textile machinery must be produced within the country. However, as one of the world’s largest markets for textile machinery, it is also the case that it would be foolish not to have a large indigenous textile machinery industry. The TMI has an opportunity to become the leading capital goods industry in India. In fact, advantage should be taken

of the large domestic market to achieve economies of scale such that a broad range of Indian textile machinery is competitive in international markets.”

13.2.3 The Committee feels that views as expressed in Abid Hussain Committee report still hold good and specific objective-oriented policy inputs may be provided for accelerated modernisation and growth of the industry. This has become that much more imperative in view of the recent launch of Technology Upgradation Fund Scheme (TUFS) for the textile and jute industries, which is expected to result in huge demands for high tech machinery from the different segments of the textile industry. The TMI has to be in the forefront in the process of modernisation and technology upgradation of the user industry because that is the way to optimise the benefit to the country in terms of import substitution of capital goods, upgradation of the productivity, quality and cost-effectiveness of the textile industry together with higher exports of textiles and clothing. In order to meet these twin objectives, the TMI has to be provided with the required support and environment through appropriate policy inputs, which would enable it to manufacture quality machinery of latest technology in cost-effective manner upto its full potential.

13.3 **Present technology level of TMI**

13.3.1 The TMI exhibits a mosaic of multi-layered production capacity and technological capability levels. The strengths and constraints of the different sectors of the textile industry have been observed to have a direct bearing on the trend of capacity creation and utilisation in the TMI. Over the last four to five decades, the composite textile mills have declined due to a host of reasons including lack of modernisation and policy restraints on their capacity expansion. While the handloom sector could not fulfil the objective of being clothiers of the nation inspite of restrictive policy towards the mill sector, the resultant vacuum was filled up by stand-alone spinning mills, decentralised powerloom sector and processing sector. A hitherto restrictive import policy provided the perfect backdrop for production with the help of obsolete technology and primitive, cost/quality-indifferent production processes, particularly in the decentralised powerloom weaving and processing sectors. The spinning segment, on the other hand, being capital-intensive in nature, did not face any major threat from low quality cheap products, and taking full advantage of the liberalisation process and the Textile Modernisation Fund Scheme (TMFS) of the 7th plan period (1986-91), kept the modernisation process on an even keel and could, therefore, achieve global standards of sophistication and product quality. Reservation of the emerging sectors, viz., knitting and garments in the SSI sector has again stifled induction of high technology and economies of scale. Consequently, demand for domestic capital goods generally and high-tech ones specifically has been almost non-existent except in the spinning sector. This, in turn, has logically skewed and influenced capacity creation and technology levels in the TMI. The TMI is also partly to blame for this situation due to long delivery period and

indifferent after sales service, cushioned as they were by restrictive import policy and this, in turn, affected the demand pattern.

13.3.2 The entire range of machinery required for spinning is manufactured by indigenous textile machinery manufacturers. Some manufacturers have collaboration with major global manufacturers, viz., Reiter (Switzerland), Trutschler (Germany) and Toyoda (Japan) and some others produce the machinery entirely using the indigenous know-how, self-developed or otherwise. The domestic manufacturers also produce from time to time improved models of machinery in tune with the latest developments abroad. The range of textile spinning machinery manufactured in India incorporates high tech, state-of-art features, which are behind the same machinery available in the global market only by one generation. These machines are specifically designed to suit Indian conditions, more particularly cotton produced in India. Out of a total of 82 spinning Export-Oriented Units (EOUs) in the country, in about 15 EOU mills, the entire range of spinning machinery is from indigenous manufacturers. In another 30 EOU mills, most of the spinning machinery is from indigenous manufacturers. Many mills equipped with indigenous machines are able to produce world class yarn at competitive prices. Thus, as far as the spinning machinery sector is concerned, the indigenous machinery lags behind the latest range of machinery available in the global market only by one generation. One reason why indigenous machines lag behind the latest models is the lack of adequate demand for those models in the domestic market. Perhaps the recently initiated Technology Upgradation Fund Scheme (TUFS) for the textile industry could induce the spinning sector to acquire the latest technology machinery, which, in turn, will encourage induction of such technology by the spinning machinery manufacturers.

13.3.3 The synthetic fibre machinery sector is also capable of producing texturising machines of very high level technology. However, considerable gap is to be bridged in the technology level in the weaving sector. Due to the fragmented nature of the decentralised weaving segment, there is absence of economically viable effective demand. Thus, TMI has not built up capacity to produce high tech weaving machines though both shuttle looms and shuttleless looms of reasonably high level technology are manufactured in the country. Automatic shuttle looms manufactured by the major manufacturers consist of several models including (a) Positive Cam Motion; (b) Negative Cam Motion which are of the state-of-the-art technology. The technology of components have improved in tandem with the growth of high technology looms. Shuttleless looms manufactured in the country consist of flexible rapier and airjet looms. However, there is a gap in technology, especially in the realm of projectile looms. Our manufacturers have nothing to compare Sulzer's projectile technology in this field. Further, airjet looms manufactured in the country are priced out in competition. The main reason for the gap in technology in this particular area is the uncertainty regarding sustained demand which can induce indigenous manufacturers to make the huge investments necessary to bridge the technology gap. The indigenous producers have the manufacturing capability. With the creation of economically viable

demand for high technology weaving machinery and correction of duty anomaly between import of full machinery vis-à-vis raw materials and components for such machinery the local manufacturers are expected to respond with the creation of required capacity.

13.3.4 As regards knitting machinery, one of the major manufacturers has the capability and produces circular knitting machines including single jersey & fleece machines, body size machines, interlock machines, B-lock rib-cum-interlock machines, single jersey mini jacquard machines etc. However, due to the concentration of the knitting segment in the SSI, they are not able to use such hi-tech specialist machines. Thus, 90 percent of such machines manufactured are exported. Owing to lack of demand, TMI do not manufacture electronic jacquard knitting machines for which they have the know-how. This sector has considerable scope for induction of new technology.

13.3.5 As regards processing machinery, there was no effective economically viable demand for hi-tech processing machinery till a couple of years back. However, recently the situation has changed. Demand for hi-tech processing machinery is picking up and to meet the demand, TMI is taking steps to manufacture the machinery of required level of technology. Undertakings like Kuster Calico and Motex (for stentering machines) are already set up in India as joint ventures with a much higher level of technology than seen so far in India and in South East Asian countries. Kuster Calico has as its watch word increased productivity and environmental friendliness. The use of vacuum technology, S Roll technology and Flexnip add on technology would revolutionise the processing of textiles in India. Using these technologies, they manufacture machinery for continuous pre-treatment, bleaching, washing, mercerising, dyeing etc. for cotton and cotton blended fabrics. Many of the TMI units are watching the emerging scenario and would emulate the recently set up units for manufacture of hi-tech processing machinery in case of sustained demand.

13.3.6 In the era of globalisation, the textile machinery industry has to produce machinery which is competitive in terms of technology as well as cost to persuade the textile industry to source their machinery locally rather than importing them. In contrast to manufacturing cost structure in the developed countries, where the cost of labour is very high, in India interest and power cost are relatively higher for producing textile items. The TMI while planning their future production of hi-tech machinery will have to choose the appropriate state-of-the-art technology which leads to energy saving and is cheaper as compared to imported machinery in order to reduce the interest burden of the textile manufacturer. Also, the textile machinery industry will have to assess the potential of indigenous requirement of each machinery so that, it can decide whether the quantum of requirement is equivalent or more than its breakeven point for production in India. If the indigenous machine becomes costlier in comparison to imported machine, the customers shall naturally prefer the imported one. Some machines like tricot, warp knitting machines are only manufactured by a

few companies in Germany and Japan, as their world over demand is very limited. Such machines may continue to be imported for indigenous requirement.

13.3.7 It is noted that the TMI has so far been largely dependent on borrowed technology. Efforts to strengthen indigenous R. & D. efforts and technological back up have been almost non-existent. Relatively small production base and low capacity utilisation have not allowed any worthwhile investment in R. & D. efforts to achieve any meaningful technological breakthrough. This handicap has been further circumscribed by dependence of local units on the willingness of foreign collaborators to transfer technical know-how. The collaboration agreements in general are restrictive in regard to transfer of technology and export market access. With liberalisation in the investment and trade policies in the country, the global technology leaders, mostly concentrated in Germany, Switzerland, Italy and Japan would probably want to set up their own subsidiaries here rather than go for joint ventures or technology transfer. In the emerging milieu of general encouragement to foreign direct investment (FDI) in priority areas, it would be perfectly in order to encourage such investments, while, however, giving adequate support and thrust to development of indigenous high technology through vigorous, focussed R. & D. efforts. The Committee, therefore, feels that the foreign manufacturers should be encouraged to invest in manufacturing units of India, so that they can supply machineries of the latest generation from local units and not resort to supply of complete machinery from their existing plants in their own country or in a third country. This is perfectly feasible as India with its TUFs in place is the most promising market for the recession-hit textile machinery manufacturing industry. In view of the demand emerging from TUFs the TMI should enter into joint venture with support from govt. This would not only bring latest technology at our doorstep but also reduce cost of such machinery due to low wage and overhead costs in India. While providing employment and saving valuable foreign exchange, it will also hopefully spur the domestic TMI to accelerate its R. & D. efforts and other competitive strategies. A view was expressed in some quarters that foreign collaboration of indigenous textile manufacturers should be restricted to latest generation technology or with state-of-the-art machinery manufacturers in the international market. The Committee, however, feels that if FDI is encouraged from the global leaders, it would automatically restrict flow of lower technology through collaboration or joint ventures as unviable and uneconomical.

13.3.8 There is no doubt that the Indian textile machinery industry has no other alternative but to get itself modernised by acquiring the latest know-how from abroad or by evolving such know-how by their own efforts, collective or individual. With globalisation of trade and liberalisation of national industrial and trade policies, the level of technology and cost-competitiveness are going to be the deciding factors whether a particular industry is going to flourish or perish. The TMI has to make determined efforts to improve its quality and arm itself with the latest technology supplemented by aggressive and educative marketing, supported by top class after-

sales service to provide latest state-of-the-art textile machinery to the textile industry and expand its export base.

13.4 **Policy recommendations**

13.4.1 With regard to import of high-tech, state-of-the-art machineries, there can be no objections if such machineries are not produced indigenously. However, the Committee feels that TMI should be encouraged to invest in technology and modernise itself to meet the domestic needs for such machines. This has become more imperative in view of the launch of TUFSS with effect from 1st April, 1999 for a period of 5 years for technology upgradation in the textile and jute industries. The availability of indigenous high-tech machines would reduce the dependence of the textile industry on imported machines and result in substantial import substitution. In fact, strengthening of the TMI will enable both the textile industry and TMI to reduce their dependence on import of quality goods/machines and step up exports and net foreign exchange earnings/savings, and thus, subserve the larger interest of national economy. For strengthening the TMI, the Committee recommends that the policy with regard to TMI should be guided by the following considerations.

13.4.2 **Fiscal policy changes**

(a) **Import duty**

(i) **Import duty on inputs**

The first and immediate pre-requisite of putting the domestic industry at par with imports is to allow import of inputs for the manufacture of textile machinery at 10 percent below the rate applicable for complete imported machinery and equipments. The need for a lower import tariff for inputs arises due to the disadvantages suffered by the indigenous manufacturers on account of sales tax, octroi and other local levies vis-à-vis import of such machinery by the actual users. Under the existing customs tariff structure, import of complete machinery is permitted on payment of basic customs duty of 25 percent in general while other raw materials and a number of components required for the manufacture of textile machinery attract an average duty rate of 35 percent (duty ranging between 30 percent and 40 percent). This has led to a piquant situation. The production of sophisticated machinery containing large number of imported parts has automatically been rendered uneconomical as such machines cannot compete price-wise with imported machines. This anomaly of input tariffs should be removed and a level playing field provided to the TMI by reducing the import duty on the raw materials, components and accessories by 10 percent vis-à-vis the duties on the corresponding full machine or zero duty if that on the full machine is 10 percent or less. Such a tariff regime for even non-dedicated inputs is feasible through appropriate provisions in the tariff structure for import against actual user condition.

(ii) **Import duty on specified machinery**

A number of items, i.e., 159 items of machinery (as of now) which are mostly for the weaving, knitting, processing, garment and worsted woollen sectors with

almost NIL indigenous production base are permitted to be imported at concessional rate of 15 percent basic duty. The Committee has recommended for further reducing the duty on such machineries to zero or 5 percent. The issue has been discussed in detail in the chapter on 'fiscal policy and structure'. Such reduction in import duty on complete machinery entails reducing the duty on raw materials, components and accessories of such machineries to zero percent to provide level playing field to the indigenous manufacturers.

(iii) Import duty on machinery for technical textiles

Technical textiles are the value added textile of the future with great potential for domestic use and exports. We do not have a technical textiles industry or technical textile machinery industry worth the name. Therefore, the identified and customised machinery required for manufacture of technical textiles with no indigenous angle should also be permitted duty free with actual user condition to motivate entrepreneurs to establish projects for technical textiles.

(iv) Import duty on jute machinery

Only a few jute machinery are produced within the country. The jute industry is badly in need of modernisation and technology upgradation. Therefore, it is recommended that jute machinery with no indigenous angle shall be permitted for duty free import.

(b) Excise duty on textile machinery

The current rate of excise duty on textile machinery is 16 percent. The Committee has noted that the general rationalisation of excise tariff structure has taken the excise duty on textile machinery from 10 percent to 13 percent with effect from 28th Feb., 1998 and now to 16 percent. While ordinarily, excise duties paid on capital goods are modvatable, in the textile industry, except for the spinning and composite mills most others, mostly in the decentralised sector are ineligible for the same. Consequently, the excise duty paid on capital goods remains unremitted and hence, discourages modernisation and technology upgradation. This has badly affected the capacity utilisation and viability of the TMI. In order to make modernisation viable, especially of the decentralised powerloom and independent processing sectors and high value adding, export oriented garment sector, the machinery cost has to be lowered by all possible means. Similarly, the modernisation efforts of the organised textile industry need to be fostered in a continuous manner. Since net of MODVAT, generally excise duty does not in effect survive on capital goods, it is only logical that capital goods that are incapable of modvating due to various reasons should, ab initio, bear no basic excise duty. Besides, such a rational approach would supplement the efforts of TUFs to reduce the capital related costs of the textile industry further and thereby strengthen the export capability of the textile industry which contributes about 37 percent of the total export earnings of the country with hardly any import contents.

It is, therefore, necessary, nay, essential to exempt all textile machinery from basic excise duty as against present applicable rate of 16 percent. If, however, the rationalised excise tariff structure does not allow for any such exceptions, then the TMI at the least deserves the merit rate of 8 percent. Hence, it is strongly recommended that the basic excise duty on all types of textile machinery and their components be reduced to zero or at the least, 8 percent.

13.4.3 **Import of second hand machinery**

(i) Till 31st March, 1999, second hand textile machinery were freely importable if the residual life thereof was at least 5 years. The Committee feels that it was too liberal a policy which not only encouraged very old machinery-almost junk elsewhere-to be imported to the detriment of the long term technological interests of the country but also manipulations of residual life. Such policy has also harmed the indigenous TMI. However, the new EXIM Policy has completely removed import of second hand machinery from OGL and put it in either restricted category or banned category. This, the Committee feels, is again an extreme measure not supported by ground realities. A via media is what the Committee would recommend as far as textile machinery is concerned. It is a fact that good quality, almost new and high tech second hand machinery are available in some of the developed countries which are downsizing and dismantling their textile production capacities due to becoming uncompetitive on account of other factors of production. It would be unwise not to take advantage of the situation, particularly in items which have no or negligible indigenous angle, more so when the domestic production and capacity are not adequate to meet the growing demand of the textile industry. Permitting import of such machinery through SIL route will only involve delay and corruption. Therefore, the Committee recommends that import of high-tech second hand machinery, more particularly those listed in List 10 of customs notification no.11/97-cus. should be permitted, provided they were not more than 10 years old and had at least 10 years of residual life. Such machineries do not have significant indigenous angle also.

(ii) As regards jute machinery, the same is not manufactured indigenously except for a few and the industry has to depend on imports. The imported machinery are very expensive. Production of some machinery has been discontinued due to uneconomic demand. Therefore, it is recommended that till such time suitable technology is developed and such machinery produced indigenously at competitive prices, the import of second hand jute machinery of acceptable vintage should be permitted on duty free basis.

13.4.4 **Research and development**

In the long run, the textile machinery industry can survive and prosper only if sufficient attention is paid to the research and development. The current scenario of dependence on borrowed technology has to be replaced by urgent measures to

concentrate on focussed, applied R. & D. to develop indigenous capabilities in higher technology. However, the Committee also notes that given the relatively small size of the TMI units and the hard times they are passing through, it is unlikely that individual efforts and investments will be of any worthwhile degree so as to make a definite dent. Hence, there is need for a common R. & D. centre for the TMI. The Committee notes with satisfaction that the TMI has already initiated steps in that direction and in co-operation with the Indian Institute of Technology, Bombay has formulated the setting up of a state-of-the-art Research and Development Centre exclusively for textile machinery. The proposal envisages a Design and Development Centre and post-graduate and doctoral courses in textile engineering which will not only concentrate on R. & D. efforts to design and develop new state-of-the-art textile machinery and/or components but also build up top quality human resources for the textile and textile machinery industries. The centre has started functioning in a modest way. The textile machinery industry made a strong plea before the Committee to recommend govt. support and contribution to the centre. The Committee fully agrees with this plea. Given the limited capacity of the TMI to build up such a centre all by itself within a specified timeframe, the Committee recommends that the Govt., more specifically the Ministry of Textiles to take a proactive role in establishing this R. & D. centre at the earliest by substantial contribution to the capital cost of the centre. The TMI should, on its part, identify, through extensive interaction with the textile industry, priority R. & D. activities to be undertaken. It must also provide for the centre's long term self-sufficiency to meet its recurring costs on research and otherwise.

13.4.5 **TUF for textile machinery industry**

The basic objective of making available state-of-the-art textile machinery at competitive prices to the user industry can be best served by upgrading the textile machinery industry. For this purpose, there is need for a Technology Upgradation Fund for this sector which could be modestly configured at about Rs. 1500 crore for a period of five years. The fund should be made available to the TMI on terms similar to that of the TUFS for the textile industry. This will ensure that there is a simultaneous and synergistic technology upgradation and growth in both the industries without straining our limited foreign exchange resources too much.

13.4.6 **Venture capital fund**

For manufacture of machinery of the latest technology, besides the certainty of sustained demand in the long run, large investments by way of know-how and new machine tools are required. In the absence of adequate capital base, it is necessary that textile machinery manufacturing units are provided with substantial funds for investment in know-how and machine tools. In the present context of the availability of Technology Upgradation Fund for textile industry and significant demand for hi-tech machines, availability of venture capital fund will go a long way in enthusing Indian machinery manufacturers to turn to the high-tech horizon. The Committee, therefore, recommends setting up of Venture Capital Fund with an initial corpus of

Rs.150 crore with 50:50 sharing between the Govt. and IDBI and operated through IDBI.

13.4.7 **Information support**

It is noted that there is lack of information on the availability of the state-of-the-art machinery for different segments, particularly decentralised segments of the textile industry. The TRAs need to function as a 'resource base' for maintaining data base on this aspect along with the list of manufacturers of such machinery, both within and outside the country. The Technical branch of the Office of the Textile Commissioner should be entrusted with the responsibility of co-ordination, collection, compilation and dissemination of such data among the TRAs and TMMA. Such information should be disseminated on regular basis particularly to the decentralised segments of the industry to facilitate technology upgradation on an 'on-going' basis.

13.4.8 **Support measures for export**

(i) Exports of textile machinery and components have surged from a mere Rs.29 crore in 1985-86 to Rs.171 crore in 1991-92 and Rs. 325 crore in 1997-98. It is essential to encourage measures which would step up the capacity utilisation of this industry to the extent of at least 80 to 90 percent to make it cost competitive in international market and generate enough surplus to invest in further capacity expansion. India is strategically located for export of textile machinery as it can cater to the neighbouring countries like SAARC nations, Thailand, Malaysia, Philippines, West Asia, Africa and Latin America. Moreover, India is the only country in Asia barring Japan with the technological and technical capacity to produce the entire range of textile machinery. The TMI should be encouraged to set up turnkey/semi-turnkey projects and offer consultancy in management and training services abroad.

(ii) Govt. should provide active encouragement to the exporters by all possible means, including dissemination of information and market intelligence regarding the market conditions in various countries to which it is possible for India to export textile machinery.

13.4.9 **Need for transfer of TMI to the Ministry of Textiles**

The TMI is a dedicated capital goods industry with a single customer industry, i.e., textile industry. The Committee was apprised by the TMI representatives that while the Textile Commissioner is the field level technical and development officer for the industry, he reports to the Industry Ministry for TMI and not to the Ministry of Textiles. In the present liberalised industrial policy regime, the role of the Industry Ministry (Department of Industrial Policy and Promotion) as an umbrella ministry for regulatory and developmental strategies has considerably diminished. But, the need for industry-specific focussed policy initiatives, in the context of globalisation and falling import tariffs and liberal FDI policy, has

increased. Since the Industry Ministry fully depends on the Textile Commissioner for technical matters and has no in-house expertise in the ministry, it has not been able to draw up any strategic plan for this capital goods industry which needs specific policy support from the Govt. On the other hand, since the Textile Commissioner is the development officer for both the textile and textile machinery industries and the latter is a dedicated industry custom-made for the former, it would make eminent practical sense and promote focussed development and growth of the TMI if it is transferred from the Dept. of Industrial Policy and Promotion in the Industry Ministry to the Textile Ministry. As a matter of fact, there is hardly any inter-personal communication or exchange of views between the Office of the Textile Commissioner and the Industry Ministry except through an occasional exchange of written communication. Without a policy thrust from the ministry for focussed development and growth, the TMI feels like having fallen between two stools. Therefore, the Committee feels that there is a lot of strength and practical sense in the plea of TMI. Such a transfer of TMI to the administrative control of the Ministry of Textiles would enable the latter to appreciate the peculiar problems faced by the manufacturers of textile machinery, its strengths, weaknesses, needs of the user industry and to take a comprehensive balanced view between the apparently conflicting but mostly complementing interests of the textile industry and the TMI and more importantly, develop and implement synergistic growth strategies for both the industries. Since Industry Ministry has traditionally not played any significant role for drawing up or implementing any focussed growth strategy or plan or programme for the TMI, such a transfer would not cause any administrative, structural or policy problem. Therefore, the Committee strongly recommends the plea of the TMI for favourable consideration by the Govt. This, the Committee feels, will be to the mutual advantage of the textile industry and textile machinery industry.

CHAPTER-14

TECHNOLOGY UPGRADATION

14.1 Introduction

14.1.1 The Indian textile industry which has been sheltered and protected by way of stiff import barriers for the last over 50 years has neglected modernisation for so long that technology gap has become enormous not only in relation to western countries like USA, UK and Germany but also in comparison to developing Asian countries like China, Thailand, Malaysia, Indonesia, South Korea etc. Though some export driven textile units have attempted technology upgradation in the past to remain competitive in the export market, a majority of the textile mills catering pre-dominantly to the domestic market continue to be mired in outdated, antiquated technologies.

14.1.2 In the context of an integrated world market wherein survival of the indigenous textile units will be at stake, it is of paramount importance that various segments of the Indian textile industry upgrade their technology urgently through a well thought out action plan. The Committee has discussed in detail in each chapter the technological gaps prevailing in the concerned segment and has outlined the measures needed to facilitate technology upgradation for production of internationally acceptable quality textile goods in a more cost-effective manner. One of the recommendations which is common to all segments is that high-tech machinery with no indigenous angle should be permitted to be imported with 'zero' duty, while import policy in respect of other machinery may be liberalised to facilitate faster technology upgradation. In this chapter, the various recommendations that have been made with regard to modernisation have been compiled in a summarised manner. In addition, some changes in TUFs have been proposed and thrust areas for R & D have been recommended.

Segment wise recommendations for technology upgradation

14.2 Cotton cultivation

14.2.1 Notwithstanding the significant improvements achieved during the last fifty years, the cotton productivity in the country is still just about the lowest in the world. To improve the cotton productivity, the share of irrigated cotton area needs to be improved from the present about 35 percent to atleast 50 percent, together with water conserving and cost-effective irrigation and moisture retention methods. The other recommendations made by the Committee include improving the availability of certified standard seeds to the farmers and de-notification of the large number of obsolete varieties to prevent mixing of varieties, R. & D. improvement of varieties to strengthen the hybrid varieties and improve quality parameters of the existing good varieties, integrated pest and fertilisation management to improve the cotton yield. Realising the need for active involvement of the user industry and its parent ministry,

it has been recommended that corporate sector and Ministry of Textiles also need to be closely associated with the direction of R. & D., field extension in order to bring modern farming practices and good quality seeds and other inputs like fertilisers and pesticides to the farmers. The Committee has also recommended that a joint working group of the Ministry of Textiles and Ministry of Agriculture may be set up to recommend improvements and monitor all aspects of cotton cultivation.

Cotton processing

14.2.2 Ginning is the first important process that cotton goes through on its way to textile mills where it is converted into value added products. In the ginning process, more than machinery it is the outdated ginning practices which are adding to the contamination and consequential quality deterioration of cotton. Ginning machines may be perhaps decades or even a century old, but the ginning practices are even older and archaic. More than upgradation of the ginning machinery, the need of the hour is to improve the ginning environment and practices. It is said that Indian cotton entering gin house is one of the cleanest by virtue of it being entirely hand-picked, but the cotton leaving the ginneries is one of the most contaminated and trash-filled cotton in the world because of the outdated machinery, poor working environment and ginning practices. The Committee has recommended for technology upgradation of ginning machinery and has laid equal stress on improved working environment and scientific ginning practices to focus on the concept of ideal ginning to improve the quality of the cotton leaving the ginneries.

Spinning

14.2.3 Even though the Indian textile spinning sector is relatively more modern than other segments of the textile industry, still large number of mills are using obsolete technology. A survey conducted by SITRA recently has shown that some 10 percent of the blow room lines are more than 30 years old, half of the cards are older than 20 years; modern draw frames with auto-levelers are in use only on 7 percent of the machines, 20 percent of the combers and half of the fly frames are of 20 years old or more; in 25 percent of the mills, the average age of ring frames is more than 25 years and only 20 percent of the cone winders are automatic. Inclusion of the spinning sector under TUFSS would facilitate technology upgradation of this segment. The Committee has estimated the total fund requirements for modernisation of spinning mills to the tune of Rs.10,000 crore. A part of the total fund requirement can be met by the spinning mills, particularly those which are able to earn profits. However, a major share, of the order of Rs.7,000 crore, may have to be financed by the financial institutions/banks.

Handloom weaving

14.2.4 Considering the state of primitive technology prevalent in the handloom sector, a need for superior technology appears to be irrefutable in pre-weaving, post-weaving and in-weaving process to ensure quality production. Unwinding from hanks for

preparation of warps, spool and the weft pirn, peg warping and manual sizing of warp yarns which involves as much time as the weaving operation itself, need to be mechanised and where warp sizing has to be resorted to, supply of sized beams to weavers needs to be encouraged. Mechanisation of these processes does not detract from or compromise the essential creative nature of hand weaving proper. Thus, it is imperative that quality function starts from the raw material stage itself. The role of the apex co-operative societies should not be confined to marketing of fabrics alone but should include provision of pre-loom and post-loom service facilities to the weavers in handloom cluster areas to ensure quality of the fabric. The Committee has, therefore, recommended that 'Service Centres' should be set up to provide pre- and post-weaving facilities at one place so that the weavers produce better quality fabrics and be able to market their products for better price. Such centres should, therefore, provide the following facilities:

- a) The centre will undertake warping, sizing, conversion of cone into hank, all wet processing including cone yarn dyeing, hank yarn dyeing and azo-free processing with CETP/ETP subject to the satisfaction of pollution control norms.
- b) Provide mechanised pirn winding, worksheds for carrying out repairs, accessories, tools and on-loom training etc.
- c) Provide special finishes depending upon the product, stitching, knotting etc.
- d) Testing of yarn and cloth both physical and chemical should also be undertaken by these centres if adequate laboratory facilities are not available nearby.

14.2.5 The Committee has also categorised handloom weavers into three categories and recommended for conversion of the 3rd tier of weavers producing low value items which can be replicated on powerlooms in a more cost effective manner to skilled weavers in co-operative or commercial 1st tier handloom units or powerloom weavers of the 3rd tier with semi-automatic looms, garment manufacturing and such other feasible activities/avenues. Suggestions have also been made for graduation of the 2nd tier of handlooms to the first tier through govt. support in terms of fashion/design inputs and market support etc. The first tier of handlooms producing unique, high value added items also need to be strengthened in terms of product quality and diversification for improving their presence in the domestic and international markets.

14.2.6 The Weavers' Service Centres at Bangalore & Vijaywada have modified the handlooms with modified/ additional attachments in the looms, which will promote the appropriate skills, reduce the fatigue and increase the productivity and production of value added items thereby improving the earnings of the weavers. Such improvement in the looms include: (i) **raised pitloom** which facilitates providing

additional accessories like doobby, jacquard, etc., and avoid oozing of water into the pit of the loom during rainy season causing loss of working hours. It also enables the weavers to produce value added items; (ii) **jacquard saree loom** which enable the weavers to make the designs of sarees attractive which is proposed as one of the component under modernisation; (iii) **solid border saree loom** the advantage of which is the use of one shuttle instead of three shuttles in the process of weaving solid border sarees. This enables the production of solid border saree weaving, which is not so common at present; (iv) **multiple weft butta design looms** which enables introducing new buttas at a time instead of each by separate thread. Though, this technique is working in mills, & powerloom sector to some extent, this is yet to be introduced in handloom segment; and (v) **two-treadle jacquard loom** in place of the jacquard machines used in the handloom industry operated only with one treadle which the weavers find difficult to operate while producing furnishing fabrics etc. The two-treadle jacquard loom enables easy weaving of such fabrics resulting in higher productivity. The Andhra Pradesh Govt. proposes to launch a massive programme to popularise the aforesaid modified looms. The Committee, therefore, recommends that the other State Governments may also encourage weavers service centers to bring about such effective changes in the handlooms, which may result in the improving the skills and productivity of the weavers. Such type of modern hand looms may also be popularised through massive awareness programme.

Powerlooms

14.2.7 Recognising that the main factor contributing towards production of low quality fabrics is the predominance of ordinary plain looms in the sector, the Committee has recommended that plain looms installed in the powerloom sector should either be dismantled and replaced with or upgraded in situ into semi-automatic status. The powerloom sector has been categorised broadly into 4 tiers and powerloom units falling under the lowest technology tier 4 having wider width ordinary looms ought to be upgraded to the 3rd tier of semi-automatic status and narrow width plain looms or obsolete wide width plain looms scrapped and replaced by at least semi-automatic looms or alternative feasible employment/livelihood avenues. The TUFS has provided for in situ upgradation of plain looms of a minimum 140 cm width to semi-automatic looms with or without doobby/jacquard, while covering new looms by way of capacity expansion only at the automatic or shuttleless loom levels. The Committee recommends for inclusion of replacement of plain (narrow width and obsolete wide width) looms with semi-automatic looms also under TUFS. Since elsewhere the Committee has recommended conversion of tier 3 handloom weavers to powerloom sector, the practically feasible minimum loom technology for them can be semi-automatic only and not the costlier automatic or shuttleless ones. It is only the relatively bigger powerloom units who are likely to go in for automatic and shuttleless looms. Hence, the Committee recommends that the conditions of TUFS be modified to include semi-automatic looms with or without doobby/jacquard as the benchmark technology for SSI powerloom sector. Given the

general financial status of the powerloom weavers, it is unlikely that many semi-automatic or automatic looms will be replaced by shuttleless ones. Therefore, the development strategy should aim at maximising in situ upgradation of plain looms in a time-bound manner, say, in 10 years, and accretion of new semi-automatic, automatic and shuttleless looms to upgrade the fabric quality without substantial employment disruption. The Committee feels that in situ upgradation of about 4 lakh looms and installation of one lakh new semi-automatic/automatic looms and 5,000 to 10,000 shuttle-less looms during the 5 year tenure of TUFS is a feasible target which Govt. must strive to achieve in this sector. The required investment may not exceed Rs. 1,000 crore, Rs. 3,000 crore and Rs. 2,500 crore respectively (including preparatory machinery), with the loan component any where upto 70 percent thereof. Such a strategy would ensure that there is enough capacity to produce upto twice as much fabric as now from the same loomage size through higher productivity. The Committee has, therefore, recommended statutory restriction on further installation of any plain looms. The Committee has also recommended training and other infrastructure support in terms of design input, finance input and marketing support etc. for weavers graduating to the next higher tier.

Weaving in the mill sector

14.2.8 There is considerable backlog of modernisation in the weaving segment in the mill industry. Due to restrictive govt. policies and daunted by the competition from the decentralised sector in terms of volume and price in an essentially commodity market, the organised sector has not shown any keenness to upgrade loom facility either through replacement or by way of green field projects. As a matter of fact, the loomage in the mill sector has declined over the last 2 decades from over 2.08 lakh to 1.24 lakh, i.e., a decline of over 40 percent. Going by the feedback from the industry, with the launch of TUFS, the mill sector is expected to take maximum benefit of it to maximise advantages of integrated operations, multi-stage value addition and production/product flexibility by upgrading its technology. The Committee has recommended the minimum level of technology in weaving activity as semi-automatic looms for the SSI powerloom segment. Therefore, it is logical to recommend at least one higher level for the mill sector, i.e., automatic looms for mills as the minimum level of technology. However, the mill sector may be incentivised to scrap their ordinary looms and replace them with maximum shuttle-less looms, choosing the type of such looms on the basis of their production profile. With 45 percent of the mill sector loomage in NTC mills, and majority of such looms being plain looms, the Committee strongly feels that the Govt. must take the hard decision to scrap all such looms so that they cannot be re-sold to the powerloom sector for meager short-term profits or even by way of incentive to the out-going workers. Any relocation of such looms discarded by a mill (or a powerloom unit) will be worse than a millstone around the neck of the Indian textile weaving industry and therefore, suicidal as a policy or economic option. The Committee has also recommended that in the emerging scenario of competitive, free and globalised trade, the mills will have to make concerted

efforts to continue modernisation as an on-going process. The committee feels that faced with the inevitability of the globalisation and rising awareness process coupled with the unshackling of the industrial investment policy and launching of TUFs, the mill sector may invest in 25-30 thousand automatic looms and about 20,000 shuttleless looms (including preparatory machinery) in the next 5 years with an investment of about Rs. 11,000 crore.

Knitting

14.2.9 There is also an urgent need to upgrade the technology of the hosiery/knitting sector to withstand the competition in the domestic and export market and accelerate the export growth. Hosiery and knitting machinery have been covered under the TUFs to facilitate further technology upgradation. The fiscal levies on such machines may be further reduced to facilitate their absorption by hosiery/knitting segment and enhance their international competitiveness. The Committee's recommendation for de-reservation of the knitting segment will also result in enhancement of capacity and quality of knitted fabrics.

Processing and finishing

14.2.10 The predominance of cloth production in the decentralised sector and steady decline in the market share of the more quality conscious organised sector, coupled with distorted excise duty structure has inhibited technology upgradation in the processing and finishing sector. It is this process which provides the maximum intrinsic value addition, more particularly the sophisticated finishes. The technologically weak processing sector has also led to other problems in the export market related to the environmental and health issues. The Committee feels that since processing activity is the weakest link in the entire textile production value chain, apart from coverage under TUFs, additional policy initiatives will be needed to accelerate technology upgradation in this segment. The facility of investment allowance or accelerated depreciation may be made applicable to installation of high-tech processing machines. In order to enforce quality standards and also to extend other incentives to them, it is recommended that 33 1/3 to 50 percent annual depreciation be allowed for first two years on purchase of specified high-tech machines which improve the quality of processed fabrics or eco-friendliness of the process. The processing machinery available indigenously mostly do not have proper process controls and are poor in metallurgy. Wide open width machines, hi-tech open width bleaching plants are also not manufactured indigenously. The Committee has therefore recommended that high-tech processing machineries with minimal or no indigenous angle should be permitted to be imported with 'zero' duty while medium-tech processing machines may be permitted to be imported with concessional import duty. Measures to encourage production of small to medium capacity high-tech processing units are also recommended. The Committee has also recommended that investment in environment control, pollution control measures and for acquiring ISO-

14,000 norms must be encouraged by providing interest/capital subsidies or income-tax deduction on investments on such plants and machinery and permitting high rate of depreciation for such machinery, particularly since unlike ISO-9000, adherence to these norms do not provide any financial returns to the implementing firms. The Committee has also recommended for setting up of common effluent treatment plants in the areas of concentration of small textile processing units. The Committee recommends for setting up of about 400 new processing units – 200 high-tech units and 200 medium-tech units with total investment requirement of about Rs.8,000 crore. Besides, in situ upgradation of existing processing facilities will require additional funds of Rs.8,000 crore.

Clothing

14.2.11 The present technology level of the garment industry leaves much to be desired. The latest available survey of the garment industry by the Textiles Committee shows that 83 percent of the sewing machines installed in the industry are manually operated. Manufacturer/exporters tend to rely comparatively more on power-operated machines but their capacities are very small. Bulk of the export production is carried out by the fabricators who employ mainly manual machines. The Committee is of the view that the programme of modernisation must target 'fabricators' who form the backbone of apparel export promotion in India. We must strengthen the flexible decentralised production system based on linkages between exporters and fabricators. There should be more emphasis on automation of various activities in clothing production. To facilitate desirable level of investment in high technology, the Committee has recommended de-reservation of the garment sector from the SSI reservation. It is also the Committee's considered view that de-reservation will not adversely affect the SSI sector or even the employment potential. If any thing, it is felt that it will increase the order volume to create beneficial ripple effect among the converters and also encourage the SSI units to either expand or strive for excellence in niche markets. Overall, the employment, revenue and exports will get a boost. In short, it will be a win-win situation for all and this is not merely the opinion of the Committee but of the industry, exporters and experts.

Textile machinery

14.2.12 It is clear from the preceding paras that the future of the Indian textile industry, to a large extent, depends on the level of technology upgradation different segments of the textile industry would be able to achieve. The volume of modernisation requirement with launch of TUFS is such that there will be a huge potential demand for textile machinery in the future. It is, therefore, essential that Indian textile machinery industry be upgraded to produce most of the modern equipment that is needed by the textile industry. Due to historical reasons, the demand for domestic capital goods generally and the hi-tech ones specifically have been almost non-existent except in the spinning sector. This, in turn, has logically

skewed and influenced capacity creation and technology levels in the textile machinery industry. The textile machinery industry is also partly to be blamed for this situation due to long delivery period and indifferent after sales services, cushioned as they were by restrictive import policy and this, in turn affected the demand pattern. In nut shell, it was a vicious circle. As far as the spinning machinery is concerned, the indigenous machinery lags behind the latest range of machinery available in the global market only by one generation. The synthetic fibre machinery sector is also capable of producing texturising machines of very high level technology. However, in the absence of economically viable effective demand, the textile machinery industry has not built up capacity to produce hi-tech weaving, processing, knitting and clothing machines. Thus, there is an urgent need for textile machinery industry to upgrade their technology for producing hi-tech machines for down stream segments, i.e., for weaving, processing, knitting and clothing segments of the textile industry.

14.2.13 The Textile machinery industry has so far been largely dependent on borrowed technology. Efforts to strengthen indigenous R. & D. efforts and technological back-up have been almost non-existent. Relatively small size coupled with low capacity utilisation in the industry has not allowed any worthwhile investment in R. & D. efforts to achieve any meaningful technological breakthrough. This handicap has been further circumscribed by dependence of local units on the willingness of foreign collaborators to transfer technical know how.

14.2.14 The Committee feels that the textile machinery industry should be encouraged to invest in technology and modernise itself to meet the domestic demands for such machines. To strengthen the textile machinery industry, the Committee has, inter alia, recommended for : reducing the import duty on inputs for the manufacture of textile machinery at 10 percent below the rate applicable for import of relevant complete machinery and equipment, reduction in import duty on essential machinery include technical and jute textile machinery with no indigenous angle, reduction in excise duty on textile machinery which is practically not modvatable due to the decentralised nature of the textile industry, and focus on R & D. In the long run, textile machinery industry can survive only if sufficient attention is paid to the Research and Development. The current scenario of dependence on borrowed technology has to be replaced by urgent measures to concentrate on focussed applied R. & D. to develop indigenous capabilities in higher technology. The textile machinery industry has already initiated steps in this direction and in co-operation with IIT, Bombay has formulated the setting up of a state-of-the-art Research and Development Centre exclusively for textile machinery industry. The centre has started functioning, albeit in a modest way. Given the limited capacity of the textile machinery industry to build up such a centre by itself within a specified time frame, the Committee recommends that the Govt. may take a pro-active role in establishing this R. & D. Centre at the earliest by substantial contribution to the capital cost of the centre. The Committee has also recommended that a Technology Upgradation Fund for this sector may be set up with corpus of about Rs.1500 crore for a period of 5 years. This will ensure that there is a simultaneous and synergistic technology

upgradation and growth in both the industries without straining our limited foreign exchange resources too much. A Venture Capital Fund for the textile machinery industry with a initial corpus of Rs.150 crore with 50:50 share of the Govt. and IDBI is also essential to facilitate and encourage development of new technologies.

14.3 **Information technology**

14.3.1 There are no two opinions that information technology is one of the most important constituents of the state-of-the-art technologies in all fields of industry, ranging from materials management, designing, production process, productivity, product development, market exploration, pricing, trading and marketing, quality control, energy conservation, environment, R & D and so on. In a competitive environment whose hallmarks are productivity, quality and quick response, rapid absorption of information technology at all levels is quite inevitable. Electronic commerce is increasingly replacing conventional and costly methods of communication and transactions. If not adapting to the changing communication and transaction methods, the exporters may perish inspite of excellent product or service quality.

14.3.2 In the context of the need for quick response and supply of defect-free products with innovative designs, importance of technologies like Computer Aided Designs (CAD), Computer Aided Manufacturing (CAM) and computer colour matching can hardly be over-emphasised. Scientific testing and product evaluation methods have also become central to the specification and communication processes. The Committee strongly favours use of information technology in all areas of manufacturing and international/domestic trade by the various segments of the industry.

14.4 **Technology upgradation fund scheme (TUFS)**

14.4.1 The Govt. has made operational with effect from 1st April, '99 a focussed and time-bound technology upgradation fund scheme (TUFS), which would provide a focal point for modernisation efforts through technology upgradation in the industry. The main feature of the TUF scheme is 5 percent reimbursement on the interest actually charged by the identified financial institutions on the sanctioned projects. It essentially strives to provide funds to the entrepreneur at internationally comparable rate of interest and nudge the investment in the desired direction. The Committee is, more or less, in agreement with the tehno-operational parameters framed by the Govt. for this scheme but has different views on certain aspects which are given below :

Import of second hand textile machinery

14.4.2 Under the TUFS, Govt. has allowed import of auto coners and shuttle-less looms like rapier, projectile etc. with a minimum residual life of 10 years and maximum expired life of 5 years as reckoned from the year of manufacture. The Committee has gathered that hardly any such machinery of 5 years' vintage are available for sale. Since auto coners and these two types of looms are fairly sturdy and can give reasonably good high-tech, cost-effective service, it will be pragmatic to

permit looms of atleast 7 to 8 years' vintage if not 10 years. This is expected to particularly benefit the top tier powerloom units. The Committee, therefore, feels that auto coners and shuttle-less looms of the rapier and projectile technologies of upto 8 years' vintage should also be allowed to be imported under TUFs. It is also recommended that when autoconers are imported by weaving or weaving preparatory units, they should be allowed along with high speed warping and sizing machines since such machinery are generally disposed off together by closing down plants.

Other eligible investments

14.4.3 Under TUFs, certain investments like land and factory building, energy saving devices, effluent treatment plant, water treatment plant for captive industrial use and captive power generation are covered under the TUFs with a condition that such investment will not normally exceed 25 percent of the total investment in plant and machinery. Requirement of other investments would vary from project to project depending on the combination of other investments and the extent thereof. The Committee feels that eligible investments might include miscellaneous fixed assets like boilers, compressors, etc. which are acquired as part of the modernisation project, Also, preliminary and pre-operative expenses and contingency provisions which normally form part of the project should also be considered as part of the eligible investments. The Committee, therefore, recommends a flexible approach in the matter and proposes a ceiling of 25 percent of the project cost or 30 percent of the investment in eligible textile plant and machinery, whichever is less, as against the presently provided 25 percent of investments in plant and machinery. Energy saving devices, ETP and WTP, in the Committee's opinion, are essential and integral to quality assurance in production and should therefore be considered as a part of essential machinery and as such, eligible for full coverage under TUFs rather than be subjected to the ceiling of 25 percent.

Ring spinning

14.4.4 Under TUFs, it is mentioned that new spinning units or capacity expansion in an existing unit should be normally encouraged only if investment is also made in down stream yarn processing or weaving – preparatory with or without weaving/knitting capacity which can be installed simultaneously. With an installed capacity of 37 mn. spindles equivalent, the Committee feels that the approach of the Govt. is sound in not permitting incremental spinning capacity without downstream value addition, more particularly when China is downsizing its spinning capacity from 42 mn. spindles to about 32 mn. spindles in 2 years. However, the Committee was informed that, in some of the areas where there is no concentration of weaving activity setting up of weaving preparatory would not be feasible or advisable. Hence, as a desirable alternate option, investment in production of special yarns, value added (processed) yarns, technical yarns, high value fancy yarns etc. should also be included specifically. Moreover, expansion of the capacity to the minimum economic size level also needs to be encouraged in the existing spinning units by limiting the down-

stream value-addition norm to 50 percent of the incremental spinning capacity in order to provide some marketing maneuverability to the unit. Any capacity expansion beyond the minimum economic size should entail matching down-stream value addition norm.

Replacement of plain looms

14.4.5 The TUFSS has provided for in situ upgradation of plain looms of a minimum 140 cms. width to semi-automatic looms with or without dobby/jacquard, but TUFSS does not cover replacement of existing plain looms by semi-automatic looms. While it is desirable that new units or additional looms come only from automatic or shuttleless category, a special dispensation for existing obsolete, plain looms of whatever width is as deserving as in situ upgradation of existing wide width looms. It is, therefore, recommended that such narrow width looms and obsolete wider width looms also be covered under TUFSS for replacement by semi-automatic looms with or without dobby/jacquards, and in view of the substantial fund requirement for such wholesale replacement, 50 percent of the margin money requirement may be provided by the govt. with zero percent or nominal interest. Such Govt. loan component may be repaid to the Govt. along with the TUF loan repayment during the last four years of TUFSS repayment schedule in 16 equal quarterly installments. The funds for this margin money may be disbursed through the TUFSS lending mechanism and recovered also the same way.

Financial norms

14.4.6 The Nodal Agencies have prescribed minimum of 20 percent of the cost of the scheme as promoter's contribution. The Committee feels that while the minimum criteria may be a desirable, prudential financial norm to ensure a continued stake for the investor in the success of the project/unit, insistence on substantial collateral may hurt the interests of small borrowers, viz., in situ modernising powerloom units. It is, therefore, felt that lending institutions should be free to take such security as might be considered adequate by them like group guarantee, disbursement through industry associations, etc. in order to ensure better fulfilment of TUFSS objectives and also to ensure better repayment due to peer pressure.

14.4.7 To facilitate setting up of technical textile projects, the financial norms for such projects may be further relaxed as suggested below:

- (i) Margin money requirement may be reduced from 20 percent to 15 percent, considering the capital intensive nature of the projects and soft loan to the extent of 50 percent of the margin money requirement may be provided at 5 percent.
- (ii) The period of moratorium may be suitably increased from the existing prescribed period.

14.4.8 The Committee's recommendations with regard to operational aspects of the TUFs are as below :

Monitoring of fund flow

(a) In regard to TUF Scheme, past experience shows that a major part of the finance under such schemes is garnered by the organized mill sector. The financial institutions also find it easier and handy to lend to these organized mills who are able to offer stipulated margins and collaterals. While TUFs is an open ended fund, in order to avoid a recurrence of this crowding out effect, it is necessary for the lending institutions and the Govt. to regularly monitor flow of funds so as to ensure requisite flow of funds to the deserving segments like weaving, processing and readymade garments etc. and undertake mid-course corrective policy decisions as may be warranted to subserve this objective. For the purpose, the Govt. may set up a suitable national level and regional/state level monitoring mechanism. The state govts. may also be involved in the same for more effective feedback and follow up.

Co-option of other banks

(b) In regard to disbursements of funds under the TUF dispensation, the Nodal Agencies may associate not only commercial banks and SFCs but also co-operative banks because in many areas the co-operative banks have a responsible and significant presence in the textile sector lending. The Committee has noted that the Nodal Agencies have so far not co-opted any such banks. Since nodal agencies do not lend below certain limits, the potential investors below these limits are not able to avail of the TUFs benefits now. In the interest of larger reach of the TUFs, it is desirable that the Nodal Agencies co-opt such banks immediately. The Committee was also informed that most of the banks desirous of participating in TUFs do not require refinancing from the Nodal Agencies. It is, therefore, recommended that the Nodal Agencies co-opt as many banks as feasible to maximise the outreach of the scheme without insisting on refinance. The disbursal of interest reimbursement through the Nodal Agencies over the entire loan repayment period is an adequate tool to ensure that the lending by the banks is TUF-compliant. Since co-option of banks and waiver of refinancing condition are not within the prudential lending norms, Govt. should take the lead in sorting out this issue expeditiously to subserve the objective of TUFs.

14.5 Research and development

14.5.1 Technology upgradation has close linkage with R & D approach in the country. The Committee recommends thrust areas for R & D as below:

14.5.2 New technologies open fresh possibilities. Advances in material sciences have lead to new raw materials. For instance, spunlace technology in non-woven, new fibres in the aramid range, lyocel, tencel, lycra and a host of developments in fibre science have thrown open challenging opportunities in product development in hi-tech

textiles. Engineered textiles with advanced technology and new materials, if recognised as a frontier area for R. & D., would in the long run help our industry to remain competitive in the ensuing years and decades.

14.5.3 Available raw materials and resources should be better utilised and value addition to very short staple cottons, low micronaire/immature cottons and raw materials difficult to spin by spunlacing/hydro-entanglement for medical, disposable, hygienic and other technical applications may be considered as a thrust area for future R. & D.

14.5.4 Continuous R. & D. focus on improving the quality of yarns, grey and finished fabrics to international levels may be continued. Farm to yarn approach in spinning, value added and technical fabrics, new and improved eco-friendly chemicals/processes to impart desired finish could be encouraged for R. & D.

14.5.5 R. & D. work of basic nature is largely ignored; its importance for sustained developments needs no emphasis. At least one research project out of every ten projects sanctioned to an R. & D. institution must be a work of fundamental nature.

14.5.6 As the world economy is getting increasingly integrated, decisions taken or events happening at one place or country, have far reaching effects outside their geographical area. Crisis in South East Asian countries and its impact on our exports is a recent instance. In addition, the textile industry, by its very nature, is of slow response type. The markets and fashion are far more dynamic situations. The time between order and delivery has to be compressed. R. & D. efforts may focus on systems and ways and means of achieving desired quality and quick response through networking. This involves paying attention to advancement in production technology and linking them with appropriate network and application of information technology.

CHAPTER – 15

INTERNATIONAL TRADE

15.1 Introduction

In terms of the Agreement on Textiles and Clothing (ATC), with effect from 1st January, 2005, there will be no import restrictions (quota) for any category in any country and the whole world would be an open international market without any restrictions on the import and export of textiles and garments. The possibility of the process of accelerated access to our market and simultaneous increased access to the present quota markets in view of the pressure exerted by the USA and other countries can also not be ruled out. The competition in international trade in textiles is going to be intensified. Till now Indian textile industry has been a protected/sheltered industry, and efforts were being made only for increasing our market share in export trade. But in an integrated world economy, it is a two way process; we have not only to protect our domestic market because the threat of import penetration is real, but also to increase our share in the international trade in textiles and clothing.

15.2 Policy prescription in the past

15.2.1 The present Textile Policy of 1985 has the following to say on international trade: “Exports from the textile sector contribute a significant portion to the total foreign exchange earnings derived from exports. There are, however, certain constraints, both internal and external, which have meant that the full potential of textile exports has not yet been realised. In the international context, the Govt. shall strive to bring about a liberalisation of world trade in textiles which would alleviate the external constraints on our exports. In the domestic sphere, all necessary steps would be taken to exploit our comparative advantage in this sector and to make our exports of textiles more competitive in the world market in terms of both quality and prices. For this purpose, the framework of policy would ensure that inputs for export production including capital goods, are made available at or near world prices. At the same time, it would be necessary to intensify efforts in the area of product and market development, reorient marketing strategy and create capabilities for fashion and design development. Exports of products from the handloom sector, including silk products, have considerable potential in the world market. All encouragement would be given to assist in the realisation of this potential. In so far as export production is an integral part of the total production base in the industry, the measures for restructuring and modernisation of the textile industry, outlined in this statement, shall provide the necessary impetus to exports”.

15.2.2 Subsequently, the Abid Hussian Committee was appointed to review the progress of the implementation of the Textile Policy of June, 1985. The said Committee also has laid great emphasis on promotion of exports from the textile sector in view of its comparative advantages in the international competitiveness in

textiles. It had viewed that if we are to increase our international market share significantly, it is necessary to expand our export base towards man-made and blended fabrics as well as clothing. It had also recommended that the export effort from the textile sector must be from all the different stages of production and different kinds of production. There is enough capacity in the country at every level for export. Hence, there should be no hesitation in exporting yarn as well as fabrics.

15.2.3 The policy pronouncements of 1985 and the Abid Hussian Committee report are universal in appeal and content. A lot of changes have taken place since the formulation of the above policy. A rule-based system under the World Trade Organisation(WTO) has been installed with effect from 1st Jan., 1995. As regards the textile sector, textile trade under the Multi Fibre Arrangement (MFA) which constituted a derogation of the GATT system has to be integrated over a fixed timeframe and under the provisions of the Agreement on Textiles and Clothing (ATC) which is one of the WTO agreements. The latter comprises other agreements having a close relation with the trade in textiles, like anti-dumping, the rules of origin, subsidies etc. The post-2004 scenario envisages a two-way market access to textile products both in the developed and developing countries. The working of the WTO during the past 4 years has given sufficient, if not full, material as to the working of this system and the ways of making use of the existing provisions to the optimal advantage of Indian textiles. It is to take care of these concerns that certain issues have to be discussed and policy formulations made.

15.2.4 The post-2004 scenario envisages increasing two way market access to textile products in the markets of both developed and developing countries. This would lead to increased competition which, in turn, will require delivery of textile products in cost-effective and quality-effective ways. Indian textile exporters, therefore, should prepare themselves to face competition from overseas suppliers on two fronts. This would involve a co-ordinated approach and action plan at three levels - unit, industry and the Govt.

15.2.5 At the unit level, the commitment should be on speed and quality, to reduce costs, product mix choices based on core competence, upgradation of skills of work force, strategic investment in technology, sound management of the supply chain, strategic partnership and investment in R&D upto atleast 4-5 percent of sales. At the industry level, areas to be concentrated are building up a support system for textile related skill upgradation programmes, constant environmental scanning for designing suitable industry policies, spreading the message of good manufacturing practices, establishment of technology clearing houses, maintenance of constant flow of goods and information among the players etc. At the Govt. level, the policies may concentrate on education of workforce, removal of structural impediments, management of WTO system including anti-dumping and anti-subsidy enquiries, reducing restrictions on the availability of imported and domestic inputs, removal of inter-sectoral policy distortions, reduction of the cost of inputs through measures

which are equitable and consistent with the WTO, encouragement of investment, development of infrastructure including roads, ports and communication and encouragement and development of R&D efforts.

15.2.6 The industry's ability to capitalise on the growing opportunities will depend significantly on active participation and co-operation in production and trade both by India and its trading partners. This is particularly important in the backdrop of India's role as a logical supplier of textiles, since its comparative cost and basic raw material advantages in textiles cannot be underestimated in the emerging international trading system of free movement of goods and services.

15.3 **Policy approach**

15.3.1 India with its economy now opened up internally and externally has rightly adopted export competitiveness as a matter of top priority, all the more so in respect of textile products. International trade in textiles not only involves trade as such but also efficient management of the WTO system. It is high time India took effective steps in a dynamic mode so that the opportunities are not missed or turn into threats. It is to be especially noted that the textile and to some extent garment industry gradually vacating the western developed countries and moving into the less developed economies was the predominant trend in the 1980s and early 1990s. In the last four to five years, however, owing primarily to the employment impact of the shifting textile industry, the developed countries have begun to innovate better and WTO-consistent measures to stem this shift. Through the creation of trade blocks, and OPT arrangements with their neighbouring low labour-cost economies, the two largest world markets (USA and EU) are attempting to close themselves to Asian textiles and clothing exports.

15.3.2 The Ministry of Textiles, in consultation and co-operation with others concerned, should prepare an export road map for the industry setting out the goals, barriers to achievement and how industry can help the govt. design appropriate policies. Benchmarks for strategic export sectors may also be developed.

15.3.3 A national export strategy has to be evolved in a time-bound manner by appointing a Task Force in the Ministry of Textiles including industry representatives, financial institutions, academicians, other ministries and the State Govts. It should cover areas such as export finance; liberalisation of residual controls; single-window inter-departmental export assistance centres; strong partnership between the public and the private sectors; strengthening technology base; human resource development; sustainable development; funding-mission oriented research in universities; with emphasis on information & communication; flexible manufacturing and environmental protection; trade adjustment assistance to export-hit industries to regain competitiveness through diagnostic studies; market access initiatives such as anti-

dumping advocacy network and managing the WTO; and, establishing a National Technical Information Service relating to the textile sector.

15.3.4 It is recommended that a national information infrastructure plan for the 21st century may be evolved, a vision paper published and an International Trade Advisory Council formed with strong private sector representation.

15.3.5 A system should be installed by which an appropriate wing of the Ministry is able to regularly monitor the export production oriented situation through a set of indicators, such as the level of employment, productivity, corporate profits, investment in technology, WTO matters, investment in work force, and average age of capital assets. An exhaustive list of such indicators should be prepared, and for this purpose a Task Force can be appointed with an appropriate mandate. The strategy for export production should take into consideration the needs of small business, either trading or manufacturing.

15.3.6 Our marketing strategy should be to cover all the components of marketing mix-product, price, promotion and place. As regards the product function, all the inputs, labour, finance and management play a very crucial role. While stressing the raw material advantage in cotton, that in wool, silk and jute should be strengthened and that in man-mades, more particularly high tensile, special fibres/yarns including technical fibres/yarns should be created further. The Technology Mission on Cotton which is a case in point should be implemented immediately and effectively. Other important measures necessary to be taken on priority include -

- (a) Adequate investment in technology in the weaving and processing sectors;
- (b) Improvement in cotton yield and quality;
- (c) Investment in research technology at the farm and ginning level;
- (d) Convergence of the efforts of all agencies involved in the administration and promotion of cotton textiles under a single body to bring more focus;
- (e) Setting up training institutes to train the excess textile labour in forward operations like made-ups and garmenting;
- (f) Encouragement to the exports from the decentralised powerloom sector, recognition of co-operative societies and registered associations of small units as manufacturer exporter and not as merchant exporters;
- (g) Availability of export credit at close to the LIBOR rate.

15.4 **Current export scenario**

15.4.1 The Indian textile and garment industry enjoys a very significant place in the national economy and contributes substantially to India's export earnings. At present, the exports of textiles (including handicrafts, jute, and coir) account for over 35 percent of the total exports from India and are the largest net foreign exchange earner

for the country as the import content in the textile goods is very little as compared to our other major export products.

15.4.2 During the last fourteen years since the enunciation of the Textile Policy of 1985, the textile exports have increased twentyfour fold in rupee terms and six fold in US dollar terms. The share of textiles in the country's overall exports has also increased from 19 percent to 37 percent.(Table-15.1).

15.4.3 The share of India's textile exports in world trade has grown from 1.8 percent in 1980 to 2.2 percent in 1990 and 3.11 percent in 1997. This is to be contrasted with the 0.6 percent share of India in world trade of all commodities. But the growth in the global market share of Indian textiles does not compare favourably with the other major Asian countries, with the exception of the relatively matured developed countries like Korea, Taiwan and Hong Kong. Thus, while India's share in the global textile trade grew from 1.8 percent in 1980 to 3.11 percent in 1997, during the same period, Indonesia's grew from 0.2 percent to 2.1 percent, Thailand's from 0.6 percent to 1.9 percent and Pakistan's from 1 percent to 2.01 percent.

15.5 **Thrust products and relevant markets**

15.5.1 It is seen that of the total textile exports, those of readymade garments, cotton textiles and man made textiles have a major share. For example, during 1997-98, they represented respectively 40 percent, 32 percent and 8 percent of the textile exports. Hence, a study of the existing and emerging markets for these three segments is crucial.

15.5.2 Taking garments first, the present trend is that close to 60 percent of the exports are accounted for by quota exports. Again, there is a heavy product concentration and fibre concentration (cotton RMGs). The concept of emerging markets is to be understood in the context of the removal of quota restrictions. It cannot be anticipated that such removal would immediately and immensely benefit this sector. The reason is that such a removal will increase both national and international competition and this being at a possibly higher level than the demand may mean lower volumes and values. To prevent this from happening and to avail of the opportunities of dismantling of restrictions, a concerted action plan has to be drawn up.

15.5.3 One such action plan involves the identification of thrust products and markets. The following products are identified as thrust garment items with a view to reducing product group orientation and increase in unit value realisation.

- Denim jeans
- Denim shirts
- Denim jackets

- High value dress/business shirts
- Worsted wool and poly-wool suits and separates
- Waterproof jackets and outerwear using synthetics and other shell fabrics
- LYCRA based leisure wear
- Jacquard and fancy knitwear
- Higher gsm knit athletic wear
- Women's body-wear including lingerie
- Trousers
- Synthetic semi-structured and structured garments
- Kids and teens wear
- Corporate uniforms
- Institutional and industrial garments.

15.5.4 As regards the thrust market for garments, Germany, Japan and USA are three large markets with import growth rates higher than the world growth rates. Taking 100 as the base for China, our relative share is a meagre 33 percent (for Germany), 18 percent (for USA) and 3 percent (for Japan). In all these three markets, there is a substantial scope for improvement. The UK and Italy are two markets where India has a greater presence than China. However, India needs to consolidate its position in the UK as the difference is only marginal. Italy is the only market showing higher growth rate than the world average growth rate, where India's penetration is more than China.

15.5.5 There are five major non-quota markets for Indian garments which account for 55 percent of the volume and 61 percent of the value of exports to all non-quota countries. These five markets are Japan, UAE, Switzerland, Australia and the CIS countries. The non-quota status of Japan makes our performance even more dismal. Indian merchandise has a low quality perception in Japan, generally due to a poor national brand image. It is imperative to understand customer requirements in Japan which are totally different from the western markets and substantially improve quality and service levels to realise the enormous potential in Japan. Similar strategies have to be developed for each of the non-quota markets.

15.5.6 Based on India's export performance in the recent years and the trends in the world trade of textiles, the following markets and products have been identified for cotton textiles :

Existing markets: European Union, USA, Hong Kong, Bangladesh, China, Japan, South Korea, Taiwan, U.A.E., etc.

Emerging markets: Mexico, Poland, Hungary, Czech Republic, and the North African markets like Tunisia, Morocco, etc.

Thrust Products:

(a) **Yarn**

Count range 8s-25s and 25s-30s, as world trade is dominated by these ranges.

(b) **Fabrics**

Processed fabrics especially >200 gsm category which include denim, twill, plain & woven dyed fabrics.

100-200 gsm category dyed printed, dyed sheeting and dyed and yarn dyed sheeting.

Apparel fabrics particularly for bottom wear and work-wear fabrics.

(c) **Made-ups**

Bed linen / Kitchen linen/ Toilet linen / Table linen

Terry toweling products.

15.5.7 Based on India's performance in the recent years and the trend in world trade in textiles, the following markets and products have been identified in respect of man-made textiles :

(a) **Man-made yarn**

Existing markets : Turkey, Italy, Spain, Belgium, UK, Bangladesh, Portugal, Saudi Arabia, Germany, France, South Africa, Ireland etc.

Emerging markets : Syria, Brazil, Egypt, Israel etc.

Thrust products : Polyester-Viscose, Polyester Texturised, Polyester-Cotton, Viscose Special, Polyester Special, POY, Rayon Tyre Yarn/Fab., Acrylic Special etc.

(b) **Fabrics**

Existing markets : UAE, UK, Italy, Saudi Arabia, Mauritius, Singapore, Kuwait Spain, USA, Belgium, Oman, Sri Lanka etc.

Emerging markets : Syria, South Africa, Togoland, Israel etc.

Thrust products : Polyester Filament, Polyester-Viscose, Polyester-Cotton, Polyester Special, Polyester-Wool, Viscose, Nylon Filament etc.

15.5.8 **Technical textiles**

Though India has a negligible presence both in the production and consumption of such high value speciality textiles, there exists a vast potential, consistently growing in the USA, Canada, EU, Japan and Latin America. With a strong man-made textile fibre and yarn base, India is now in a position to exploit this potential to its advantage and capture a share of this market. The Committee recommends a target

share of about 10 percent in the growing international technical textile market, apart from a similar share in the domestic textile consumption by the year 2010.

15.6 Export promotion schemes

15.6.1 In order to spur growth in export activity, each exporting country operates scheme(s) which is/are intended to overcome the handicaps from which the export production suffers. However, the benefit given under these schemes should be compatible with the WTO regulations on subsidies, as otherwise they are treated as subsidy schemes and the exports enjoying the benefit may suffer from imposition of countervailing duty in the country of import.

15.6.2 However, the developing member countries of the WTO, including India, are allowed to grant export subsidy, but are required to phase those out within an eight year period, preferably in a progressive manner. However, a developing member country shall not increase the level of its export subsidies, and shall eliminate them within a period shorter than that indicated above when the use of such export subsidies is inconsistent with its development needs. If a developing member country deems it necessary to apply such subsidies beyond the 8 year period, it shall, not later than one year before the expiry of this period, enter into consultation with the specified Committee of the WTO which will determine whether an extension of this period is justified, after examining all the relevant economic, financial and development needs of the developing member country in question. If that Committee determines that the extension is justified, the developing member country concerned shall hold annual consultations with the Committee to determine the necessity of maintaining the subsidies. If no such determination is made by the Committee, the developing member country shall phase out the remaining export subsidies within two years from the end of the last authorised period. (Uruguay Round Final Act).

15.6.3 The WTO provisions on subsidies etc are drafted based on the principle that the subsidies are granted to attain various policy objectives like development of new industries, encouragement to new investment, backward area development, export development etc. Such subsidies could, in practice, distort conditions of competition in international trade. The Agreement on Subsidies and Countervailing Measures (SCM) is to prohibit or restrict the use of subsidies that have trade distorting effects. Subsidies are defined as a benefit accruing to the industry by way of direct transfer from the govt. funds or govt. guarantees of payments of loans or revenue forgone but for the subsidies or provision of goods or services. As per the scheme, the SCM envisages two types of subsidies in the industrial sector –prohibited and permissible subsidies. Prohibited subsidies are export subsidies, i.e., direct subsidies based on performance, currency retention schemes involving a bonus on exports, provision of subsidised inputs for use in the production of export goods, exemption from direct taxes (e.g. tax on profits related to exports), exemption from or remission of indirect taxes (e.g. VAT) on exported products in excess of those borne by these products

when sold for domestic consumption, remission or drawback of import charges (e.g. tariffs and other duties) in excess of those levied on inputs consumed in the production of exported goods, export guarantee programmes at premium rates inadequate to cover the long-term costs of the programme, export credits at rates below the Govt.'s cost of borrowing, where they are used to secure a material advantage in export credit terms and subsidies that are contingent on the use of domestic over imported goods. Generally, the remaining subsidies are in principle permitted. For least developed and developing countries, however, there is a special and differential treatment (Art 27) and India, being a designated "other developing country" (Annex VII, para 1(b) of that agreement), has an advantage here. It needs to prohibit its export subsidy only after its per capita national income has reached US\$ 1000¹. However, even while the per capita income is below the US\$ 1000 level, the export subsidy on the product that attains export-competitiveness² will have to be phased out. At the moment, save gems and jewellery, no other product being exported from India is export competitive according to the WTO definition. Having mentioned this, it should be noted that the members affected (importing) due to such export subsidies on products originating from the developing countries are entitled to levy a "countervailing duty" on such products at the time of entry into their commercial territories. This is allowed in order to eliminate the unfair advantage that the imported product will have over the domestically produced like product owing to the extension of export subsidy in its home market in respect of the former.

15.6.4 In India, schemes like the DEPB, DEEC, EPCG, EOU and EPZ and 80HHC and drawback are considered export promotion schemes generally. Except perhaps the EPCG, the other schemes as such are sector neutral. Whether these schemes are subsidies and if so, how to categorise them in terms of the SCM provisions, remains a matter of interpretation, especially in the hands of the aggrieved parties (countries) under the WTO framework.

15.6.5 Thus, the EU has, in recent investigations, started treating these schemes as subsidy schemes and applied countervailing duties on some of the export items. It is likely that others will also start taking action on these lines depending upon the perception of such countries. Interpretation of the present SCM agreement still remains a green field area and a textile-specific remedy is not possible. The problem could be tackled in two possible manners. Firstly, a comparative study of the incidence of export promotion measures of some leading exporting countries, essentially of textile products may be undertaken to arrive at a conclusion about their structuring, particularly with reference to avoiding the ambit of the SCM. Secondly, the case laws of the previous provisions to the WTO should also be studied. This can be assigned to a Task Force to be completed in a time frame.

¹ India's per capita GNP, according to the World Bank, was US\$ 390 in 1997.

² Export-competitiveness in a product is attained when that product's share in the world trade of that product exceeds 3.25 percent for two consecutive years.

15.6.6 Operationally, the drawback scheme receives critical comments from the industry when the rates are reduced. The rates are normally finalised on the basis of the cost structure of the textile items involved during a period just before and after the passage of the budget. The main contention of the industry is that the drawback rates are normally built in their cost structure, based upon which the export rates are quoted by them in advance by about three months. If during this period, the drawback is reduced, either the exporters have to bear the burden or if that is not possible, the orders have to be cancelled. The latter might result in loss of customers or consequential damages. A via media will have to be found out by which within the legal framework of fixation of drawback rates, exporters are protected against the damages as mentioned above.

15.6.7 Another problem relates to the prompt payment of drawback claims which, if delayed, constitutes a definite cost to the exporter by way of a transactional cost. According to a sample survey conducted by the EXIM bank, the transactional costs are the highest for the textile industry (15 percent of export revenue). The maximum number of days taken for refunds (including drawback presumably) is 335 days. The amounts of excise duty etc. collected from the textile producers even if ploughed back as the refund of drawback and deferred payment implies a cost to the exporters both by way of interest till the time of the receipt of the draw back and of resources employed to collect the refund.

15.6.8 At present, only excise and customs duties are eligible for drawback, while the other levies are not. A solution will have to be found for devising a drawback system which is WTO-consistent. Considering the current environment, it is imperative that the Indian export promotion schemes are made compatible with the WTO regulations on subsidies. It is understood that the DGFT and the Union Commerce Ministry had taken up this exercise, but abandoned it subsequently. The Committee recommends that it is essential to carry out such a study to make our export promotion schemes WTO-consistent.

15.7 **Export promotion measures**

15.7.1 The textile industry in India, whether cotton, man made, wool etc., has a large and dominant decentralised sector. Many of these units are unable to participate in the export trade. The units do not often have a healthy tie up arrangement with merchandising companies on a continued basis. In order to overcome this handicap, it is recommended that co-operative/group exporting activity may be encouraged in which the participating units combine to produce for export and get the consequential benefits available under the export promotion schemes. These units may also be required to observe a code of conduct.

15.7.2 The above referred group will work under the supervision and control of a marketing-combine authority. The Export Promotion Council (EPC) concerned will

promote the combine during exhibitions, buyer-seller meets and through special advertisement campaigns. Group members will sign a code of conduct while joining it. This is intended to ensure that each member acts in accordance with the discipline of the combine.

15.7.3 The EPC will supply inputs on fashion, colours, trends, etc., so that the export product meets the latest requirements of the buyers in the overseas markets.

15.7.4 Other possible institutional arrangements for export promotion are as follows:

(a) The channel creation

Basically, it is an alliance between the unorganised and organised sectors. Under this alliance, all manufacturing activities will be managed by the unorganised sector but the channel creators (organised sector) would co-ordinate production, in addition to product development, production planning and control, marketing, sales, distribution and customer service.

(b) Cluster formation

This concept brings together the companies and institutions located in a particular geographic area and having interest in identical product lines. This not only includes producers of goods, but also raw material suppliers, machinery suppliers, associations, training and research centres.

Advantages of such formation:

- Competition to win customers
- Increased pace of innovation
- Stimulation of new businesses which expand the cluster
- Informal relationships are likely to be more effective than formal alliances
- Local rivalry and peer pressure lead to motivation.

Consequently, such clusters could further be extended to 'location-specific branding' such as :

Cotton yarn – Coimbatore

Powerloom fabric – Bhiwandi, Ichalkaranji and Salem

Home textiles – Karur

Knitted woollens – Ludhiana

Floor rugs – Panipat

Synthetic dress materials – Surat

Knitted apparels and fabrics – Tirupur

15.7.5 In short, in the production chain spanning from yarn to apparels, it is easy to identify two adjacent stages for such combination. The most important ones appear to be the yarn-fabric and fabric processing –garment. These sequential stages represent conflicting export interests and the incompatibility arises from their structural differentiation. Mutual distrust, cultural factors and commercial factors seem to come in the way of any such co-operative model. As they pursue their own valid commercial agenda, the Govt. can at best perform an honest intermediary role. Perhaps such a role can be better played by the industry associations actively supported by the Govt. In a nut shell, the Govt. should encourage new institutional arrangements for synergising the efforts of the individual subsectors of the textile industry to ensure optimal benefits to the participants concerned.

15.7.6 One of the areas in which Indian exports are lagging behind is delivery schedule which is considerably longer than that of our major competitors. The reason for the same are the long drawn out procedures, documentation required under the EXIM policy, the infrastructural problems like bad transport, roads and communication network, all of which are also contributing towards increasing delivery period. Therefore, it is recommended that import and export procedures should be simplified enabling the importer/exporter to reduce delivery time. Infrastructural problems like transport, communications, port handling etc. which, though sector neutral, also need to be improved to provide an impetus to export growth.

15.8 **Awareness about WTO**

15.8.1 There is almost total dearth of literature relating to the WTO in general and, in particular, literature about the various implications of the WTO for the textile sector. Even the Ministry of Commerce does not seem to have very much on this to offer. This is a very serious problem and warrants immediate attention. The Ministry of Textiles must launch a massive campaign to educate all concerned in the textile sector and create the necessary awareness. The print, audio, and video media can all be usefully utilised for the purpose. Thousands of orientation camps may have to be organised at different levels to spread the message and stress the urgency. Supportive printed material will need to be prepared in large numbers and in different languages for wider circulation. Instead of publishing thick volumes, it may be more useful to bring out segmental and thematic brochures in simple and easily understandable (local) language. Instead of leaving the details to be attended to at different levels, it will be advisable to get the whole package of the 'campaign material' to be centrally prepared so as to ensure authenticity of statements, completeness of information, and uniformity of presentation. Translations into regional local languages shall be made so that the campaign can cover the largest audience possible.

15.8.2 Liberalisation, especially in the backdrop of globalisation, will have strident implications for factors like quality, price, productivity, timeliness, discipline, (open

market) competitiveness, commercial intelligence, market awareness, etc. Unless all the producers, manufacturers, merchants, exporters, workers, and others understand the full implications of the major changes that are taking place, the textiles sector may not be able to bring itself to face up to the daunting challenges that lie ahead, at least not in the lead time left for us. Hence the need to widen the horizon of the campaign.

15.8.3 The task being so challenging, its scope being so wide and complex, the skills required being so professional, and the time available being so short, it may not be a worthwhile proposition to deal with this campaign as a governmental departmental exercise. It will need to be organised on a mission mode engaging preferably a Professional Consultant Group to take operational charge. There can be an inter-segmental Advisory Group to oversee the operationalisation of the campaign.

15.9 Non-tariff barriers

15.9.1 In the current global trade environment, the developed countries are increasingly resorting to non-tariff barriers (NTB) like anti-dumping, rules of origin, anti-subsidy measures etc. Technically, they are well within their rights to invoke these measures as per the relevant agreements and provisions. However, as per the preamble to the WTO agreement, such measures are a hindrance to the free flow of trade, more so when their hidden agenda is to protect their industry. Taking a cue from those countries, some of the developing countries too have started taking recourse to these measures to safeguard the interests of their industry. The prominent examples are the repeated anti-dumping measures against Indian exports of cotton bed-linen and unbleached cotton fabrics initiated by the European Union.

15.9.2 However, such tactics are likely to intensify in future, and it is high time that India should take effective steps to counter these measures. For this, the Export Promotion Councils (EPCs) should be the primary institutional mechanism to defend the industry and export trade against such investigations as all the exporters concerned are their members and are expected to observe a code of conduct laid down by them. The AEPC and TEXPROCIL should be the nodal EPCs for creating special cells under them for prompt and effective handling of such situations. Other related EPCs could be grouped around them on a contributory basis. These cells should be under the charge of an economist who has adequate research experience, has been exposed to international trade practices, is capable of analyzing the developments affecting the trade and industry, including the financial implications, and has knowledge of the WTO regulations on non-tariff barriers including anti dumping, anti subsidy enquiries etc. The cell should be adequately equipped to handle structured data, information and present those cogently in the required format.

15.9.3 Creation of a cadre of Indian lawyers and cost accountants who may specialise in this area of work should be thought of. This will eliminate the dependence on foreign lawyers and professionals for this work. The Indian industry

will thus have professional advice available right at hand in the country at a reduced cost. The Indian Institute of Foreign Trade, and other institutions concerned, including the Institute of Cost and Works Accountants and the law institutes may be involved in creating such a cadre of professionals.

15.9.4 In any such enquiry, the most important aspect is the causation and extent of injury to the domestic industry in the importing country. The cell in the EPC should acquire capability to prepare the case to disprove that. Further, it should also be capable of guiding the exporters in preparing the information and data as required under the rules. Unless this work is handled promptly and professionally, there is every chance of the Indian exporters losing their case and of Indian exports being subjected to export-retardant countervailing/anti-dumping duties, time and again.

15.9.5 The govt. may also take appropriate steps to mobilise support in the international fora against the different kinds of non-tariff barriers repeatedly imposed by the WTO members, especially the developed countries on the developing countries.

15.9.6 Another threat posed to the domestic industry is by the rising imports, especially from the East Asian countries, which are able to sell their textiles at a low price. The Indian Govt. is under commitment to the WTO to open up the markets in India by removing restrictions and reducing import tariffs. The Govt. has already taken steps in that direction and consequently, the imports of textiles have been increasing. While this is a natural consequence of greater access to Indian markets as per our international obligations, recourse to WTO-consistent measures should be taken with promptness, wherever warranted, as is done by the developed countries.

15.9.7 At the sametime, the domestic textile industry has to be prepared to meet this threat, as hitherto it has enjoyed a protected market thanks to the import restrictions and high import tariffs. However, the industry needs also to be prepared to protect itself against the onslaught of low price imports. As regards an institutional mechanism to deal with that, each industry association or apex organisation should create an anti-dumping cell in its organisation. The cell may be structured on the lines as has been proposed for similar activities concerning exports from India. In this connection, the examples of the European Organisations like Euro Cotton, Euro Steel and the US organisation of CITA are worth emulating.

The functions of this cell can be as follows:

- compile data on imports, country wise including items imported, their quantity, unit price value etc.
- identify similar or like items produced in India, to which such imports pose a threat and their manufacturers and study the impact of the imports on the Indian industry.

- Prepare an objective analysis of the injury or threat of injury caused or likely to be caused to the Indian industry.
- Collect data on the cost of production of import items in the producing countries, their domestic market price, the relationship between the cost of production and export price, including if the export price has an element of subsidy in it.
- If the analysis proves that there is a case of dumping, subsidy etc., it should prepare the case in the prescribed format for taking it up with the authorities concerned in the Govt. of India, so that enquiry against the country involved is initiated for dumping, giving subsidy etc. to its exporters.
- Assist exporters to prepare relevant export documents to meet the challenges of the anti-dumping investigations.
- Assist exporters in understanding the changes in the Rules of Origin and advise steps to be taken to overcome the resultant problems, if any.
- Develop domestic legal expertise to assist the exporters in fighting anti-dumping/ anti-subsidy cases.
- Provide education/regular training to the exporters/related agencies in various aspects of the WTO agreements covering anti-dumping/anti-subsidy regulations.
- Provide training to the exporters in international business practices and documentation with a view to facilitate response to questionnaires in anti-dumping/anti-subsidy actions.

15.9.8 The Govt. should give suitable financial assistance to these organisations, including the EPCs' to set up such cells as the required expenditure on their staff and equipment may be too high for those organisations to bear on their own.

15.9.9 The industry associations and the EPCs should endeavour to develop a dialogue with their counterparts in the major exporting and importing countries on a regular basis so that information on the developments in the industry and trade is exchanged. This helps to build up goodwill among them to take corrective action wherever warranted, which may then eliminate the chances of complaints against each other and avoid recourse to dumping/ subsidy investigation.

15.10 **Bilateral trade agreements**

15.10.1 Some of the industry associations have recommended to the Committee that the existing bilateral agreements may be critically examined and bilateral negotiation may be opened up, especially with the USA and EU for getting better bilateral adjustments by way of advancing market access/quota removal dates by trade-offs, either within the textile sector or if possible in the other sectors also.

15.10.2 The question of the bilateral agreements is linked with the other agreements of the WTO dispensation and the obligations and rights accruing to India therefrom. The balance of payment question has been under discussion between India and its principal trading partners. The latter expect India to come out of the cover of quantitative restrictions (QRs) sooner than later, on the plea that the BOP cover available to India is quite comfortable without necessitating continuance of QRs. Removal of such cover would expose textile products of importance to India. At the same time, the bilateral agreements and the ATC enable the developed economies to maintain the quota regime resulting in an asymmetric obligation with regard to textiles. One possible answer to this grievance of India is that all these are WTO consistent and the removal of QRs are to be on an MFN basis whereas the quota regime is essentially bilateral. To that extent the quota maintaining countries are likely to be benefited by the removal of QRs. and India does not have in its possession any leverage.

15.10.3 Under these circumstances, reopening of the bilateral negotiations, if to be conducted, should be cautious of the relative benefits accruing to India. Indications are already available that a new millenium round of talks is around the corner. An authoritative version of the preparedness of the quota maintaining countries to dismantle the quotas is yet to be available. Insistence of these countries to extend the deadline of 2004 is quite possible notwithstanding the provision of the ATC to the contrary.

15.10.4 The EPCs have already been demanding for the earlier integration of some commodities of interest to them. These demands are essentially sectoral. No consensus is forthcoming either from the exporters of different textile products or from the exporters and the manufactures of textile products. Needless to say, when an earlier integration is sought, market access will have to be offered either in textile products or in any other products of importance to the US or EU. When the latter products of non-textile nature are involved, the domestic sensitivity has also to be reckoned.

15.10.5 All these underline the fact that a decision will have to be taken as to whether the bilateral negotiations have to be reopened at all and thereafter, a wish list and an offer list will have to be prepared. These can result only after an intense, intra-and inter-industry dialogue. The Committee, therefore, recommends that a Task Force may be appointed to study the feasibility and desirability of reopening the bilateral negotiations and to draw up a negotiating strategy.

15.11 **Regional trade blocks**

15.11.1 Formation of trade blocks like NAFTA and expansion of the European Union eastwards will definitely have negative impact on Indian exports to two of its largest markets, i.e., USA and Europe.

15.11.2 NAFTA: the American textile industry, feeling threatened by the sudden increase of imports from Asia, developed the QR (Quick Response) concept in the early 1980s. Also, in an attempt to maintain international competitiveness and to effectively utilise the strength of the division of labour, the US created a bonded processing area called Maquiladora along the Mexican border. However, if benefits can be granted to anyone who fulfils a particular set of arrangements, there is no need to have a regional block. Thus, the concept of NAFTA was born and a unique country of origin definition called 'Yarn Forward' was created. The treatment of goods produced within the NAFTA region versus goods produced outside the NAFTA region was clearly differentiated. Consequently, US imports from Mexico have risen at the expense of the Asian imports. Since NAFTA came into effect, apparel imports from Mexico have increased dramatically, surpassing imports from China which was hitherto the leader.

15.11.3 European Union: (a) With the introduction of the Euro, the cost of textile trade within the region will decrease because of a reduction in the charges for handling, less risk in currency conversion, easier paper work etc. Thus, the competitiveness of goods within the region is certain to increase. (b) With the induction of new countries into the EU, a large economic region of more than 20 countries, 400 mn. population and almost 8 trillion US \$ GDP will be created. This will mean that the OPT, a pillar in supporting EU's textile trade, will transform it into a single entity. Undoubtedly, this will lead to the development of trade within the region and greater competitiveness against goods originating from outside the region.

15.11.4 In the light of the above, it is quite clear that the formation of trade blocks boost the intra regional trade to a great extent. However, the Asian countries (including members of SAARC) may find it difficult to form such blocks, as the problem of diversity in terms of economic structure, political system, languages etc. may pose problems. Furthermore, the absence of strong regulation such as 'Yarn Forward' or 'OPT' and the absence of a strong central currency such as the Euro will restrict the development of the intra-regional trade within the SAARC, considerably.

15.11.5 Thus, despite the mutual promise of globalisation of trade as affirmed in the WTO agreement, more and more countries are inclined to form regional trading blocs with a view to promoting the region's economic development, acquiring better stature in the international organisation, overcoming handicaps from which the region suffers when exposed to global environment etc. It is interesting to note that even the WTO provides for such blocks, subject to certain conditions.

15.11.6 The formation of the SAARC as a regional trading block and the subsequent implementation of the proposed tariff agreement called the SAPTA are the only possibilities likely to happen in the near future as far as India is concerned. However, it is commonly perceived that the formation of a customs union among the SAARC members rather than the creation of a trade block like the EU / NAFTA will be more

effective and a stimulant for Indian exports to expand in the region. Care must, however, be taken to protect the Indian textile industry against the possible diversion of exports from a third country (non-SAARC country) to India.

15.12 **100 percent EOU and EPZ units**

15.12.1 The 100 percent EOUs and EPZs were conceived and have been in operation with a view to attracting investments for 100 percent export production by offering certain benefits, viz. license-free/tax-free access to inputs, tax-free export revenues, assured physical infrastructure, special labour environment and some benefits from the state govt. In return, these units were expected to carry out export obligations. The experience about the working of EOUs and units in the EPZs has not been satisfactory as those having such units complain of various difficulties, while the authorities controlling those complain of leakage and misuse of facilities. The changes that have been introduced in the EXIM policy and the types of facilities provided to the export trade in general have rendered the existence of the EOUs irrelevant, according to many entrepreneurs. While conceptually the schemes are highly attractive, their actual working has rendered many of them more and more unacceptable. The result is a growing request for de-bonding.

15.12.2 However, the performance of the EOUs in the cotton yarn sector has been excellent, which is evident from the two fold increase in the export of cotton yarn during the last 3 years from 110 mn. kg. in 1995 to 216 mn. kg. in 1998. However, in respect of garments, the result is of a mixed kind. This may be because of the disaggregated nature of operations from the input stage to the shipping stage being incompatible with the bonding restrictions.

15.12.3 However, certain steps on the simplification of the policies and procedures concerning EOUs are called for and they are listed below :

- a) Liberalisation and simplification of bonding procedure in respect of 100 percent EOUs. (Ref: CBEC Circular No.88/CBEC, dated 2nd Dec., '98).
- b) Referring to the provisions of liberalisation, it appears that the Central Excise/Customs physical controls are being relaxed to a large extent with immediate effect. As a result, permanent posting of the Central Excise personnel to supervise and control day to day activities of the EOUs will no longer be required.
- c) Under these circumstances, although cost recovery charges are liable to be borne by the EOU, it should no longer be at the same old rates, since the central excise personnel will not be deployed on a full shift basis of 365 days. In fact, in the present context, EOUs should be totally exempt from the 'cost recovery charges'. The cost of services of the Central Excise Dept. for any other DTA unit are borne by the tax payers.

Now that there are no special functions left to be performed by the Central Excise Dept. towards the EOUs, there is a justification for exempting the EOUs and bringing them on par with other DTA units as far as 'cost recovery charges' are concerned. It is, therefore, recommended that suitable guidelines should be issued in the matter.

15.12.4 The Committee recommends that the scheme of 100 percent EOU's and EP zones needs to be reviewed, in order to make such schemes effective in realising the underlying objectives.

15.13 Long term export strategy

15.13.1 Almost 80 percent of the total world exports of clothing are absorbed by ten countries, namely, USA, Germany, France, UK, Italy, Russia, Netherlands, Belgium, Japan and Hong Kong. Recently, China has also emerged both as an exporter and importer of textile items. Italy accounts for nearly 12 percent of the world trade in clothing.

15.13.2 International trade in textiles and clothing has always been fiercely competitive and has been subject to many protectionist measures. Fresh competition on the scene is from the emerging trading blocks like EC & NAFTA. Studies reveal that Mexico may become a serious competitor to India and other Asian countries because of tariff differences on imports which would be as high as 45 percent. Similarly, the EU is encouraging its associate members like Portugal and Hungary to increase the production of clothing and textiles. Further, many other non-tariff barriers as mentioned earlier are being increasingly adopted, which will curtail free trade in these items.

15.13.3 The world trade in textiles and clothing is presently undergoing a structural change. Some of the high cost economies are gradually vacating the manufacture of garments and textiles to lesser developed countries, mainly due to high labour costs. In fact, this pattern is beginning to emerge in the case of the highly developed Asian countries like Japan, South Korea and Taiwan also. Thus, an opportunity is now available to India to fill in this vacuum.

15.13.4 Major buyers like the US and the EU countries are establishing production bases in some of the low wage countries like Mexico and Caribbean islands which are also members of the NAFTA and will thus enjoy trade preferences. Germany has also started farming out garment making operations to the East European countries like Poland etc.

15.13.5 The pattern of competition in the international market is continuously changing. Recently, China, Indonesia, Turkey and Thailand have emerged as big suppliers of clothing to the international markets, displacing the well known Asian Tigers like Hong Kong, Singapore, South Korea and Taiwan. The Japanese have been

pouring in huge investments into the clothing industry of Thailand and Indonesia which has resulted in the upgradation of their products.

15.13.6 Structural changes of other kinds are also taking place in the west. The clothing industry in Italy which accounts for almost 12 percent of the world trade is switching over from a large scale integrated system to a decentralised system of production. In other western countries, a great deal of technological improvements have been introduced through automation of various operations. Labour costs are being trimmed. Therefore, unless and until developing countries also go for technological developments, the labour cost advantage for India and the other developing countries may be short lived.

15.13.7 Achievement of the objective of gaining a position among the top 5 textile exporting countries will require quantum jump in our textile exports. This type of quantum increase requires a well-planned strategy and special efforts.

15.13.8 The export thrust has to be on value added exports. The organised mill sector of the industry will have to play a key role in producing high value and defect free fabrics for export. However, since the share of the organised sector in the total cloth production is very less (5 percent), powerloom, knitting and handloom sectors will have to gear up to supplement the efforts of the organised sector.

15.13.9 For meeting the challenges of the international market place, the Indian clothing industry will have to change from catering to primarily low budget markets to high value added market segments. This will require a substantial upgradation of the production technology and processing facilities, design capabilities and marketing competence. The 'mantra' for the clothing segment ought to be high value, high quality and high-tech.

15.13.10 The govt. should organise 'display centres' in major metropolitan cities, which will show case the entire range of Indian textile products. The importers of textile items will have to only visit such centres to select the items for import without running all over the country for selecting the items best suited to their needs and requirement.

15.13.11 A four pronged strategy is required for realising the full export potential of the industry. This includes the following:

- a) Quality improvement (including ISO 9000 certification for the mills).
- b) Modernisation and upgradation of production facilities to meet the requirements of the international buyers.
- c) Change of the product mix and product diversification to suit the buyers' needs.

- d) Marketing tie-ups with global brand names and big buyers in different countries.

15.13.12 The industry including exporters will have to change their focus and take the initiative for changing product mix, developing new products or product features and developing new markets. This trend is already beginning to be perceived and in the year 1996, the share of exports to traditional markets like USA, EU, West Asia etc. has declined in percentage terms. While the share of the other markets is gradually increasing, they essentially comprise of South Korea, Japan, Hong Kong, Mauritius, Sri Lanka, Taiwan and Singapore.

15.13.13 According to a study done by the ITMF (1993), the ideal level of investment in R&D has been worked out at 7.5 percent of the total turnover each year, which will enable the mills to remain competitive. In India, very few mills invest in R. & D. Even in the best Indian mills, the amount of investment on R&D is less than 0.25 percent. This needs to be substantially increased to about 4-5 percent.

15.13.14 It is necessary to increase usage of information technology to imbibe the application of the latest generation computer integrated technology in order to secure an improvement in quality and productivity in an efficient manner, reduce time lags in response to orient production to the latest trends in the domestic and international markets, and develop design and colour graphics. Appropriate use of I-T, such as micro processor based equipments, control system and related technologies in different stages of the manufacturing process for production planning, quality and cost control as well as sales and inventory management, sales promotion facilitation through the internet and the use of E-Commerce to handle business transactions will not be a matter of choice, but a necessary imperative if one has to survive.

15.13.15 The govt. has set up 9 export promotion councils to provide impetus to export growth. However, most of the EPCs are busy with quota matters only. It is high time that the functioning of the EPCs is improved to focus more on promoting the exports of textile products by pro-actively providing necessary support to exporters in their export efforts. The reoriented role of the EPCs is discussed in the detail in the chapter on 'Administrative Setup'.

15.13.16 The key word in the years ahead is going to be strategic alliances to formulate winning strategies. A synergistic approach towards exports and domestic marketing is the need of the hour. In joint ventures, the level of commitment is much higher than in other kind of agreements like licensing, franchising, technical know-how transfer etc. In joint ventures three types of variations are likely : (1) Joint venture with a marketer/brand owner; (2) Joint venture with a manufacturer and (3) Joint venture with a manufacturer-cum-marketer/brand owner. As far as joint ventures and technical collaborations are concerned, it is necessary to keep the capital expenditure within limits vis-à-vis the level of technology, capacity, the target market etc. in order to retain the factor advantage of cheaper labour, while maintaining

quality and productivity. This is important so that ventures with high investment and interest burden with their possible failures do not dampen the spirit of the new entrepreneurs and investors. The route of joint ventures often moves the enterprises from an 'export marketing approach' to true 'international marketing approach'.

15.14 **Commercial intelligence**

15.14.1 It is eminently desirable and necessary in a market-driven, commerce-savvy trade environment to set up an institutional mechanism for 'commercial intelligence' to continuously scan the international business environment for providing necessary support to the exporters in terms of emerging markets, fashion/design trends, colour preferences, latest product developments etc. and also alert signals of impending crises in markets having a potential of dislocating exports, viz., South East Asian crisis in the past which played havoc with our cotton yarn exports.

15.14.2 In the emerging scenario, we will need to address fibrewise the following issues among others, to develop benchmarks and build thereupon:

- (i) (a) Which are our existing markets?
- (b) Can we hold on to them even when the quotas are gone?
- (c) If not, how to consolidate our hold on them?
- (d) How to add on new markets?
- (ii) (a) Who are our competitors?
- (b) Which are their markets?
- (c) How can we dent their markets?
- (d) How can we prevent their entry into our market areas?
- (iii) (a) What is the pattern of investments being made by our competitors?
- (b) What threats are they likely to give rise to for our external and domestic markets?
- (iv) (a) What are the likely legal fall-outs of the WTO regime?
- (b) How are our competitors preparing to exploit its strength and weaknesses?
- (c) What must we do to adequately equip ourselves equally to exploit the emerging opportunities?

Such a study will call for professional competence of a high order and an international network to gather relevant information/data. Obviously, a Professional Consultant Group with an international standing will need to be engaged.

15.14.3 It is understood that the Ministry of Textiles has set up an Economic Research and Market Intelligence Unit (ERMIU) with an objective to build up a comprehensive and reliable data base from all available sources for all users of the textile industry, to conduct need-based country-specific, sector-specific or fibre-specific studies, and to analyse and interpret data for timely forecast of trends in production, consumption, prices, fashion, designs etc., consistent with the international demands and requirements for improvement in competitiveness and sustained growth. The ERMIU is still at the nascent stage. The Professional Consultant Group can work in tandem with the ERMIU and design a system spelling out additional requirements in terms of manpower, software and hardware etc. for the ERMIU to continue the work of garnering, collating and disseminating commercial intelligence on 'on-going basis'.

15.15 **Promotion of 'Made in India' brand label**

15.15.1 Promotion of products is one of the important ingredients of a marketing mix. In this direction, one of the effective promotional strategies is brand promotion. It is useful to evaluate the present status of India with regard to this strategy. As regards garments, there is a product concentration, destination concentration and fibre concentration. Even the products cater to the low end of the market and despite satisfactory levels of utilisation of quotas, the unit value realisation is either stagnant or negative. Apart from the value issue, the service issues like quality and quick response and delivery leaves much to be desired. Presently, the market penetration of the Indian brands is quite minimal. Two main reasons can be cited. One, constraint of resources which are required for the creation and sustenance of brand loyalty and two, the perception about the quality of Indian goods among the consumers, in that India is not perceived as a producer of high value quality products. An emerging third phenomenon has also to be noted, which is that brand as a prime mover for purchase decision is slowly becoming less powerful. Though the Indian brands per se are not promoted, many garment makers have succeeded in contract production for branded products both for domestic consumption and exports.

15.15.2 As regards non-apparel products, the consumer products include home furnishings. Here again, the same considerations as above apply.

15.15.3 Apart from making quality products, for promoting branded products, issues like attractive packaging, mode of delivery (viz., containerised apparels on hangers) delivery schedules, quality etc. are important pre-requisites. As regards the quality issues, an important sine qua non is the modernisation of the weaving, processing and finishing facilities and upgradation of technology in the apparel sector by attracting large corporate investments after dereserving the sector. Made in India brand label will never be successful unless Indian manufacturers are able to produce top-class products accepted at the international level. India needs to be strong in production for making the 'India Brand' a success.

15.15.4 The Ministry of Commerce has set up a Brand Equity Fund with an announced corpus of Rs.500 crore to promote the Indian brands. But the response to this fund has not been encouraging. In the textile industry, only one application has been made under this fund. During interactive sessions with the Committee members, the industry representatives stated the lack of awareness about this fund as the main reason for the minimal response. Thus, it is important to create a concerted and sustained awareness about this fund. For this purpose, direct communications can be sent to textile companies who are concentrating on exports. The EPCs also need to play an active role in creating an awareness about this fund among its members.

15.15.5 As the textile and apparel industry constitutes a most important part of the Indian economy, the Committee recommends the setting up of a separate “Brand Equity Fund for Textile Industry” which may cover all its segments. Such a step will enable the textile industry to take more active interest in branding and brand promotion and thus increasing the impact of the fund.

15.15.6 In the case of sourcing of apparel from India, the image of the country (the country of origin image) does not affect in any manner such forays by such sourcing companies from different countries. However, to market products in other countries, considerable outlay will be required to overcome an adverse “country of origin image” which would be difficult for individual garment exporters. In view of this, it may be advisable to take up the advertisement and promotion of products from India which have strength, like blouses in EU, yarn dyed textiles in USA etc. so that the marketing of brands in such specific product categories would be very effective.

15.15.7 There are a number of technologies/designs available in India like ‘Chikan work’ etc. as well as places which have been identified with a certain form of distinctive/niche handicraft or art like Chanderi, Kanjivaram, Dharmavaram, etc. It is important for the Textile Ministry under the above proposed 'Brand Equity Fund' to identify such technologies, places and to protect the intellectual property rights thereof by taking appropriate steps in different countries. Only the Govt. can play a role in such matter, as individual companies are unlikely to invest in such efforts.

15.15.8 Patenting of processes, techniques and intangible aspects, as also place names (associated with specific products and image) etc. can only be done at the Govt. level by investing in research and documentation of such practices, processes, names etc. The Govt. should act speedily in the matter to ensure that some other country does not patent such technology etc.

15.15.9 There are also many dormant brands in niche segments whose manufacturing has been discontinued by the original ownership and the ownership of such brand can automatically open up doors to some established distribution channels. The said Brand Equity Fund should enable access to funds for buying/acquiring of such dormant brands.

15.15.10 The Indian market is going to be increasingly under pressure because of the onslaught of imports and the entry of multinational brands. It is important to strengthen the domestic brands by infusing necessary financial support for increased branding and brand promotion efforts.

15.15.11 A large number of small and medium enterprises cannot afford advertisement and promotional campaigns for their brands and it is possible that a certain consortium approach could be developed in financing such manufacturers for promoting certain proprietary techniques which belongs to the area etc. so that they all can benefit from the technology/design/patent.

15.15.12 The cost of promoting and sustaining Indian brands in developed markets like U.S. and Europe is very high. Therefore, initially the awareness about the Indian products which is available in the Gulf and the SAARC countries may be exploited. In fact, some of the Indian brands are well established in the Gulf markets and this has been done by the individual companies themselves. Efforts of these companies can be further strengthened with the help of the fund and seeing the success stories of these companies, other successful domestic brands can also ride piggy back.

15.15.13 Cyberspace opens up another major opportunity where brands in the cyberspace are becoming as important as the physical brands. The Textile Ministry can promote a “web based strategy” by which India’s brand equity can be enhanced by promoting detailed information about highly successful companies in India so that the prospective/interested buyers could use such sites and become aware of the technology, design and production capabilities of India.

15.15.14 International designers can be encouraged to make use of special Indian product categories and promote collections based on them so that the overall impact is favourable for some product categories. The expenditure in this regard should be also met from the Brand Equity Fund.

15.15.15 Promoting the Indian designer brands should be made part of the Brand Equity Fund and concessional terms may be offered to Indian designers to promote their haute couture on the Pret-e-Porter lines.

15.15.16 In the markets where international brands have currently not achieved strong foothold like South Africa and in favourable markets like Latin America and West Asia, production-based brand promotion efforts have to be undertaken and part of the said Fund has to be allocated for this apart from high efforts in traditional consumption markets like the USA and the EU. Since the image of the retail store is often helpful in promoting brands, close tie-up and promotions need to be launched at the leading department stores and stores chains in the world.

15.15.17 It is also important to set up a “National Market Intelligence and Fashion Product Development Centre” under the aegis of the NIFT in order to promote higher

level of activity and linkage between research, design development, manufacturing and brand promotion. This centre may also purchase design inputs for identified markets and disseminate that information to the industry. Exporters from specific segments of the textile industry should pro-actively associate with the NIFT in the process of selections of designs/designers from overseas.

15.15.18 In order to address the issues relating to the 'Made in India' label and Brand Equity Fund, the Committee recommends that a Task Force may be constituted by the Ministry of Textiles comprising of the Textile Commissioner, representatives of the NIFT, exporters from different segments of the textile industry, Export Promotion Councils etc. to work out the modalities and action plan for setting up a separate Brand Equity Fund for Indian textiles for promoting the 'Made in India' brand aggressively.

CHAPTER-16

FINANCING ARRANGEMENTS

16.1 Introduction

The existing financing arrangements for textiles consist of the formal sector such as commercial banks, refinance institutions, co-operative banks and all India financial institutions (AIFIs), state level financial institutions and informal sector such as private money lenders, thrift societies and chit funds. The Committee is concerned with the formal sector, i.e., banking sector only. The banking sector is governed by RBI guidelines and credit policies and has well defined set of norms and appraisal systems for assessing the viability of loan proposals even for working capital purposes. The rate of interest, margin requirements etc. are also specified by banks from time to time. The working capital requirements are generally met by commercial banks, co-operative banks etc. whereas term loans for fixed capital requirements are extended mostly by AIFIs, SFIs, commercial banks, and refinance institutions.

16.2 Current status

16.2.1 The flow of total bank credit to textile industry as a ratio of total bank credit to industrial sector has remained more or less at around 13 percent during the last about 6 – 7 years. However, the growth of credit in textiles has been erratic in as much as the growth rate varied from 4.24 percent to 28.35 percent in the 7 years period covering July, 1991 to June, 1998. In fact, the growth in credit to textile industry registered an all time high of 28.35 percent during the period ending March, 1995. Thereafter, the growth decelerated to 15.26 percent by end March, 1998. The extent of credit to textile industry during the above period has been in the range of Rs.8,322 crore to Rs.21,071 crore. (Table-16.1).

16.2.2 The flow of bank finance was, however, directed more towards meeting the working capital requirements of the industry as working capital finance accounted for more than 83 percent of the bank credit to the textile industry. The long term capital or fixed capital requirements are largely met by AIFIs and SFIs. The trend in sanctions and disbursements from AIFIs to textiles indicates that the share of textiles in total sanctions as well as disbursements has been declining in recent years. Thus, the share of textiles in total sanctions from AIFIs peaked at 13.1 percent in 1994-95 and thereafter, it has been declining continuously and in 1998-99 the share was a mere 6.2 percent. Likewise, the share of textiles in total disbursements has tended to decline continuously after 1994-95 and was only 7.7 percent in 1997-98 marginally increasing in 1998-99 to 9.1 percent.(Table-16.2). The declining trend in the share of textiles in AIFIs total sanctions and disbursements is somewhat disturbing because AIFIs maintain that there is no dearth of institutional assistance for viable projects and institutional assistance is available to all asset based needs of viable units which conform to viability norms.

16.2.3 Apart from the above, refinance assistance is provided by SIDBI and NABARD for the benefit of small-scale units and weavers in handloom and powerloom sector. (Table-16.3). SIDBI has various schemes and refinance assistance some of which deserve specific mention. Under the general scheme, refinance is available for setting up new small scale units, for expansion, modernisation, diversification etc. of existing units and the scheme is operated through SFCs, SIDCs and banks. Under the scheme for infrastructure development, refinance assistance is available to all forms of organisations such as public or private limited companies, partnerships etc. for setting up industrial estate for exclusive allotment of sheds to small-scale units. The SIDBI has identified about 15,000 associations/small groups on the Italian pattern for providing collateral security/group guarantee for its members. The experience of SIDBI of this system of group guarantee has been encouraging. This approach will be of considerable help in decentralised sectors of powerloom and clothing.

16.2.4 NABARD provides refinance assistance for both working capital and investment capital purposes. In respect of working capital, NABARD has been providing refinance facilities to State Co-operative Banks (SCBs)/District Co-operative Banks (DCBs) for financing production, procurement and marketing requirements of primary weavers' co-operative societies (PWCSs) and apex and regional weavers' co-operative societies. Moreover, refinance is also being made available to commercial banks for financing primary weavers societies' production and marketing credit requirements in areas where DCBs are either weak or non-existent. Individual weaver members of Primary Agricultural Co-operative Societies (PACS)/Farm Sector (FS)/Large sized Adivasi Multipurpose Societies (LAMPS) are also eligible to be financed by co-operatives under refinance facilities of NABARD. The extent of refinance for working capital provided by NABARD during the last 5 years has been in the range of Rs.551 to 788 crore. (Table-16.4).

16.2.5 In addition to the support for meeting the working capital requirements of weavers' co-operative societies, NABARD also provides term loan assistance under its scheme of acquisition and modernisation of looms (handlooms and powerlooms) through co-operative banks and commercial banks including regional rural banks (RRBs) under the composite loan scheme. Such refinance assistance is made available on an automatic basis up to Rs.2 lakh and under the Integrated Loan Scheme, the refinance facility is available up to Rs.15 lakh on an automatic basis, provided the investment in plant and machinery is not exceeding Rs.25 lakh. Besides, facilities are also available for financing mobile sales vans, margin money, construction of worksheds by weavers registered as members of State Handloom Development Corporations. The analysis of the details of the re-finance for investment capital for the decentralised sector (handlooms and powerlooms) provided by NABARD reveals that refinance from NABARD under investment credit witnessed a quantum jump in 1994-95 but the pace has slackened visibly since 1996-97. Poor absorption capacity of the sector including unsound financial health and operational

inefficiency of several weavers' co-operative societies as well as mushrooming of unviable societies etc. are cited as reasons inhibiting the flow of credit to weavers.

16.2.6 NABARD also provides refinance to cover the credit and developmental activities in the rural non-farm sector including handlooms, handicrafts, sericulture etc. So far, NABARD has sanctioned promotional support aggregating Rs.203 lakh covering various programmes for the weaving sector. However, NABARD's refinancing scheme is confined to only production based associations in co-operative fold in the rural area and in agricultural sector. There is need for NABARD to introduce a refinance credit line for service based professional associations/local self help groups not under co-operative fold and in urban areas.

16.3 **Assessment of requirement of credit**

16.3.1 Considerable gaps exist in data relating to flow of institutional finance to different segments of the textile industry. Neither the commercial banks nor the financial institutions seem to maintain or report data on credit flow to different segments of textile industry, namely, organised mills, powerlooms, man-made fibre/yarn sector, handlooms, handicrafts, jute, sericulture and wool. At the same time, awareness of the credit requirements of borrowers in these different segments having different borrower profiles also seem to be lacking, in the sense that there is no comprehensive assessment about the requirements of credit.

16.3.2 It will be appreciated that without a comprehensive study of credit requirements for the textile industry as a whole, it will be difficult to make any objective recommendations in regard to the adequacy or otherwise of the existing financing arrangements. Such a study goes beyond the scope of the terms of reference of the present Committee which is also constrained by time. The Committee, therefore, recommends that a Task Force be constituted by the Govt. comprising members from industry associations, Ministry of Textiles, RBI, IDBI, SIDBI, NABARD, Banking Department (Ministry of Finance) and IBA to assess the credit requirements of the different segments of the industry and its availability. The Committee has, however, attempted to estimate the credit requirements tentatively of the different segments of the industry as below:

Working capital requirements

a) **Organised mill segment :**

The working capital requirements of mills in the organised sector normally works out to around 35 percent of their annual turnover. Considering average turnover of the mill sector at Rs.33,000 crore based on average price of cloth and yarn and taking into account margin money requirement @ 25 percent, suppliers credit @ 10 percent and bank finance @ 65 percent, the working capital requirement for the mill sector works out to Rs.7,500 crore ($\text{Rs.33,000} \times 0.35 \times 0.65 = \text{Rs.7500}$ crore).

b) **Decentralised powerloom segment :**

This sector is unique both in terms of the size, asset holding and dispersal of units. The approximate working capital requirement of a powerloom, as per recommendations of the Nayak Committee will be about 20 percent of the annual

turnover. A powerloom manufacturing on an average about 1000 meters of fabrics in a month will have a turnover of about Rs.2 lakh per annum based on an average price of Rs.16 per meter. Applying 20 percent working capital norm, the working capital requirement per powerloom will work out to Rs.40,000. The estimated number of powerlooms in the country is about 16 lakh. Considering about 1 lakh looms closed at any given point of time the working capital requirement is to be assessed for 15 lakh active looms. This segment, thus, requires around Rs.6000 crore per annum as working capital.

c) **Handloom segment** :

The Working Group on Textile Industry for the Ninth Plan has worked out the credit requirement of the handloom segment at Rs.2120 crore in 1997-98 rising to Rs. 3847 Crore in 2001-2002, registering a CAGR of 21 percent. The requirement for the year 1999-2000 would be about Rs.3150 crore.

d) **Handicraft segment** :

The credit requirements for the handicrafts segment has been estimated by the Working Group on Ninth Plan at Rs.5577 crore in 1997-98. In the absence of any other better estimate, we adopt this figure for our purpose.

e) **Sericulture segment** :

A review of the credit disbursement during NSP period (1989-90 to 1995-96) shows credit disbursement to sericulture segment at Rs.179.82 crore. On the basis of expected production, the Working Group on Ninth Plan has worked out the credit requirements of around Rs.280 crore for the sericulture segment. We may adopt this figure.

f) **Jute segment** :

The total production in jute segment including diversified jute goods is estimated to be around Rs.4000 crore. Assuming a minimum of 20 percent of the value of output for working capital purposes, the requirement works out to about Rs.800 crore.

g) **Clothing segment** :

There is no estimate available for the working capital requirements in the clothing segment which occupies an important place in the textile industry. In fact, there is no firm estimate of even the value of annual turnover in this segment. In the absence of any firm estimate of annual turnover, we have to rely on approximations. According to CMAI, the annual turnover in this segment was Rs.72,000 crore in 1996 based on the number of stitching machines installed and volume of production. According to another estimate made by some experts, the value of production in this segment was Rs.40,000 – 45,000 crore in 1996. This estimate is primarily based on the percentage of approximate purchases of clothing and value of exports in 1996. For

our purpose, we may adopt a middle path and the value of output in the segment may be taken at around Rs.60,000 crore. Assuming working capital requirement at a conservative 20 percent of the turnover, the same will work out to about Rs.12,000 crore.

h) **Other segments :**

Besides the above segments, there are other smaller segments of textile made-ups, woollens and miscellaneous products which also require working capital. There is no estimate of the working capital requirements in these segments nor is there any reliable estimate of the value of output in these segments. In the absence of any of these estimates, we can quantify this requirement assuming the share of such segments at 10 percent of other segments. This works out to be of order of Rs.4,000 crore as working capital requirements for these segments.

16.3.3 Adding the above segment-wise requirements for working capital the total requirements for textile industry (excluding margin money contribution) broadly work out to Rs.39,000 crore as shown below:

<u>Segment</u>	<u>Working capital requirement</u> <u>(Rs. crore)</u>
a) Organised mill	7,500
b) Powerlooms	6,000
c) Handlooms	3,100
d) Handicrafts	5,500
e) Sericulture	280
f) Jute	800
g) Clothing	12,000
h) Others	4,000
Total	39,180
Say	39,000

16.3.4 As against working capital requirement of Rs.39,000 crore, at present, banks and NABARD are financing assistance of about Rs.17,700 crore towards working capital requirement of the textile industry. Although the above working capital requirement has been worked out tentatively, it is indicative of the wide gap between requirement and actual working capital credit made available to the textile industry.

16.3.5 The requirements of working capital for the textile industry as worked out above is somewhat tentative. Moreover, this calculation does not take into account the additional working capital requirements which will arise from the substantial modernisation and technological upgradation programmes which have been envisaged for various segments of the textile industry under the Technology Upgradation Fund

Scheme. The very purpose of technology upgradation is to improve quality and productivity which assumes concomitant flow of additional working capital. Moreover, the induction of higher technology will entail shifts in production from lower value to higher value items and in the process working capital requirements will also be enlarged. Again, with the induction of higher technology, the production base may widen, thus enhancing working capital requirements. The recommendations made by the Committee for conversion of the 3rd tier of handlooms into the 3rd tier of powerlooms or 1st tier of handlooms and graduation of 4th tier of powerlooms into the 3rd tier also entails additional working capital requirement.

16.3.6 The introduction of Technology Mission on Cotton (TMC) which is on the cards, will also give rise to new demands for credit, particularly in the fields of ginning and pressing and purification (elimination of contamination) of cotton.

16.3.7 Along with improvement in techniques of production and the expected rise in rural income, the requirements of quality fabrics will increase both for the domestic and external markets. This will necessitate a shift in production from grey fabrics to processed fabrics. Accordingly, the requirements of working capital in the existing processing sector will undoubtedly rise and additional working capital will be required for establishing new units in the processing sector.

16.3.8 The need for additional working capital as described in paras 16.3.5 to 16.3.7 above may not be exhaustive. Unfortunately, it is difficult to estimate these additional requirements of working capital but these illustrate that the estimates for working capital as stated in para 16.3.4 is considerably under-stated and in any future financing arrangement, the additional requirements as pointed out above must be properly estimated and taken due care of.

Investment capital

16.3.9 There is no estimate available in respect of investment capital requirement for the textile industry as a whole. Investment capital is required for the purposes of replacement of old machinery, for modernisation and technology up-gradation of obsolete machinery and setting up additional capacities or new units. Almost all the segments of the industry need technology upgradation, though in varying degrees. The technological gaps are discussed in detail in the concerned chapters. There are no clear estimates available for the requirement of funds for investment capital for the purpose of replacement and modernisation. However, an attempt has been made to piece together the fund requirements with a five year perspective taking into account indicative studies or estimates available from different sources.

a) Spinning segment:

The Committee has estimated fund requirement of Rs.10,000 crore for upgradation of spinning segment as already referred to in the Chapter on "Spinning".

b) **Weaving segment:**

(i) **Mills and powerlooms :**

As already discussed in the chapter on “Technology Upgradation”, the fund requirement for the powerloom sector is estimated at Rs.6,500 crore and for mill sector at Rs.11,000 crore.

(ii) **Handloom segment:**

The handloom segment requires investment capital primarily for technology up-gradation and design development. The technology upgradation will aim at shifting the weaver to a position where he contributes progressively to higher value added items both for export and domestic consumption. The technology shift will entail a movement from the 2nd tier to 1st tier together with conversion of 3rd tier handloom weavers to 1st tier handloom weavers or at least 3rd tier powerloom weavers. These vertical and horizontal movements will require infusion of investment funds and in the absence of any other estimate, the recommendation of the Mira Seth Committee for a fund of at least of Rs.500 crore for the purpose may be adopted.

c) **Processing segment:**

The present stage of technology in processing segment is indeed poor and requires upgradation. An estimate by the Working Group for Ninth Plan recommends that the incremental requirement during the plan period of processed fabrics for exports would be around 7000 mn. sq. meters and for domestic market will be another 7000 mn. sq. meters or so. This requires either upgradation or setting up of new units numbering around 200 each for domestic and export markets. Even assuming the induction of a medium technology (may be for domestic market) an investment of about Rs.10 crore will be required either for setting up a new processing house or for expanding through upgradation of the existing processing house having a capacity of 1 lakh sq. meter per day (two shifts). Likewise, the investment required for servicing the external market for fabrics through a new processing house or expansion through upgradation of technology of an existing processing house will be Rs.30 crore each. Thus, investment requirement in this segment for incremental capacity would roughly be of the order of Rs.8000 crore. In situ technology upgradation will require additional funds amounting to Rs.8,000 crore.

d) **Clothing segment:**

The potential of growth for this segment has been indicated earlier. It has been estimated by the Working Group on Ninth Plan that to achieve a level of export of garment of US \$ 15.13 billion in the terminal year of the Ninth Plan, investments of the order of US \$ 1.37 billion or about Rs.6,000 crore will be required.

e) **Cotton ginning and pressing segment:**

An overwhelming majority of almost 4000 cotton ginning and pressing units are operated with old and out-dated machines and equipments. The requirement of

funds for investment for up-gradation of technology in this segment is conservatively estimated at Rs.300 crore.

f) **Jute segment:**

The jute segment has been confronted with a number of problems, the most important of which are obsolete machinery, high man-machine ratio, large unutilised capacity, wide disparity between input costs and price realisation, stiff competition from cheaper synthetic substitutes resulting in sharp loss of market in the packaging sector. Unfortunately, the jute segment has, by and large, not invested in technology up-gradation and modernisation. In order to overcome these problems the jute industry has to upgrade its technology and modernise in a continuous manner and simultaneously diversify its production base for value added products. It is estimated that the fund requirement by this sector will be of the order of Rs.500 crore.

g) **Silk, wool etc. :**

Other smaller textile segments like silk, wool, texturising etc. also need technology upgradation. Similarly, VSF and VFY sector, more particularly the latter need substantial technology upgradation. The fund requirement in these sectors are estimated at Rs.1,200 crore.

h) **Textile machinery :**

The textile machinery segment also needs to upgrade its technology in order to enable it to produce high-tech machinery required by the different segments of the textile industry. The fund requirement for this could be about Rs.2,000 crore.

16.3.10 Considering the above, the total fund requirements for investment capital in various segments of the textile industry works out to Rs.54,000 were as shown below:

<u>Segment</u>	<u>Investment capital requirement</u> <u>(Rs. crore)</u>
a) Spinning	10,000
b) Weaving	18,000
c) Processing	16,000
d) Clothing	6,000
e) Ginning & Pressing	300
f) Jute	500
g) Silk, wool etc.	1,200
h) Textile Machinery	2,000
Total	54,000

16.3.11 Thus, the investment capital requirement for the textile industry works out to about Rs.54,000 crore out of which the loan component could be 70 percent, the rest being equity and internal generations. Therefore the institutional financing could be estimated at about Rs.38,000 crore. As against this requirement, the annual flow of term loan to textile industry from commercial banks, SIDBI, NABARD and AIFIs amount to Rs. 7000 crore on an average. Thus, there is need for substantial augmentation of term loan availability to the textile industry.

16.3.12 The above calculation for investment capital in the textile industry is again tentative. Moreover, the calculation does not take into account additional investment funds which are required to meet the growing demands for setting up design centres including CAD/CAM facilities, establishing institutions for human resource development and strengthening as well as enlarging other infrastructure, namely, marketing facilities. Side by side, other institutions like Textile Research Associations, Indian Institutes of Handloom Technology, Weavers' Service Centres, Powerloom Service Centres require adequate strengthening both qualitatively and quantitatively. The Committee's recommendation for conversion of Powerloom Service Centres into Powerloom and Knitting Service Centres in the major centres of powerloom and knitting activity and setting up of Knitting Service Centres in case of non-availability of Powerloom Service Centres in the major centres of knitting activity will also need additional funds. The Committee has also recommended for setting up of cone dyeing units to meet the requirement of dyed yarn of the handloom segment. Consequent upon abolition of hank yarn obligation scheme, capital subsidies will have to be provided for setting up such dyeing units. The Committee has also recommended conversion of the 3rd tier of handlooms into the 3rd tier of powerlooms and graduation of the 4th tier of powerlooms in the 3rd tier. All such recommendations will add up to fund requirement not only for requisite machinery but also for strengthening consequential infrastructural requirements. Sufficient funds are required to meet these growing requirements so as to gear up the textile industry as a whole and prepare them to meet the challenges of global textile trade integration. Mention may also be made of the need for developing commercial intelligence and legal capabilities by creating suitable institutions. It is particularly important to note that such arrangements are all the more necessary to handle the increasing challenges emanating from non-tariff barriers being erected by dominant importing countries.

16.3.13 The requirements of funds for the above arrangements cannot be easily quantified and yet it cannot be denied that in any financing arrangement for the textile industry, these emerging demands have to be addressed.

16.4 **Issues in credit supply**

16.4.1 The textile industry which has a significant presence in the Indian economy by virtue of its contribution to the GDP, employment generation and export earnings deserves better appreciation of its problems by the banking sector. There is a widespread feeling that the banking sector in general is averse to lending to the textile industry due to its perception of it being a 'high risk' industry. This perception could perhaps be due to some bad experience/elements but the entire industry cannot be condemned and subjected to restrictive credit availability because of misdeeds or misfortunes of a few. There are many good units which deserve better access to institutional credit. There is no doubt that the banking sector has its own limitations. The NPAs adversely affect their international creditworthiness, for in most of the foreign countries there are no NPAs. In most of the foreign countries, as soon as a

unit closes down, its assets are sold to clear the outstandings, while in India due to restrictive provisions in the ID Act, mills are invariably denied the permission to close down legally and timely. Further, vigilance angle restricts the bankers from adopting a flexible approach towards prescribed norms/parameters etc. There is need for the banking sector to follow the norms of 'corporate governance' and also to change the 'banking culture' to adopt the role of a 'friend, philosopher and guide' to the textile industry enabling it to strengthen its fundamentals through easy access to credit at reasonable cost.

16.4.2 In the preceding paragraphs we have mentioned about the large gap that exists between credit requirements and credit availability, both working capital and investment capital for the textile industry. The mismatch between credit requirements and credit availability for the industry recommends a lack of appreciation of mutual problems by the lending institutions and borrowers in the industry. As far as lending institutions, i.e., the banking sector is concerned, they have their own terms and conditions for credit supply, some of which the borrowers may not be able to fulfil and thus genuine requirements of borrowers remain un-serviced.

16.4.3 With effect from April, 1997, RBI has withdrawn maximum permissible bank finance (MPBF) prescription and banks are given freedom to determine the working capital credit requirements according to their perception of borrowers and their credit needs. The norms prescribed by RBI for inventory holdings are no more operative. However, according to IBA, some banks continue to be guided by the pre-April 1997 system of lending assessment with the result that the rigidity of current ratio of 1.3 is still an important factor to the lending banks. Banks are currently having flexibility in making unit-specific decisions either relating to the level of current assets or margins stipulated; but in actual operation, various loan sanctioning authorities prefer to follow the safe route so that the rigours of current ratio and margin requirements continue to persist. Given a large proportion of NPA in the portfolios of the banking sector which affects their international credibility. Managers are not keen to step out of the cautious mould and the professed flexibility in determining the working capital credit requirements of borrowing units in the textile industry remains to be put in practice.

16.4.4 Besides, the banking sector also take into account other indices or financial ratios while evaluating credit proposals from borrowing units. Debt- equity ratio is one such index and a ratio of more than 1.5:1 is generally dis-favoured on the assumption that higher the ratio, lower the capacity to meet adverse situation and higher the vulnerability of the borrowing units. Debt-service coverage ratio is another index which is considered by financial institutions while evaluating lending proposals. Normally, a debt-service ratio of 2:1 is preferred, although a lower ratio up to 1.5:1 is accepted if the capacity to generate surplus by the borrowing unit is considered adequate. The debt-service coverage ratio is normally an indicator of the capacity of a project or of a unit to meet its obligation to pay interest and repay loan instalments.

16.4.5 Apart from the norms cited above, financial institutions are now required to follow strictly the NPA guidelines prescribed by the RBI. Without going into the details of NPA guidelines as such, it may suffice to note here that strict adherence to NPA guidelines will make many textile units ineligible for assistance from financial institutions because a large number of textile units are at present incurring losses due to a general recession and are not able to repay loans as per stipulations.

16.4.6 The lending norms including prudential norms are considered stiff by textile units, particularly in the face of demand recession. Moreover, a large number of units in the decentralised sector find it impossible to access institutional credit because of the norms. It has to be appreciated that leaving aside the organised mill sector, most of the textile units in the decentralised and un-recognised sectors suffer from preparing bankable credit proposals. The drawbacks on their part stem from the factors like: lack of proper asset base, lack of organised accounting practices, lack of collaterals, failure to provide counter guarantee, failure to project credibility status and prepare feasibility report, poor repayment capacity following lack of marketing facilities, lack of proper communication with banks/lenders, failure to provide margin money/promoter's money.

16.4.7 From the foregoing, it will be apparent that the perceptions of lenders and borrowers widely differ. While the banks and FIs in general look for bankable proposals and ability to service the debts, the borrowers look for need based finance with flexibility of repayment. Likewise, financial institutions prefer collateral and personal-guarantee in addition to security by way of mortgage of assets wherever considered necessary while borrowers prefer to offer security by way of mortgage of assets only. To the borrowers, 'norms' of borrowing matter less, timely availability of funds matters the most. Unfortunately, their perception is not shared by the banking sector who feel that 'norms' etc. can not be thrown to the wind and these norms provide safeguards to the lenders against erring borrowers.

16.4.8 In the larger interest of the textile industry, there is a need for closer co-operation and better appreciation of each others problems by lenders and borrowers. Talking about norms, lenders maintain that the norms should not be tinkered with as these are based on sound canons of lending and are meant to provide appropriate guidelines for determination of lending to borrowers. However, lenders must appreciate that the lending norms cannot be the same for all kinds of borrowers and borrowings. The norms must be flexible. In other words, norms per-se are not as important as the purpose for which the norms are laid down. The principal purpose is to serve the financial needs of the borrowers and thus sub-serve the interest of production in the economy. That being so, the norms must be flexible enough to adjust to the borrowers environment and the norms are bound to vary depending on the types of borrower and borrowings. Most of the norms like debt equity ratio, current ratio, margin requirements may be applied to organised units in the textile industry in normal times. But these ratios may not suit the multitudes of smaller units operating

in the decentralised and un-organised sectors of the industry, where the asset base is poor and collaterals may not come up to the expectations of the lenders. Though the asset base may be poor, the units may otherwise be operationally sound. They may have high standards of machinery maintenance and good technical efficiency and their production per spindle or loom may correspond to normal standards. Such units should not be deprived of credit simply because they fail to meet the norms laid down by the lenders.

16.4.9 Moreover, there are situations where production units in the industry may suffer a loss of demand and consequent loss in prices and profits due to reasons beyond the control of the production units. A recent case in point is the South East Asian turmoil and its contagious effect on the Indian textile industry. Many of the mills producing yarn started accumulating stocks faced with a situation not only beyond their control or even the normal business anticipation of the spinning units but also cannot be wished away as a normal cyclical change which visit any industry. In such a situation, the borrowers may not be able to meet the norms including the prudential norms (NPA norms) of lenders and if one goes by the strict applicability of the norms, these units will be deprived of credits when they need it most. Such a situation, wherever possible, might be avoided by the lenders by suitably restructured packages for the affected units to ensure that the deserving units are not denied credit.

16.4.10 While noting the above in regard to the applicability of norms, it is necessary to point out that lenders cannot afford to lend in a vacuum. Because, if they do so, the source of lending will dry up and eventually the industry as well as the economy will become poorer. It is, therefore, natural for lenders to examine whether a prospective borrower has at least the following: financially viable project proposal; a sound management; a good absorption as well as repayment capacity; assets or other forms of guarantee; and sound financial and accounting system.

16.4.11 Unfortunately, textile units in the decentralised and un-organised sectors including handlooms do not possess an organisational structure to satisfy the above mentioned requirements and this lacunae requires to be tackled for facilitating credit flow to the units operating in these sectors. A suitable mechanism for meeting the requirement of lenders without putting the borrowers to undue hardship have to be worked out and alternative credit delivery system has to be developed.

16.4.12 Alongside, lenders and borrowers have different perceptions in regard to the rate of interest or cost of borrowing. Lenders feel that they require a spread of around 3.5 percentage point above the PLR for covering their own cost of funds, overheads and incidental risk elements. On the other hand, borrowers feel that the interest rate of around 16-17 percent on borrowed capital is very high and not only adds significantly to their cost of production but also make them un-competitive vis-à-vis other manufacturers in the world. It is pointed out that the interest rates in countries like USA, Turkey and Italy are only 8.3 percent, 9 percent and 11.5 percent respectively.

Accordingly, the borrowers feel that the interest rate should be lowered so as to correspond to a rate of 2 to 3 percentage points above the LIBOR. This argument by the borrowers do not seem to be wholly tenable. First of all, LIBOR is not an indicative interest rate by financial institutions abroad, it is only a inter-bank borrowing rate and may not reflect the lending rates by banking sector. Moreover, the real rate of interest after adjusting for GDP growth and price rise is substantially lower than the nominal rate of 16 to 17 percent. Even then, there may be some scope for reducing the rate of interest taking into account the average cost of borrowed funds by the banks (reportedly around 8.5 percent) and normal spread of 3 to 4 percent. The benefits of any reduction in bank rate or CRR as announced by RBI from time to time in their credit policy pronouncements- should be passed on to the borrowers by lending banks.

16.4.13 While the borrowers will welcome a lowering of the rate of interest on credits, a large segment of the borrowers, particularly in the decentralised and un-organised/household sector feel that the major constraint is not the interest cost but accessibility to and availability of institutional credit. This view point can be appreciated when one considers that majority of the borrowers in these sectors do not have access to institutional credit either because of inadequate out-reach or because of their inability to satisfy the lending norms and collateral requirements of banking sector and they have to depend on the mercy of local money lenders or traders who charge exorbitant rates of interest. In considering any financing arrangements for the textile industry, the interest of these large segments of textile units have to be kept in view.

16.4.14 The existing financial arrangements have not apparently been able to reach out to millions of ginners, weavers and artisans located in semi-urban and rural areas. The banking sector requires appropriate sensitisation to appreciate their problems and effect necessary changes to cater to a wide variety of borrowers in the textile industry. Under the circumstances, there is a need for effecting changes in financing arrangements by (a) broad-basing the structure of appropriate financial institutions so as to provide larger geographical coverage (b) moderating and adjusting the lending norms to suit credit requirements of diverse textile units, (c) developing new delivery systems for servicing the requirements of the un-organised and decentralised units in the textile industry.

16.5 **Recommendations**

16.5.1 The gap in credit requirements in the textile industry and the flow of institutional credit has been noted in the para 16.3. Alongside, the difficulties in accessing institutional credit, particularly by the decentralised and household segments have also been discussed. Some of the difficulties can be attributed to the inability of the small units in these segments to fulfil the lending norms of banking sector. The dispersed nature of locations and size of the units together with absence of

branches of banks and difficulties in reaching out to multitudes of small units also compound the problem of accessing credit. The absence of suitable organisational structure for the small units is an additional factor inhibiting the flow of credit to these units. While the institutional credit flows for working capital purposes remain tight, the situation in regard to flow of credit for investment capital is also no better. There is, thus an imperative requirement for ensuring larger flow of funds from banking sector to the textile industry. With this end in view, the following recommendations are made:

Working capital

16.5.2 Banking sector is no doubt required to follow appropriate norms including prudential norms for lending. However, these norms require to be flexible enough to adjust to the nature of borrowers and their borrowing needs. While banking sector avers that they follow a flexible approach on a case to case basis while considering credit proposals, in practice, there is a tendency for sticking to the norms in absolute terms. There is a need for attitudinal change in the approach by the banking sector.

16.5.3 The accounting norms of the lending institutions may not be regarded as sacrosanct per se. Thus, in a difficult situation of falling prices, a unit, however efficient, may not be earning profit and may even incur losses in the short-term. The accounting norms may not justify lending to such a unit but then economic norms in terms of operational efficiency may justify loans to such units. Some of the operational/ efficiency criteria in respect of spinning mills have been spelt out by SITRA and these include spindle utilisation, power consumption, conversion cost, investment on modernisation etc. (Table-16.5). If the operative norms are sound and conform to the norms laid down by SITRA, it will be appropriate for lending institutions to moderate their accounting norms of lending and advance loans to the qualified units.

16.5.4 While fixing working capital limits, seasonal flexibilities must be built in to enable mills to stock raw materials like cotton and jute during the season. The required flexibilities could be in the form of reduction in margin requirements than in normal or slack season as also increase in the cash credit (CC) ratio in the sanctioned total working capital limits.

16.5.5 The margin requirements need not be static as the capacity to mobilise margin money varies among the borrowers. It would be appropriate to adopt a graded margin requirement depending on the credit requirements. In other words, the lower the credit, the lower should be the margin requirement in view of the limited exposure of the bank and vice-versa. This will be particularly helpful for small and marginal borrowers whose ability to mobilise margin money is limited.

16.5.6 The geographical coverage of commercial banks must be widened so as to cover progressively semi-urban and rural areas where the need for institutional

presence is socially desirable. The small units, whether engaged in weaving, ginning and pressing or in processing or in household crafts, are largely dependent on money lenders for meeting their production requirements and they end up by paying much higher rate of interest.

16.5.7 The numerous small units in semi-urban and rural areas must organise themselves as self-help groups (SHGs) or as co-operatives or associations so that collectively they can meet the requirements of the lending institutions in respect of preparation of project proposals, provision of guarantees and collaterals etc. In the event, linkage can be established between the lending institutions on the one hand and the SHGs (as already been experimented and encouraged by NABARD), co-operatives or associations on the other hand, so that the the problems of accessing credit by small units as well as recovery of credit by lending institutions from such units can be handled effectively. Small units can combine into an economical homogenous group and can mutually agree to contribute to a common fund through regular savings, take collective decisions for purchasing and selling, offer collective guarantees and thus avoid the problem of offering individual collaterals.

16.5.8 The self-help collective groups can establish linkage with the lending institutions which, in turn, can provide credit in bulk directly to the group and the group in turn would undertake on-lending to the members. The quantum of credit given to the group may be decided on the basis of the own funds of the group collected in the form of savings and contributions from members and the lending amount may be fixed as a proportion to the own funds. Individual guarantees by members will be replaced by collective guarantee to be given by the group and repayments of loans will be the responsibility of the SHG. In this manner, the lending institutions will be able to develop credit strategies for meeting the credit needs of small units in the decentralised sector and handloom sector by combining flexibility, sensitivity and responsiveness with the strength of technical and administrative capabilities and financial resources of the credit institutions. Such a linkage will also establish mutual trust and confidence and encourage banking activity both on savings and credit sides in a vast segment of the economy under coverage by financial institutions.

16.5.9 The superior advantage of the system lies in overcoming the inadequate outreach and access to credit by small and household entrepreneurs. However, the SHGs must not be regarded merely as credit groups without any cohesiveness. The SHGs must be sensitised about the advantages and difficulties of forming SHGs and it must be emphasised in particular that such groups are meant for encouraging saving and increasing thrift among the members. The SHG-bank linkage merely establishes certain practices which enable their members to increase their wealth through creation of common assets and individual members benefit through the group. The SHGs do not replace the idea of co-operative societies and societies can accommodate a number of SHGs. The SHG approach provides an alternative route beyond banking practices

for extending credit to decentralised and household sectors. It may be specifically mentioned that NABARD had taken initiatives for propagating and facilitating the SHG-bank linkage programme and the progress has been quite encouraging (Table-16.6) NABARD has also prepared a concept paper suggesting SHG-banking linkage approach, particularly applicable to handloom sector. This concept may be popularised in the decentralised sectors of handlooms and powerlooms through massive campaign.

16.5.10 NABARD extends working capital assistance to primary weavers' co-operative societies for production and to the apex societies for marketing of handloom fabrics under its refinance scheme. The NABARD's refinance scheme does not cover the textile processing activity. The pre-loom processing including wet processing is a part of weaving activity and without post-loom facilities, weavers will be deprived of the advantages of value addition. The quality of pre-loom and post-loom activity including wet processing requires modernisation to improve the quality of the fabric. It will, therefore, be appropriate that the pre-loom and post-loom facilities may be included in the refinance scheme of NABARD/SIDBI for working capital assistance.

16.5.11 More than two thirds of the weavers in the handloom segment are outside the fold of co-operatives. While these weavers should be encouraged to group themselves in clusters in the form of SHGs and get a linkage to banking sector for credit, it may not be possible for these weavers in many cases to form such groups and avail of credit. In such a situation, it is useful to issue identity cards to the weavers through state agencies responsible for development of handlooms so that these weavers are enabled to approach banks for credit. The financial institutions on their part should encourage lending to such weavers and charge concessional rate of interest to them.

16.5.12 The NABARD/SIDBI should introduce a refinance line of credit for service based professional associations/local self help groups not under co-operative fold and in urban areas.

16.5.13 Associations of small units, particularly in the decentralised powerloom and RMG sectors must play a more pro-active role in enabling their member units to access institutional credit in a large way. The requirement of collateral securities and guarantees which are insisted upon by the banks as per their stipulated norms and which the member units are individually often not capable to offer can be provided by the associations on behalf of their member units. This is possible if the associations come forward to unite the member units in the form of guarantee co-operatives. The guarantee co-operatives can be formulated on the pattern of the Italian Model. Under the system, each member unit will contribute to the share capital of the guarantee co-operative and the contributions can be strengthened by suitable contributions from the Govt. in the form of safety loans repayable, say, over a period of 10 years. The guarantee co-operatives can levy a fee on the members which will be used to repay interest and principal on such loan. The associations under whose umbrella the

guarantee co-operatives are formed will negotiate with various banks and place the share capital funds as a deposit with a financial institution. The financial institution will be able to provide financial assistance, say, upto 10 times the deposits placed with them and no collateral will be insisted upon from the members. The guarantee co-operatives will, of course, guarantee 100 percent of the loans provided by the financial institutions.

16.5.14 The guarantee co-operatives may levy a commission or small surcharge and keep the proceeds in a separate account so that in the case of defaulting members, the fund so collected can be utilised. The member units then, of course, pledge their assets and running production to the guarantee co-operative and in case of default the guarantee co-operative can recover the same from the pledged assets and goods. Ideally, the guarantee co-operatives can undertake purchase of raw materials on behalf of the member units and secure economies of scale and eventual economy in cost of production by member units. Similarly, the guarantee co-operatives can purchase the goods produced by the member units, make some advance payment and later on make full payment from the sale proceeds of the goods. In this manner, the guarantee co-operatives will take care of the marketing requirements of the member units and also assure repayment by the borrowing member units. The system of guarantee co-operatives can be worked out in details and for our purpose, it is sufficient to note that the development of such guarantee co-operatives will facilitate a new delivery system of institutional credit and provide a 'safety net' to both lenders and borrowers. SIDBI has prepared a framework of a guarantee co-operative which may be examined in depth for implementation.

16.5.15 A large number of small units in the decentralised powerloom and RMG segments are located in clusters in a few places in the country (e.g. knitting units in Tirpur, Ludhiana, Delhi powerlooms in Surat, Panipat, Bhiwandi, Ichalkaranji etc.) and can easily adopt these clusters as models for lending purposes. The institutions/banks can adopt a consortium approach so as to spread the risk element, if any. This cluster approach can incorporate not only lending for working capital/investment capital requirements but also for development of common infrastructure facilities including marketing facilities. Such an approach will ensure return flow of payment and recycling of institutional funds.

16.5.16 The banking culture is to be changed in the sense that working capital is to be monitored regularly. There should be regular and closer interaction between the bankers and borrowers to sort out the relevant issues. This will foster a sense of mutual confidence and better understanding resulting in lesser defaults.

Term loan/investment capital

16.5.17 Considerable backlog exists in replacement and modernisation and upgradation of technologies in different segments of the textile industry, notably

weaving and processing segments. The Technology Upgradation Fund Scheme (TUFS) aims at easing the situation by directing concessional finance from financial institutions to these segments. The TUF Scheme may not be a permanent feature and it cannot be a substitute for normal flow of institutional term loans to the industry. With the reduction in bank rate, it is possible to lower the rate of interest on term loans by financial institutions and these institutions should endeavour to ensure that 14 percent of their term financing should flow to the textile industry commensurate with the contribution of this industry to overall industrial production in the country.

16.5.18 Modernisation/technological upgradation is a continuous process and the textile units (including jute goods manufacturing units) must themselves be in a position atleast to supplement institutional finance from their own resources. It is, therefore, recommended that despite the experience in the past, the investment allowance may be permitted for 3-4 years to enable the units to plough back the internal generation of the funds for modernisation and technology upgradation.

Financing during exceptional circumstances

16.5.19 Apart from normal cyclical fluctuations, industry may sometimes witness upheaval due to factors completely beyond its control. An instance in point is the difficulties faced by the textile industry following the South East Asian currency crisis and its contagious effect on the industry. The Committee recommends that under such circumstances, the banking sector may adopt a liberal approach with regard to the banking norms.

Special purpose funds

16.5.20 In the face of cyclical fluctuations and unforeseen economic crisis, the textile units might find themselves in a situation leading to sickness or actually becoming sick. In fact, if it is left to the lenders to decide their cases, the lending institutions may find it difficult to bail them out in view of the stringent norms being observed in respect of NPAs. Even when the lenders may consider some cases as deserving for lending purposes, the NPA norms and other accounting norms may make them reluctant to provide requisite life saving funds. There is, therefore, a need to create a separate fund called Textile Rehabilitation Fund to infuse funds into sick, small and medium units in the textile industry and rehabilitate potentially viable units. Some of the healthy units, which may not be able to meet stringent norms under TUFS may also be provided assistance under this fund to reach the level of norms prescribed under TUFS. Such a Rehabilitation Fund may be treated on par with venture capital and should be made eligible for all relevant tax concessions. The corpus of the fund may be contributed by the Govt. and the banking industry. The modalities may be worked out by an expert body consisting of representatives of Govt., NABARD, NCDC, SIDBI, IBA and RBI.

16.5.21 The majority weavers in the handloom segment remain outside the co-operative fold and thus outside the reach of existing financial institutions, notably NABARD and SIDBI. The lack of credit to these weavers in the non-co-operative fold is one of the major reasons inhibiting the overall credit flow to the handloom segment as a whole. Therefore, a National Handloom Credit Fund may be created with appropriate corpus to be provided by the Govt. and the banking industry. The fund may be utilised for the purpose of extending working capital finance to the handloom weavers through a two tier channel of NABARD/SIDBI and SHGs. It will be appropriate that while formulating schemes for the handloom segment, due care is taken to see that these schemes are bankable.

Miscellaneous

16.5.22 Basic information on the flow of credit, both short-term and long-term, is not readily available. The BSR data are not complete in as much as these data do not show activity-wise flow of credit to textile industry and these data are somewhat dated. There is a basic requirement for monitoring the flow of credit to the textile industry and it is necessary to compile upto date information on the flow of credit to different activities in the textile industry. The BSR data compiled by the RBI are 2 – 3 years old. RBI should issue necessary guidelines to commercial banks to upgrade the credit flow data on a continuous basis.

16.5.23 Banks and financial institutions may create 'grievance cells' at least at zonal levels so that the difficulties being faced by borrowers in obtaining credit may be periodically examined and corrective measures taken. The very existence of 'grievance cell' is likely to foster greater transparency in lendings and borrowings.

CHAPTER – 17

FISCAL POLICY AND STRUCTURE

17.1 Introduction

17.1.1 Fiscal Policy, besides being an instrument for revenue generation could also accelerate balanced and harmonious growth of the economy in general and industry in particular, provided it is based on the principle of equal and equitable treatment to all tax payers. Even assuming that exceptional positive discrimination is sometimes a desirable political objective in a democratic polity, continued long term use of fiscal policy as an instrument to artificially protect weak and vulnerable segments against relatively healthier and stronger ones by way of tax concessions/exemptions may achieve the desired objective of protecting such segments to some extent in the short term; but such policies tend to have detrimental impact on the balanced and around growth of the industry and the economy in the long run, impacting adversely its very revenue generation capacity as well. Such policies which provide protection to small scale/decentralised sectors may subserve as a protective umbrella to the small scale industry in its infancy, but continued protection may eventually marginalise or even destroy the organised sector, provide scope for manipulation and tax evasion and act as a disincentive for capital investment, efficient production process and quality upgradation.

17.1.2 The fiscal policy with respect to the textile industry is a classic example of an honourable intention having gone hay wire due to overkill. The textile industry being a multi-layered and multi-dimensional, complex industry with conflicting interests among the various segments is particularly vulnerable to any such discriminatory policy, particularly when such positive discrimination starts nibbling at the fundamental strengths of the industry, yielding in the bargain a negative dividend. Multiplicity of tax rates in the textile sector and prima facie lack of any coherent logicity thereof consequently present a dismal picture of an industry which wallows in abysmal technology, inefficient production processes with little or no concern for quality or cost-effectiveness. What is worse, it often leads to undesirable brinkmanship/one upmanship, lobbying/counter-lobbying or even ever-subtler tax evasion. Now when the industry stands at a cross road staring at a globally integrated textile trade, there arises a strong need to review the existing fiscal policy and structure in the textile industry as a whole and to formulate a new comprehensive fiscal policy which should be simple and uniform and based on the principle of equity and larger national interest.

17.2 Current status

17.2.1 The various products of the textile industry are subjected to the following types of excise duty :-

- (i) Basic Excise Duty (BED) is levied on fibres, all types of yarns and processed fabric.

- (ii) Additional Duty of Excise on Textiles and Textile Articles (AT&T) has been imposed on man-made fibres/yarns, cotton yarns, woollen yarn, blended and spun yarn. AT&T was introduced in 1978 through a statute called Additional Duty of Excise on Textiles and Textile Articles Act, 1978 for collection of excise duty on specified products of the textile industry for the purpose of using its proceeds for implementing the scheme of Handloom Janata Cloth and Controlled Cloth in the mills of National Textile Corporation (NTC).
- (iii) Additional Excise Duty (AED) has been imposed on processed fabric which is in lieu of Sales Tax. It is collected by the Central Govt. and the net proceeds are disbursed to the State Govts./UTs.

17.2.2 Customs duties include (a) protective duties and (b) additional duties. As the name itself recommends, protective duties are meant to provide protection to the domestic industry. Basic customs duty which is leviable under section 12 of the Customs Act, 1962 is in the nature of a protective duty. Likewise, special duty of customs also falls in this category. It may, however, be added that the special duty of customs was imposed as a temporary measure to raise revenue for the development of infrastructure. The duty was imposed at the rate of 2 percent advalorem in the budget for the year 1996-97. Subsequently, the rate was raised to 5 percent with effect from 16th September 1997 and withdrawn in the Budget 1999-2000. However, a 10 percent surcharge on basic customs duty has been imposed in the Budget of 1999-2000. So far as additional duties are concerned, they are basically meant to impose additional duty on imports, equivalent to domestic indirect taxes that apply to goods produced indigenously. In other words, additional duties are countervailing duties (CVD) which ensure that all like goods which enter the domestic mainstream suffer the same incidence of indirect taxes regardless of their source, i.e., indigenous or imported. In doing this, they provide a level playing field to the domestic industry. This duty is equivalent to the excise duty leviable on like goods produced indigenously. Another duty of this type has been levied in 1998-99 budget to counterbalance the incidence of sales tax leviable on domestic goods. This duty levied under Section 3 of the Customs Tariff Act, 1975 is called Special Additional Duty (SAD) of Customs. At present, special additional duty is chargeable at 4 percent advalorem.

17.2.3 The excise duty structure of various items, particularly the man-made fibres/yarns has been gradually reduced over the years and also the number of rates has been reduced by bringing about some sort of uniformity in duty rates. Likewise the import duty structure in respect of textile industry has also been gradually reduced from high rates of upto 225 percent in 1985-86 to relatively lower rates of 25 percent - 40 percent. The CVD which is equivalent to excise duty paid on similar items

produced indigenously is also leviable on such imports. Some of the major changes brought about in the fiscal regime of the textile sector since the announcement of 1985 Textile Policy are indicated below :

- (i) Modvat scheme introduced in the year 1994-95 for textile industry with coverage of fibre/yarn sector. Subsequently, it was extended upto processed fabric stage in the year 1996-97.
- (ii) Specific rate of excise duty structure on different items of textile industry was changed into advalorem rates in the year 1994-95.
- (iii) The combination of both specific and advalorem customs duty rate was changed into advalorem duty in the year 1994-95.

17.2.4 The excise duty on various items of textile industry has been gradually reduced over the years, particularly since 1985 but is still very high considering that textile is one of the basic necessities of life. The reason for the high rate of excise duty is that due to exemptions for several value added items, produced particularly in the decentralised sector, the remaining items have to compensate for the exempted items and bear a disproportionately higher rate of duty. The excise duty concessions/exemptions to major fabric producing segments and processing segments not only make the tax base extremely narrow but also break the taxation in value addition chain creating distortions and inequities. The various exemptions/concessions have stymied the growth of the organised sector, discouraged technology upgradation in the small scale sector, apart from providing scope for and in a way, encouraging malpractices and duty evasion.

17.2.5 In spite of changes in the fiscal structure subsequent to the textile policy of 1985, the structural anomalies which had been created due to the fiscal policies followed over a long period of time, in fact since independence, continue to bedevil the industry. In fact, much of the ills of this industry could be traced to the fiscal policy followed over the years. The duty exemption provided to the hand processors which dye or print the fabrics without the aid of power but otherwise are allowed to use power for a significant number of processing activities has stimulated the growth of this segment and impeded the growth of hi-tech power operated quality-processing houses, which are subjected to the duty structure. Out of the reported 12,600 processing houses in the country, about 83 percent i.e., 10,400 are hand-processing units. The Textile Policy of 1985 has provided, "In the processing sector, the independent power processors and the processing houses in the mills would be treated at par and each would be allowed to operate on the basis of its competitive strength. Small hand processing units with limited output would receive special consideration". Accordingly, the duty structure on independent power processors and mill sector has been brought at par in the year 1985. Though 1985 Policy has clearly laid down that "the small hand processing units with limited output will receive special

consideration”, duty concession actually provided to this segment is without any consideration of the output, and hand-processing units with large production volumes are also eligible for such concession. Further, cotton and man-made fabrics undergoing 12 and 7 notified mechanical processes respectively like calendering, flannelette raising, stentering, singeing, back filling etc., even if carried out with the aid of power are exempted from excise duty when such processes are carried out in factories which do not have facility for wet processing of fabrics with the aid of power and steam. This exemption together with duty exemption for hand processors without any production limit has created a breeding ground for massive duty evasion at the processing stage. It was very forcefully brought to the notice of the Committee that these exemptions provide scope for duty evasion by the unscrupulous power processors by maintaining both types of units side-by-side and declaring power processed fabrics as hand processed. Such disparity in the tax structure leads to structural anomalies and inhibits the growth of high quality processing houses. It is understood that at one stage even the Union Revenue Department has accepted the duty evasion estimated at Rs.2000 crore per annum at the processing stage. The duty evasion not only deprives the govt. of the legitimate revenue but also creates distortion in the market, severely affecting the workings of the law abiding units subjecting them to unfair competition in the market. As a matter of fact, such blatant misuse of the concept of hand processing gives unfair competition to the genuine hand processors in the handloom sector.

17.2.6 When MODVAT scheme was introduced at the fabric stage in the year 1996-97 without uniformity in the duty structure at the yarn stage, an anomaly was created in favour of the mill sector. Under the MODVAT scheme, mill sector was eligible for modvat on 'actual' basis, even for bought out filament yarns, while independent processors were eligible for only specified 'deemed credit'. With specified deemed credit, they were not able to claim entire credit for duty paid at yarn stage, particularly in respect of polyester and nylon filament yarns as these items attract very high rate of duty. Even among the independent processors, there was disparity in the sense that processors processing cotton fabrics were getting excess duty abatement under 'deemed credit' basis while man-made processors were getting less. This disparity was due to the wide disparity in the duty structure at cotton yarn and filament yarn stage in favour of cotton yarn.

17.2.7 To remove this disparity, the compounded levy system was introduced from December 1998. But this system has created fresh anomaly by imposition of excise duty based on number of chambers in the stenter machine located in the process house. This scheme is applicable only to independent processors. Even semi-composite units without weaving/knitting facilities and operating their processing units actually for job work only are not treated at par with independent processing units. The stenter/chamber-based duty structure has gone against the basic tenets of the Textile Policy of 1985 which has unambiguously laid down that independent power processors and processing houses of mill sector would be treated at par. The

extent of duty incidence under this scheme is significantly lower than that of advalorem rate of duty applicable on fabric processed by composite mills, particularly for those processing high value fabrics. The Committee was told that while at the lower end, cheaper fabric processors were required to pay substantially higher amounts, high value fabric processors got a windfall of as much as 50 to 60 percent on their previous advalorem duty liabilities thereby saving million of rupees per annum. No doubt, the scheme has the merit of transparency and perhaps a little less inspector-raj, but it has also ended up giving relief where it is not due nor intended. In addition, it has the big demerits of being discriminatory against the mill sector and militating against the principles of VAT or MODVAT. This situation can lead to delinking of process houses by the composite sector as an instinctive survival strategy and will also inhibit modernisation process. If it happens, it will be most unfortunate, particularly when the govt. is incentivising technology upgradation and high-tech, new capacity creation in the processing and finishing sector through the TUF Scheme with the facility of 5 percent interest reimbursement. Because of the fixed lumpsum rate of duty which is independent of the value and quality of the fabric processed, benefits will only accrue to large independent processors at the cost of govt., composite mills and small processors within the same sector. Stenter-chamber based duty also does not allow modvat on capital goods to be set off. This also will act contrary to govt. efforts on speedy technology upgradation through TUFs. Besides, any tax structure which moves away from the principle of equal and equitable treatment of all tax payers and the increasingly popular and rational VAT system is retrograde in the long run and needs immediate review.

17.2.8 To protect the interests of the handloom sector, the raw materials consumed by the handlooms and handloom products are exempt from excise duty. One such item, i.e., plain reel hank yarn is completely exempt from the duty while cross reel hank yarn is exempted only if purchased by the handloom co-operative societies. This exemption is provided with a view to improving the cost competitiveness of the handloom fabrics. However, a recent survey by the office of the Textile Commissioner has shown that almost 39 percent of the hank yarn is consumed by the powerloom sector. Thus, the powerloom sector is an unintended beneficiary of the duty exemption provided to the handloom sector. This exemption not only leads to revenue loss to the govt. of over Rs.160 crore but also does not achieve the objective of providing competitiveness to the handloom fabric as the same duty exemption is available to the powerloom sector consuming the hank yarn.

17.3 **Objectives of the fiscal policy**

The govt. policy of protecting certain segments of the industry, particularly the decentralised segments has almost marginalised the organised sector except the independent spinning sector where small units still contribute only about 5 percent of the production and installed capacity, and in the process, killed the incentive for capital investment in technology and quality upgradation. Most of the major textile economies in the world have 'VAT' system of taxation, which provides equal growth opportunities to all segments based on their inherent strength and consumer preference. VAT system of taxation also avoids cascading effect of duties, ultimately

resulting in lower incidence of duties on final textile products. Our textile industry, which has to compete with such economies in the integrated world market, should be subjected to rational tax structure and policy in order to provide them with level playing field as far as possible in this respect. The Committee is of the view that the fiscal policy and structure of textile items should be guided by the following considerations :-

- (i) To stimulate demand with rational and lower tax structure, resulting in reduction of prices of fabrics and garments and making them cost competitive to face the competition in the domestic market and improve export growth in the integrated world market;
- (ii) To provide stimulus and encouragement for new investments in textile & garment sectors to upgrade the technology and quality levels;
- (iii) To improve production, productivity, quality and cost competitiveness of the textile industry and provide value for money to the Indian consumers and improve per capita textile consumption;
- (iv) To create a level playing field for tax structure amongst different sectors of the industry to :-
 - (a) reduce motivation for tax evasion;
 - (b) encourage investment for quality upgradation and value addition;
 - (c) provide healthy competition within the textile sector and promote competitiveness of the industry.
- (v) To maintain revenue neutrality.

Recommendations of the Committee

17.4 Stable fiscal policy

To enable entrepreneurs to make viable economic decisions for investments it is essential to provide stable, positive and healthy climate for investments through rational fiscal policy & structure. The Committee, therefore, recommends that the Govt. may formulate a long term fiscal policy and only minor adjustments may be made in the annual budgets to provide stability in the fiscal policy. A stable fiscal policy will encourage investment in the textile sector.

17.5 Excise duty

17.5.1 Two tier VAT system

While ideally, a single VAT system is the most desirable system of taxation, in a strong federalist country like ours, even a 2 tier VAT system in the Indian context can be quite an accomplishment. Therefore, the long term feasible objective of the fiscal policy ought to be to move towards a progressive two-tier parallel VAT (value

added tax) systems in the country. One tier would be the central VAT, which would cover excise duty structure at various stages of production, while the second tier would be state VAT, which would cover the state and local levies at various stages of production to avoid cascading effect of the levies. While rationalisation of tax structure and elimination of exemptions and concessions can enable, at least theoretically, the Union Govt. to move towards a uniform VAT on all products and services, State VAT, at first glance, would seem a non-starter what with multiple tax rates, exemptions, inter-state sales, consignment/branch sales, octroi, turnover tax etc. But the Committee feels that it is a perfectly feasible idea provided there is a political will all around to attain it. Over the years, sales tax, the main revenue source of almost all states, has exhibited limited buoyancy thanks to a spate of exemptions and incentives and unwillingness of State Governments to rationalise the tax structure. Increase in central sales tax rates and its implicit unfairness to the importing states which also often are the poorer states have led to increasing revenue losses through consignment and branch transfers. There is already a clamour to tax these transactions as well. Similarly, octroi, though abolished in many states, is still prevalent and a major irritant to the trade in some states, notably in Maharashtra and Mumbai metropolitan region. Central sales tax and octroi, in the Committee's opinion, are antithetical to free and efficient trade and a hindrance to generation of wealth. But the states also need revenue to sustain their administrative and developmental functions. Various recommendations have been made to abolish CST and octroi and compensate the states with alternative taxation sources or incremental flow of funds from the central revenue. A case in point is the feasibility of authorising states to tax services along with goods provided they forego CST and octroi. While this Committee is not required to comment nor concerned with these state fiscal issues, the underpinning of the above brief description is to show that shorn of the distortions, the states can move towards a VAT as much as the Centre. It is heartening that the Centre is slowly reducing the number of excise duty rates and moving in that direction.

However, in the short term, the Committee would recommend rationalisation of the existing multiple rates at various stages of textile production and fibre-based taxation structure coupled with reduction in overall excise duty incidence and withdrawal of exemption in order to provide a logical basis to the tax structure keeping the long term development, trade and fiscal objectives in mind. They are listed below :

17.5.2 Reduction in the excise duty incidence on textiles

Next to food, textile is the basic necessity of life. Still the textile items have been subjected to very high rates of excise duty which, ultimately result in increasing the cost/price of the textile items. The reasons for the same are historical. Textile is one of the oldest and pioneering industries of the country. As such, in the initial years, it came to contribute predominantly to the govt.'s revenue collection through indirect taxes. With the passage of time, many new industries have come up. With

the growing excise collections from other new industries, high excise burden on the textile industry should have been eased. However, because of the govt.'s constraints in mobilising additional resources for developmental purposes, high imposts on the textile industry continue. As a result, though the share of value addition by the textile industry in the country's GDP has declined and currently works out to about 4 percent, it continues to contribute over ten percent of total excise collections. In the Central Budget for 1999-2000, rationalisation of excise structure was sought to be achieved by converging the prevailing 11 major advalorem rates towards three rates, viz., a merit rate of 8 percent, a central rate of 16 percent and a demerit rate of 24 percent. The exercise in the budget to reduce the multiplicity of excise rates was a step towards moving to a single rate with a view to finally introducing a full-fledged VAT system which presupposes a single rate of tax. The Committee is strongly of the view that there is a need to broadbase and reduce the rate of duty on textile items. The textile items should be treated as 'merit goods' and should attract the merit rate of duty of 8 percent in order to reduce the incidence of duty on various textile items. The broad basing of duty structure consequent upon withdrawal of exemptions would maintain the revenue neutrality. In fact, a rational duty structure as recommended by the Committee would certainly result in accelerating the harmonious growth of the industry, which in turn would increase the revenue to the govt.

17.5.3 Increasing the consumption of man-made fibres/yarns

The main raw materials required for the textile industry are cotton and man-made fibres/yarns. The cotton sector has historically enjoyed a lower rate of duty vis-à-vis man-made fibre/yarn sector. This was perhaps due to the initial perception of the man-mades when they were introduced in the country in the early seventies/eighties, that they were consumed predominantly by the elite segment of the society. Their high price in those days vis-à-vis cotton also aided this perception. However, over a period of time, the position has dramatically reversed and the usage of man-made fibres/yarns has considerably shifted towards the lower segments of the society due to its inherent qualities of durability, crease resistance, easy washability etc. Cotton now, in fact, has become the fabric for the richer sections of the society, except perhaps for the coarser fabrics. The duty structure which had always been kept at a higher rate for the man-made sector has been reduced gradually in the recent past, but the rates still continue to be substantially higher vis-à-vis the cotton sector. The high incidence of duty on man-made including their blends has inhibited, to some extent, the consumption of such fibres/yarns in the country though substantial price fall in recent years has aided their growth, particularly the synthetic ones. The ratio of consumption of man-made to cotton is about 56:44 in the world. However, in India, cotton still dominates with about 66 percent of overall fibre/yarn consumption. The Committee is of the view that time has come to attach equal importance to cotton and non-cotton fibres. It may however not be possible or even necessary for India to reach the consumption pattern of world which is heavily in favour of non-cotton fibres due to the climatic conditions and cotton advantage that India enjoys. It would be

reasonable to provide additional thrust for consumption of non-cotton fibres, particularly in value added blended textiles and technical textiles, to release the demand pressure on cotton and make it more cost competitive. More importantly, it will release high value cotton for value added textile exports.

India has a competitive edge in cotton sector in volumetric terms. In price terms also we had competitive advantage for a very long period but recent declining international price trends indicate that we might not be able to sustain this advantage for long. It is possible to expand the export of the high value cotton-based items to increase our over-all export earnings along with unit value realisation. One such way is to increase the domestic consumption of man-made/blended items and release the finer, value added cotton items for exports. Since Indian market, except at the very upper end, is sensitive to the 'price' factor, the consumption of man-made/blended textiles could be increased by reducing/ rationalising the fiscal levy on such items and bringing them at par with cotton segment as this would augment their availability at reasonable prices, thereby offering the consumer real competitive choices without the distortions caused by the fiscal structure.

17.5.4 Withdrawal of excise duty exemptions

(a) Hand processors and specified processes

As the issue has already been discussed in detail in para 17.2.5, it is essential to withdraw the exemption for hand processors and specified 12/7 mechanical processes carried out with the aid of power. The withdrawal of such exemption would encourage the quality upgradation in the processing segment and remove scope for duty evasion. Hand processing with duty exemption may be permitted only for processing of handloom items of unique cultural value like bandhani, tie & die, ikat etc.

(b) SSI exemption benefit extended to spinning of cotton yarn

In the recent budget, SSI duty exemption benefit has been extended to spinning of cotton yarn. This will mean that there will be total exemption from payment of excise duty up to a turnover of Rs. 50 lakh and 50 percent of the rate applicable, i.e., 4 percent for the turnover between Rs.50 lakh and Rs.1 crore. This benefit which was available earlier was withdrawn in 1996 as massive evasion was reported under the garb of this exemption. There is no ground on which reinstatement of such a benefit can be justified for the spinning of cotton yarn. The excise tariffs have the following classification for each stage of the spinning activity :

<u>TI No.</u>	<u>Item</u>	<u>Excise Rate</u>	<u>Remarks</u>
52.01	Cotton-not carded or combed	Nil	it covers raw cotton and ginned cotton.
52.02	Cotton Waste	Nil	-
52.03	Cotton-Carded or combed	Nil	It covers manufactured fibres beyond ginned cotton upto roving stage (just before spindles/rotors)
52.05	Cotton Yarn (other than sewing thread covered under TI 52.04)	8 percent	The spinning of yarn takes place only at spindle/rotor stage and yarn becomes usable after winding stage.

- All manufacturing stages beyond raw/ginned cotton and prior to the final stage of spinning of yarn are fully exempted from payment of excise duty.
- The above referred SSI exemption will mean that :
 - a) SSI units can be set up with spindles or rotors within SSI permissible investment limits.
 - b) They will buy all their inputs, viz., carded/combed cotton sliver or rovings, which are duty free from non-SSI units.
 - c) The dutiable stage of spinning of yarn will enjoy SSI exemption, which has a potential risk of high excise evasion.
 - d) The evasion in textile industry at the stage of processed fabric is a known fact. There has been a greater compliance at spinning stage due to preponderance of large units. The SSI exemption for spinning has sown seeds of evasion in spinning sector, which compelled withdrawal of SSI exemption benefit in 1996. Reinstating such exemptions as proposed in the current budget will extend the evasion across the value chain.
 - e) It is also surprising that the SSI exemption benefit is granted only to cotton yarn and not to other blended yarns though the manufacturing process including equipment & machinery are identical and cotton is one of the inputs. The main reason appears to be the benefit under exemption or evasion will not be of the same magnitude as of cotton yarn as inputs are dutiable.

- f) If the SSI exemption continues for cotton yarn, independent spinning mills (non-SSI units) will be compelled to restructure their spinning operations by relocating their final yarn manufacturing stage (ring/rotor) into separate small units to avail of the benefit under the exemption scheme. This will mean substantial revenue loss from the estimated Rs.503.29 crore.

The Committee, therefore, strongly recommends that SSI duty exemption for SSI cotton yarn units should be withdrawn with immediate effect.

(c) **Hosiery and knitwear**

Knitting/Hosiery sector has been traditionally enjoying exemption from excise duty mainly for the reason that knitting sector was confined to hosiery, a low value item and it was forming a small share of the total textile market. However, now knitting sector is contributing about 17 percent of the total cloth production in the country, and has exhibited comparatively higher rate of growth during the recent years and has also moved to fashion fabric and fashion garment. Knitting and weaving sectors have similar industry and cost structures and hence adopting tax structure applicable to weaving sector for the knitting sector should not pose any problem. The Committee, therefore, recommends for withdrawal of excise duty exemption on knit fabrics and prescription of the same rate of duty as applicable on woven processed fabrics. Removal of exemption on knitting sector which has 17 percent share will facilitate reduction in the basic duty on other textile items to maintain revenue neutrality. The proposed structure will provide to the industry access to other Modvat benefits such as Modvat on capital goods, thus encouraging additional investments in modernisation and new capacity creation.

(d) **Exemptions for handloom sector** :

Currently handloom segment enjoys a number of concessions, i.e., plain reel hank yarn is completely exempted from duty while cross reel hank yarn is exempted if purchased by handloom co-operative societies. Cotton handloom fabrics processed by handloom societies are exempted from duty while handloom fabrics processed by independent processors approved by Govt. of India attract 40 percent of the normal applicable rate of duty. The Committee has recommended for categorisation of handloom segment in 3 categories and the conversion of the 3rd tier of handlooms which is most vulnerable to competition to the 1st tier of handlooms or 3rd tier of powerlooms and strengthening the 1st and 2nd tiers of the handloom segment. This is essential with a view to strengthening the basic structure of the handloom segment to enable them to face international competition in the integrated world market. In line with this thinking, the Committee also recommends that excise duty exemptions available to handloom segment at the fabric stage may be phased out over a period of 3 years. The hank yarn duty exemption should also be withdrawn, subsequent to the establishment of setting up of network of cone dyeing units to meet the requirement of

dyed yarn of the handloom segment or co-operative/other modes of reeling at the weavers' end.

17.5.5 **Fabric processing duty**

The cotton/man-made blended fabrics attract BED and AED(ST). The BED was imposed on fabrics in the year 1995-96, when the MODVAT scheme was extended upto fabric processing stage. Additional Excise Duty in lieu of Sales tax AED(ST) was first levied by the Central Govt. in 1957 on textiles. Earlier it was levied by the states. A tax-rental arrangement was agreed upon between the centre and the states. According to the agreement, the states agreed to abolish the sales tax on textiles, and in its place, AED(ST) was levied by the Central Govt. The entire proceeds of these duties are distributed to the states on the basis of a formula prescribed by the Finance Commission. The duty at the processing stage is levied on the fabrics of mill sector and powerloom sector; the handloom fabrics and knitted fabrics attract exemption/concessional duties. The cotton handloom fabrics processed by Registered Handloom Development Co-operative Societies are exempt from duty. The Cotton handloom fabrics processed by Independent Processors approved by Govt. of India attract concessional duty of 40 percent of the normal applicable rate of duty. The cotton knitted and hosiery fabrics are exempt from duty. The cotton fabrics of handloom, mills and powerloom sector processed without the aid of power and steam (hand processed) are exempt from duty. Cotton and man-made fabrics undergoing 12 and 7 specified processes respectively, viz., Calendering, stentering, damping, etc. are exempt from duty.

In the year 1995-96, the MODVAT Scheme was extended upto the fabric (processed) stage. The grey fabrics continue to be exempt from duty and thus, they are outside the purview of MODVAT. Under the MODVAT Scheme, independent processors and multi-locational mills were provided credit on the deemed credit basis. The composite mills, i.e., integrated mills having spinning, weaving and processing activities in the same premises can claim the credit on the basis of actual duty paying documents, and captive consumption of yarn is exempted from duty. In the Budget of 1997-98, the multi-locational mills were also brought on par with composite mills and excise duty of 5 percent on cotton fabrics priced upto Rs.30/sq.mtr. and 12 percent for other fabrics was prescribed on grey fabrics. The composite and multi-locational units i.e. having spinning, weaving and processing activities at different locations were availing the Modvat benefit on the basis of actual duty paid on inputs, i.e., yarn, dyes etc. While independent processors and spinning units having processing facilities or weaving units having processing facilities were paying duty and availing of Modvat benefit on the basis of "deemed credit". Thus, exclusive weaving and stand alone spinning units having processing facilities were treated on par with independent processors.

With effect from 16th December, 1998, the stenter/chamber based excise duty in respect of processed fabrics manufactured by an independent processor were introduced. Under this scheme, an independent processor would pay Rs. 1.5 lakh or Rs. 2.00 lakh per chamber per month depending on the average value of fabrics processed. The independent processor has been defined as a manufacturer who is engaged primarily in the processing of fabrics with the aid of power and who also has the facility in his factory (including plant and equipment) for carrying out heat setting with the aid of power or steam in a hot air stenter, and who has no proprietary interest in any factory engaged in the spinning of yarn or weaving of fabrics. Thus, currently 3 types of duty structure prevail for processed fabrics depending on the structure of the units:

- i) On the fully composite mill sector, the duty is levied on advalorem basis with MODVAT facility on actual basis. The advalorem rate of duty is 13 percent (8 percent BED + 5 percent AED (ST)) for the cotton fabrics of value upto Rs.30 per sq.mtr. and 16 percent (BED 8 percent+AED(ST) 8 percent) for other fabrics.
- ii) On the independent processors and multi locational units with separate processing houses, compounded levy based on stenters/chamber has been imposed, effective from 16th Dec.'98. Under the scheme, processing units whose average value of processed fabrics is upto Rs.30/sq. mtr., the excise duty payable is Rs.1.50 lakh per chamber per month. In case of average value of processed fabrics exceeding Rs.30/sq. mtr., the excise duty payable is Rs.2.00 lakh per chamber per month.
- iii) The semi-composite units/multi locational units, i.e., units having weaving and processing facilities and units with spinning and processing facilities attract advalorem rate of duty at the same rate as the composite mills but with MODVAT facility on a 'deemed' basis of 50/60 percent of the BED (as against 'actual' basis for composite mills).

Prior to the introduction of the compounded levy, all the above three types of units were subjected to the same advalorem rate of duty, the difference was only that composite mills were able to claim the MODVAT facility on actual basis while independent processors and semi-composite units were claiming MODVAT on 'deemed' basis. However, as mentioned in para 17.2.6, the independent processors, particularly those processing man-made fabrics were not able to claim credit for the entire duty paid at the filament yarn stage because of inadequacy of the 'deemed credit', while mill sector was able to get entire credit for the duty paid at yarn stage because of MODVAT available to them on actual duty paid basis. On the other hand, processors processing cotton fabrics were able to claim excess credit because of the lower rate of duty at cotton yarn stage. The differential in duty rates at yarn stage had placed the independent processors processing man-made fabrics at a disadvantageous position. To remove this anomaly, compounded levy system was introduced. But this

system has created another anomaly in the duty structure at the processed fabric stage in the sense that there is wide variation in the incidence of duty on the same type of fabrics produced depending on the type of the processing house. This issue has been discussed in detail in para 17.2.7.

The Committee would recommend that while in the long run, an advalorem duty structure would be ideal, in the short run, the duty on high value textile processing independent processors should be levied with higher duties than at present by multiplying the tax rate per chamber for cheaper fabrics costing upto Rs.30 per sq. mtr. by two ratios, namely, the ratio of the national average price of fabrics costing above Rs.30 per sq. mtr. over that of fabrics costing upto Rs.30 per sq. mtr. and the ratio of effective tax rate net of modvat on fabrics costing above Rs.30 per sq. mtr. over that of fabrics costing upto Rs.30 per sq. mtr. This would minimise the gap between such processors and composite mill sector who are obviously direct competitors. The composite mills can also be given the discretion for opting for either the advalorem or the chamber-based duty structure.

The Committee also feels that there is a need to reduce the additional excise duty in lieu of sales tax (AED-ST) on fabrics from existing 5 percent for cotton fabrics of value upto Rs.30/sq.mtr. and 8 percent on other all fabrics to a uniform rate of 5 percent. Since textiles are “declared goods” under the Central Sales Tax Act, 1956, the sales tax thereon must not exceed 4 percent at retail point and hence, a uniform 5 percent rate of AED(ST) at the ex-factory level will be close to the duty rate of 4 percent at retail point and therefore, meets both equity and legal restrictions. The present rate of 8 percent on cotton fabrics costing Rs.30/sq. mtr. and other fabrics is unfair and contrary to the stipulations of the CST Act, 1956. While strictly speaking AED(ST) Act is a different statute and therefore provisions of CST Act do not apply, the fact remains that AED(ST) is the consequence of an administrative arrangement between the Union and the States to avoid multiplicity of sales tax rates in different states on an essential daily requirement of the common man. Therefore, keeping this largely socio-economic objective in mind, an effective rate of more than 4 percent at retail point level is a travesty of the hallowed objective and contrary to the spirit of the CST Act. If anything, there is even a stronger case to reduce the rate to a uniform 4 percent since textile is an essential need of every human being & more so, for the poorer sections of the society. Therefore, it is recommended that this issue may be taken up strongly with the Ministry of Finance to take rationalisation process to its logical conclusion and levy a uniform rate of 4 percent of AED(ST) on all types of processed fabrics. In the long run, however, the AED(ST) may be transferred back to State Govts. for implementation of state level VAT as recommended herein before.

17.5.6 Readymade garment sector

The Committee was informed that large-scale excise evasion has been possible because garment sector has been kept out of the purview of the excise net. Bringing this sector within the excise discipline will go a long way in curbing the evasion because in order to avail of Modvat, garment manufacturers will insist on duty-paid

documents from fabric suppliers. This would also pave the way for implementation of full fledged VAT system in the long run.

17.5.7 Uniform excise duty structure

The long term objective of the fiscal policy relating to textile industry should be to create a uniform excise duty structure for all textile items for successful operation of VAT system which pre-supposes uniformity of tax rate irrespective of stage of production or product category. It may not be feasible or appropriate to create a uniform duty structure in one go on all textile items which are currently subjected to a number of rates. This could, however, be achieved in a phased manner over a period of time. In the first phase, the fibre stage duty should be reduced, to narrow down the inter-sectoral gap. In the 2nd phase, parity in excise duty structure at yarn stage and in the 3rd phase, reduction of rates and inter-sectoral parity between cotton and man-made sector should be effected. Currently, among the textile fibres, cotton fibre is completely exempted from duty while man-made fibre attracts excise duty of 18.40 percent (BED 16 percent +AT&T 2.40 percent). Cotton being an agricultural commodity and subjected to the vagaries of nature may continue to be exempted from duty. However, in the 1st phase, excise duty on man made fibres, i.e., PSF, VSF, ASF and PPSF may be reduced from the existing 18.40 percent to 9.20 percent. (BED 8 percent & AT&T 1.20 percent) to reduce the gap between cotton and man-made fibres and promote the consumption of such fibres to release the pressure on supply of cotton. In the 2nd phase, disparity in the duty structure on man-made filament yarns and blended and 100 percent non-cotton spun yarn may be removed. Currently, PFY and NFY attracts excise duty of 34.50 percent and 27.60 percent respectively while VFY, PPFY and blended spun yarn are subjected to excise duty of 18.40 percent. The duty on all man-made filament yarns may be brought down to the level of 18.40 percent which is the present rate applicable to blended spun yarn and PPFY/VFY, thereby bringing parity in the duty structure at filament and spun yarn stage. At this stage, cotton yarn may continue at lower rate of 9.20 percent (BED - 8 percent + AT&T - 1.20 percent). In the 3rd phase, the duty may be reduced on all the yarns, i.e., filament and spun yarns to the level of 9.20 percent, i.e., at par with the man-made fibres and cotton yarn. The fabric stage BED may continue at the existing rate of 8 percent, and AED(ST) of 4 percent (as recommended in para 17.5.5) may be transferred to the State Govts. with a view to implementing the state level VAT system. This 3-phase rationalisation may be accomplished within a strict time-span of 5 years, i.e., before 2005. A table showing the proposed phase wise changes is placed below:

Proposed phase wise changes in duty structure

(In advalorem percentage)

Items	Present duty structure (BED+AT&T)	1 st Phase	2 nd Phase	3 rd Phase
<u>Fibres</u>				
Cotton	Exempt	Exempt	Exempt	Exempt
VSF	18.40	9.20	9.20	9.20
PSF	18.40	9.20	9.20	9.20
ASF	18.40	9.20	9.20	9.20
PPSF	18.40	9.20	9.20	9.20
<u>Yarns</u>				
Cotton yarn	9.20	9.20	9.20	9.20
Other spun yarn	18.40	18.40	18.40	9.20
PFY	34.50	34.50	18.40	9.20
NFY	27.60	27.60	18.40	9.20
VFY	18.40	18.40	18.40	9.20
<u>Fabrics</u>				
(a) Cotton fabric of value upto Rs.30/sq. mtr.	13.00	12.00	12.00	8.00 *
(b) Other fabrics	16.00	12.00	12.00	8.00 *
Different types of duty exemption	Duty exemption to hosiery/knitted fabrics, hand processors etc.	Withdrawn	Withdrawn	Withdrawn

* - 4 percent AED(ST) transferred to State Govt.

17.5.8 Local levies

Currently, textile items are subjected to sales tax which varies from state to state and item to item. Besides, other local levies like market tax, turn over tax, octroi etc are also applicable. The Committee has recommended a state level VAT system to enable modvating of sales tax and other local levies to reduce the cascading effect of the state level taxes. For successful operation of state level VAT, it is essential that there is uniformity in the sales tax and various other local levies among the different states of the country. The state govts. can compensate the local bodies on account of the local authority levies from the state VAT. The Committee recommends that Central Govt. may take up very strongly with the state govts. for formulation of the uniform structure of sales tax and other local levies. Apart from state level VAT system, the uniformity in state level taxes would also result in appropriate policy formulation with regard to SAD and refunds to the exporters to make the Indian textile items more cost competitive.

17.5.9 Textiles Committee cess

Some industry associations had strongly recommended to the Committee during interactive sessions that the Textiles Committee cess of 0.05 percent should be discontinued. However, the Committee is of the view that Textiles Committee cess should continue and the funds collected under the cess should be utilised for providing the necessary services to the decentralised sector and setting up of ATDCs and testing laboratories. In fact, it is noted by the Committee that the Textiles Committee has already transformed itself to a industry-friendly, proactive service organisation which was also appreciated by many industry representatives. It is, however, noted that annual collection under the cess is over Rs.30 crore while the amount released to Textiles Committee is considerably less. Since textile industry is in dire need of funds to strengthen it self and the instant cess is collected for rendering directly attributable services to the industry by the Textile Committee, there is no logical reason as to why the full funds should not be released to the Textiles Committee. In fact, the Committee is of the opinion that since the cess is a dedicated service charge and not a general tax, paid by the specific service recipient sector, there is a case to directly channelise the collections to the service provider. The Committee, therefore recommends that the Textiles Committee cess should flow to a dedicated fund (PDA) to be created and administered by the Ministry of Textiles enabling it to prioritise the quality related developmental needs of the industry which falls within the domain of the Textiles Committee.

17.5.10 Additional duty on textiles & textile articles (AT & T)

As already stated in para 17.2.1 the AT&T is applicable at the rate of 15 percent of the basic duty on all fibres and yarns. This duty was levied initially to subsidise the Janata cloth scheme. Subsequent to the phasing out of the Janata cloth

scheme, the govt. has linked the collection under this head to provide 5 percent interest reimbursement under TUFS. The collections under the AT&T are on an average in the range of Rs.600-650 crore. Some Committee members were apprehensive that the interest reimbursement amount may fluctuate depending on the disbursement rate and in the year of high disbursement, interest subsidy may exceed the amount of collection under the fund. This may provide leverage to the Finance Ministry to increase the rate of AT&T without considering the fact that in other years the reimbursement may have been less. However, the Committee notes that the govt. exchequer has already benefited from this tax to the extent of over Rs.3,500 crore and over the currency and repayment period of TUFS loans, may collect over Rs.7-8 thousand crore, thus this apprehension is misplaced and the Govt. is unlikely to be out-of-pocket on this account at any point of time. But at the end of the TUFS, this tax should be abolished as there will be no rationale left for it and no other industry pays any such sectoral tax.

17.6 **Customs duty**

17.6.1 Customs duties for the textile industry have been rationalised to moderate and acceptable levels in last few years. However considering the urgency and need for high investment in the textile sector, both for modernisation and capacity expansion, the Committee recommends reduction in import duties by way of rationalisation on the following items :

17.6.2 **Man-made fibres/yarns**

As regards import of man-made fibres/yarns which are extremely important for the growth and competitiveness of the Indian textile industry, the Committee recommends that the govt. should regularly monitor the indigenous prices of textile items and regulate the import duty structure in such a way as to create 'credible threat' of imports to maintain the price discipline in the indigenous market. This is very important in view of the fact that man-made fibres/yarns are manufactured by a few manufacturers who could form a 'cartel' to the detriment of the textile industry.

17.6.3 **Intermediates of man-made fibres/yarns**

To internationalise the cost of man-made fibres and filament yarns in the competitive international scenario, it is essential to facilitate their access to fibre intermediates, i.e., DMT/PTA/MEG/Caprolactum/Acrylonitrile at international prices. This could be done by reducing import duty structure of such items to create “credible threat” of imports for the domestic manufacturers of such items, which are only a few in numbers. Currently indigenous prices of such items are 20-60 percent higher as compared to international prices. This is not a very happy situation. The Department of Chemicals & Petrochemicals may also be approached for ensuring that such intermediates are made available to synthetic fibre/yarn manufacturers at international prices. Cost reduction of domestic fibre/yarn manufacturers is essential to expanding our present negligible share in international trade of man-made textiles.

17.6.4 Raw Materials for Woollen Industry

India is dependent on imports of raw wool for meeting the raw material requirements of the indigenous woollen industry in view of the insufficient quantity of raw wool produced in the country. Basically, there are two segments in the industry from the raw material point of view; the worsted system which uses fine long staple wool which is combworthy and the woollen system which utilises medium staple and coarse wool. The worsted system generally accounts for suitings, apparel and hosiery. Woollen system manufactures coarse woollen yarn for rugs, blankets etc. Of the total requirement of 44-45 mn. kg. of apparel grade wool, India hardly produces 4-5 mn. kg. of such wool in the country. As a result, requirement of the apparel grade wool is met by importing fine wool from foreign countries, particularly Australia. Besides, woollen/synthetic rags are also the basic raw materials for the shoddy wool industry and are not available indigenously. Hence, the industry has to depend on imported rags. The shoddy industry mainly caters to the need of the economically weaker sections and middle strata of the society. The substantial defence requirements are also met by this sector. Shoddy industry is also contributing significantly towards exports of value added products. Shoddy industry is also labour intensive, particularly engaging workers from the weaker sections and also a large number of women in sorting and stripping of rags. The wastage is also very high in this segment at about 67 percent. The Committee is of the view that customs duty on raw wool and synthetic/woollen rags should be brought down to the level of 5 percent from the existing level of 15 percent - 25 percent so that the raw materials of the woollen industry are available adequately at reasonable prices to improve its competitiveness.

17.6.5 Speciality yarn

Some of the specialised yarn like cuppromonium filament yarn, nylon 66, nylon 11, high tenacity PFY, kevlar, aramide and other fibres/yarns required for the manufacture of technical textiles continue to attract a very high rate of import duty in spite of no indigenous angle and no worthwhile indigenous consumption base. The reduction of duty on such yarn will encourage our weaving sector to produce diversified products and industrial textiles which have a high value addition and high domestic use/export potential. With the increased availability of value added diversified fabrics, there is every possibility that indigenous capacity for such type of yarn would be created. It is, therefore, in the long term interest of the textile industry and country that import of such types of yarn may be encouraged and permitted at 'zero' rate of customs duty and CVD till adequate indigenous capacities are built-up.

17.6.6 Specific duty on import of textiles

With the scheduled dismantling of the trade barriers, the import of textile fabrics, particularly the cheap fabrics will have severe adverse impact on the domestic industry, especially the decentralised powerloom sector. There is a provision in the WTO to protect the indigenous industry from such cheap imports by imposition of

specific duty on imports of fabrics. As per WTO, the customs duty can be prescribed advalorem as well as on specific basis with a provision for applicability of 'whichever is higher'. The Govt. may examine this issue and prescribe such duties consistent with WTO stipulations at an early date. The Committee also feels that consistent with WTO stipulations, tariff binding should be delayed and further front loading be avoided.

17.6.7 Additional duty of customs

The industry has demanded that additional duty of customs be levied to neutralise the impact of local levies on the imports of textile products. The govt. has imposed SAD to neutralise the impact of local levies on finished goods but nothing seems to have been done for local levies built in the input cost. The Committee was also informed that cascading impact of local levies absorbed in the input cost is quite substantial at about 11 percent. The Committee recommends for appropriate action by the govt. to verify this claim and neutralise the impact of such levies till such time when a more transparent state VAT is introduced.

17.6.8 Export promotion capital goods (EPCG) scheme :

The facility has been given for import of capital goods at 'zero' rate of duty under EPCG scheme subject to the condition that CIF value of machinery, is a minimum Rs.20 crore. However, in respect of RMG sector, the threshold limit was reduced to Rs.1 crore in the 1998-99 budget. In the current Exim Policy, the threshold limit for entire textile industry has been reduced to Rs.1 crore, though notification for the same has still not been issued by the Ministry of Finance. The textile industry still suffers from high degree of obsolescence and are required to be modernised and technologically upgraded urgently. Since the textile sector is the single largest foreign exchange earner with about 37 percent share and since it is facing serious global demand recession, in order to compete effectively in the world market, more particularly in the ensuing quota-free WTO regime, this incentive is absolutely essential to equip the industry well in time to face the global competition. Another compelling reason to reduce the threshold is the Technology Upgradation Fund Scheme (TUFS). If the benefit of 5 percent interest reimbursement on loans availed of for upgrading technology in the textile sector is combined with the zero-duty EPCG scheme, it will enable a substantial technology upgradation in the largely decentralised textile sector and equip it to promote value added exports competitively. This will also give a substantial boost to the export of textiles. Therefore, the Committee strongly recommends that the Ministry of Finance may immediately issue the necessary notification reducing the threshold limit for textile industry to Rs.1 crore. The said threshold limit may continue in future also without any change.

17.7 Technical textiles

The Committee has recognised technical textiles as a priority and thrust area and to facilitate its growth, the fiscal levy measures recommended are given below:

(i) Excise duty: The technical textiles may be treated as a ‘merit good’ and may attract ‘merit’ rate of excise duty, i.e., 8 percent.

(ii) Customs duty:

a) Identified raw materials for technical textiles with no or insignificant indigenous angle may be permitted to be imported at ‘zero’ rate of customs duty and CVD till the time we have built up enough capacity in the country to cater to the requirement of technical textiles industry.

b) Identified customized machinery/equipment for the manufacture of technical textiles with no or insignificant indigenous angle may also be permitted to be imported at ‘zero’ rate of customs duty and CVD with “actual user condition”.

(iii) Local levies :

To encourage the production of technical textiles, the Central Govt. should take up strongly with the state governments for providing exemption to technical textiles from the sales tax for at least a period of 10 years. Like wise, capital goods and raw material required for the manufacture of technical textiles should also be exempted from octroi for a period of 10 years.

17.8 Capital goods

I. Excise duty

An attempt for simplification and gravitating towards mean rate of duty of around 18 percent for all excisable commodities, was made in the budget of 1997-98 and new standard rates of duties of 8 percent, 13 percent and 18 percent were introduced. In the process, rates of duties of 10 percent and 20 percent were removed. Since the textile machineries were then attracting 10 percent duty, 13 percent rate of duty was imposed on such items. In the current budget, again an attempt has been made to rationalise the excise duty structure with central rate of 16 percent, merit rate of 8 percent and demerit rate of 24 percent. In the process, all the goods hitherto attracting a duty rate of 5 percent, 8 percent, 10 percent and 12 percent are charged to duty @ 8 percent, while all the goods attracting duty at 13 percent, 15 percent and 18 percent are charged a duty rate of 16 percent. Accordingly, excise duty structure of textile machinery has been further increased to 16 percent. It may be pointed out here that if first phase of rationalisation had not taken place in 1997-98, the textile machineries would have continued to attract duty rate of 10 percent and would have been charged 8 percent duty under the current rationalisation scheme. The two phase rationalisation programme has, thus, adversely affected the textile machinery items through a kind of double jeopardy. It is also relevant to point out here that Hon'ble Finance Minister has stated in his budget speech that "In the one major area of machinery and capital goods where the basic rate is rising from 13 percent to

16 percent, I must point out that excise on such products are eligible for MODVAT credit in the hands of the buyer". However, it may be noted that since textile industry except the spinning and miniscule composite mill sector is predominantly in the decentralised sector, it is not able to claim MODVAT credit. In addition, grey fabrics and RMG sectors are exempt from duty and thus, these sectors are unable to claim MODVAT credit on the machines purchased by them. Likewise, independent processors operating under the compounded excise levy scheme are not eligible for MODVAT credit.

The textile machinery manufacturing industry is as such not performing well with almost 55 percent to 60 percent unutilised capacity, while total investment in such machinery including imports has been growing steadily. Import of old second hand machinery has been one of the major reasons. Enhancement of excise duty will further deteriorate their position due to demand contraction from the various decentralised textile sectors in the wake of increased prices. High cost of machinery coupled with high rate of excise duty adversely affects the textile industry in the form of high capital related expenses (i.e., depreciation, interest charges etc.) leading to high cost of production of textile items. In the context of the Technology Upgradation Fund (TUF) Scheme, (which is operative for 5 years from 1st April, '99), the high rate of excise duty will substantially nullify the benefits of the proposed incentive in interest rates and will discourage modernisation in the decentralised segments of the textile industry which, ironically, are the major targets of the TUF. Since net of MODVAT, generally excise duty does not in effect survive on capital goods, it is only logical that capital goods that are incapable of modvating due to various reasons should, ab initio, bear no basic excise duty. Besides, such a rational approach would supplement the efforts of TUF to reduce the capital related costs of the textile industry further and thereby strengthen the export capability of the textile industry. It is, therefore, necessary, nay, essential to exempt all textile machinery from basic excise duty as against present applicable rate of 16 percent. If, however, the rationalised excise tariff structure does not allow for any such exceptions, then the TMI at the least deserves the merit rate of 8 percent. Hence, it is strongly recommended that the basic excise duty on all types of textile machinery and their components be reduced to zero or at the least, 8 percent.

II. Customs duty

The basic policy framework with regard to the import of capital goods should be to permit import of high-tech textile machineries with no indigenous angle on duty free basis while concessional import duty for other machineries. Given this policy framework, the recommendations of the Committee are as below :

(a) Concessional duty on specified machinery

To accelerate the process of modernisation of the textile industry in view of the ongoing dismantling of the quota system, phasing out of the import restrictions and globalisation of trade etc., in the budget of 1997-98, 138 items of textile

machinery were allowed to be imported with concessional rate of duty of 10 percent as against the then prevailing 20 percent normal rate of duty. Those items were included in the list 10 of the Customs Notification No.11/97 dated 01/03/97. In the budget 1998-99, this list was enlarged by net addition of the 21 more items of machinery, (4 items of textile machineries were dropped from the list and 25 new machines from the woollen sector were added), thus increasing the number of items of machines in the said list to 159. However, the Special Additional Duty (SAD) @ 4 percent was also imposed on imports of these capital goods in the budget of 1998-99 and CVD was also increased from 10 percent to 13 percent in the budget of 1997-98 due to excise duty structure rationalisation. In the budget of 1999-2000, again customs duty has been increased on account of : (i) increase in basic duty from 10 to 15 percent (though special customs duty of 5 percent has been withdrawn the basic customs duty has been increased by 5 percent), (ii) imposition of 10 percent surcharge and, (iii) increase in CVD from 13 to 16 percent due to increase in excise duty, thereby more than nullifying the benefit of the concessional rate of duty.

The increased import duty would severely impede the modernisation process of the textile industry and the purpose for which the concession was given in the first place will be totally defeated. The exemption from the 4 percent levy of SAD has been provided to the imports of capital goods of certain industries, i.e., fertiliser, telecom etc. and on leather machineries 5 percent special duty has been withdrawn and basic duty continues at the pre-budget rate of 5 percent while no such favour has been granted to the capital goods of textile industry which contributes about 37 percent to the export basket of the country and 14 percent to the industrial production of the country and what is more, badly in need of technology upgradation in almost all segments of the industry on a massive scale. The increase in import duty has cascading effect in terms of high capital related expenses which ultimately results in high cost textile economy. In the era of globalisation when the corner stone of competition is “cost effectiveness”, Indian textile industry, one of the largest and traditional industry, will lag behind if any attempt is made to increase the cost/price of capital goods, particularly in view of the opening up of the market when Indian industry has to face competition on its home turf. Therefore, the Committee recommends import of high-tech machinery with no or negligible indigenous angle included in the above list on duty free basis and on the remaining medium-tech machines with no or insignificant indigenous angle concessional rate of 5 percent. The SAD may also be abolished on import of such machinery.

(b) Other textile machineries :

The basic customs duty on other textile machineries has also gone up from 25 percent to 27.25 percent in 1999-2000. Since these machineries are also important for the modernisation process of the textile industry, the duty for the same may also be reduced from the existing 27.50 percent to 16.50 percent. In order to provide a level playing field to the domestic textile machinery industry, the customs duty on parts and

components for such machineries may also be scaled down suitably to maintain a 10 percent duty differential, i.e., 5.5 percent (BED 5 percent + surcharge 0.5 percent).

(c) Input for textile machinery :

The first and foremost requirement of putting the domestic industry at par with imported machines is to allow imports of inputs for the manufacture of textile machinery at 10 percent below the rate applicable for complete imported machinery and equipments. This issue is discussed in detail in chapter on "Textile Machinery".

(d) Import of second hand machinery :

Prior to 31st March, 1999, import of second hand machinery was permitted freely subject to the stipulation of the residual life of 5 years. However the current EXIM policy has placed such imports under restricted/banned category. This is an extreme measure not supported by ground realities. It is noted that good quality almost new and high-tech second hand machineries are available in some of the countries who are vacating the textile field. Therefore, the Committee recommends that import of high-tech second hand machinery, more particularly those listed in List 10 of the customs Notification no.11/97-CUS. should be permitted through automatic licensing provided they are not more than 10 years old and have at least 10 years of residual life. The issue is discussed in detail in chapter on 'Textile Machinery'.

17.9 Jute industry

17.9.1 The modernisation of age-old machinery in jute mills to increase productivity and to reduce cost of production is the crying need of the hour for ensuring long-term survival of the industry. The Committee was told that a few machines including ring frames and looms of high technology are being now manufactured by Indian machinery manufacturers. In most other cases, there is no such indigenous capability. Till such time suitable high technology machinery at reasonable prices are developed and manufactured indigenously, the industry has to depend on imports of such machinery, mostly second-hand, as prices of new machinery abroad are very expensive or often not available. The present basic duty structure on import of jute machinery is 27.50 percent. While zero-duty concession is available under EPCG Scheme, most units in the industry are unable to avail of it as this is applicable to CIF value of capital goods to be imported of not less than Rs.20 crore. In case CIF value is below Rs.20 crore, import duty at the rate of 10 percent is payable. In Export-Import Policy for 1997-2002 (incorporating amendments upto 31-04-1998), the threshold limit for availment of zero-duty EPCG Scheme was lowered from Rs.20 crore to Rs.1 crore in respect of garments and a host of other segments including "produce and products of agriculture." Despite representation to DGFT by JMDC that jute, a natural fibre, is produced as a cash crop in agriculture sector and the ultimate finished products, namely, jute manufactures should, therefore, be treated as an agriculture-based commodity, jute industry continues to be ineligible for zero-duty

concession under EPCG Scheme. Even if this concession is allowed, very few mills will be able to take advantage as individual exports of most of the mills will fall short of the prescribed level for fulfilment of the concomitant export obligation. With the present high level of import duty and prohibitive prices of new machinery, only a few mills are in a position to import a limited range of machinery, mostly second hand. The Committee would, therefore, recommend that import of new technology jute machinery and their components, both new and second hand and without an indigenous angle, as required by the industry should be allowed duty free.

17.9.2 Following the abolition of excise duty on jute goods, the facilities available to the jute industry under MODVAT scheme stand withdrawn. Jute mills are now required to pay excise duty on all excisable inputs including jute batching oil and jute baling hoops which attract excise duty at the rate of 16 percent advalorem at present. The industry representatives stressed that this has put an additional burden on jute mills. They further pointed out that the industry has been denied the rightful claim for drawback of excise duty being paid on jute batching oil used in the manufacture of jute goods meant for export as also on packing materials under Customs and Central Excise Duties Drawback Rules. There is considerable substance in their representation and the Committee would, accordingly, recommend that these two items should be included in the eligible list for drawback on excisable inputs.

17.9.3 The recent decision of the Govt. of West Bengal to replace 4 percent multi-point sales tax on jute goods by single point levy at the rate of 2 percent has come as a relief to jute industry and trade. But complete abolition of sales tax on jute goods in line with waiver of excise duty by the Central Govt. would have been more desirable for revival of jute sector. The non-exemption of diversified jute products from the levy of sales tax and continuation of 4 percent purchase tax on raw jute have adversely affected the interest of the jute sector. The Committee would recommend that the Central Govt. should pursue this matter vigorously with the Govt. of West Bengal and other states.

17.9.4 The representatives of the industry mentioned in this connection that Govt. of Bangladesh has been making determined efforts to dump jute bags in India at prices substantially below cost of production by taking advantage of the concessional import duty of 20 percent allowed by our Govt. under SAARC preferential trading arrangement. They represented that this concession to Bangladesh should be withdrawn as import of jute bags from Bangladesh will have disastrous consequences for the entire jute sector. The Committee recommends that the concessional import duty on jute goods should be withdrawn to safeguard domestic interest on the analogy of keeping out tea and natural rubber from the purview of Indo-Sri Lankan Free Trade Agreement for precisely same season.

Jute cess

17.9.5 At present cess at specific rate per tonne is levied on jute items under Jute Manufacture(Cess) Act. The Committee recommends that method of collection of cess may be changed from specific rate to advalorem rate of 2 percent to improve the

cess collection. At present, the collected cess goes to the Consolidated Fund of India, and annual amount is released to JMDC. The Committee recommends that a dedicated fund may be created in the Ministry of Textiles on the lines recommended for Textiles Committee cess and the cess may flow to this fund to enable the Ministry to prioritise developmental needs of the industry.

CHAPTER –18

ADMINISTRATIVE SET-UP

18.1 Introduction

18.1.1 In the context of a liberalised domestic, industrial and trade regime and an integrated world trade regime, most of the govt., semi-govt. and autonomous bodies working under the Ministry of Textiles need reorientation and even restructuring in order to move away from regulation and control and to focus on a developmental and facilitating role. The Ministry of Textiles has a large number of attached and subordinate offices, statutory bodies and autonomous institutions/organisations under its administrative control. Some of these organisations were initially set up primarily with a view to facilitating the balanced growth of the different segments of the textile industry/trade through various controls and regulations while others had a purely developmental/promotional mandate. But in course of time, this distinction has got blurred except perhaps in the case of the research organisations and to a lesser extent, the export promotion councils. While the office of the Textile Commissioner, for example, had its birth in regulating supply and distribution of scarce textiles products during the second world war, the office of the Development Commissioner for Handlooms was carved out for promoting the cause of handlooms. But in course of time, the Textile Commissioner has assumed increasing developmental responsibilities while the DC (Handlooms) has come to acquire regulatory functions, albeit in a limited sphere, i.e., enforcement of handloom reservation policy. The Central Silk Board, primarily conceived as an R. & D. and promotional agency to promote the growth of sericulture and act as an interface between the silk growers and the silk textile industry, in course of time, has been perceived as anti-industry and promoter of sectoral interests. However, with the onset of liberalisation of industrial and trade policies in the early nineties, many of these organisations have gradually refocussed their role to meet the 'felt needs' of the industry.

18.1.2 The Committee strongly feels that in the emerging competitive scenario of integrated world textile trade, the various segments of the textile industry, particularly the decentralised ones which are predominant in the industry will need a helping hand to channelise their survival and growth strategy. The Govt. organisations will have to act as a friend, philosopher and guide to these vulnerable segments of the industry and generally facilitate a harmonious and balanced growth of the textile industry, providing all necessary assistance and services to the industry ranging from market intelligence to technical consultancy to testing facilities etc. The Committee has also recommended an integrated policy framework which is bound to unshackle the industry further from the confines of stifling regulations & controls. In such a scenario, the mandate of almost all the Govt., semi-Govt., statutory and autonomous bodies need to be reviewed and suitably modified wherever warranted in order to

promote a harmonious and balanced development of the industry and its competitive capabilities.

18.1.3 The Committee does not have the time to review and recommend a modified role for various organisations under the Ministry of Textiles in the context of the changed scenario but strongly recommends that the Govt. may appoint one or more reputed consultancy firms well conversant with the textile industry to review the existing mandate/role of each of the Govt. /semi-Govt./statutory/autonomous organisations associated with the textile industry and recommend an appropriate, modified mandate/role for each of them.

18.2 **Organisations under the Ministry of Textiles**

There are a large number of Govt./semi-Govt./statutory/autonomous organisations under the Ministry of Textiles. (Table-18.1).

18.3 Notwithstanding the Committee's general recommendation for a general or organisation-specific study of the role and functions of various organisations under the Ministry of Textiles, the Committee, based on the feed back of the various industry and trade associations and deliberations in the Expert Committee, thought it desirable to make some broad recommendations with regard to the revised role of the major organisations associated with the textile industry.

18.4 **Export promotion councils under Ministry of Textiles**

18.4.1 The textile sector has 9 Export Promotion Councils constituted to promote export of various textile products. These are: Cotton Textile Export Promotion Council (TEXPROCIL); the Synthetic & Rayon Textile Export Promotion Council (SRTEPC); Powerloom Development & Export Promotion Council (PDEXCIL); Handloom Export Promotion Council (HEPC); Apparel Export Promotion Council (AEPC); Wool & Woollen Export Promotion Council (W&WEPC); Indian Silk Export Promotion Council (ISEPC). Carpet Export Promotion Council (CEPC); Export Promotion Council for Handicrafts (EPCH).

18.4.2 The Export Promotion Councils perform a variety of functions relating to (i) export promotion (ii) export assistance (iii) export regulation (iv) dissemination of information (v) allied activities. Some of their functions are enumerated below :

a) **Export promotion functions**

- (i) **Exhibitions/Fairs**: - Participation in sector specific international trade fairs/exhibitions both in India and abroad. Participation includes collection and display of samples of Indian exporters, fielding enquiries, creating business opportunities by providing valuable information on Indian textile exporters.
- (ii) **Trade Delegations**: - Sponsoring trade delegations to identify and cultivate potential markets.

- (iii) Market Study & Market Research: - Officials are deputed to study potential overseas markets and obtain first-hand information, with regard to new products, new designs, govt. policies, import and trade regulations, changing trends, quality standards, premium ranges etc., so as to facilitate development and adoption of meaningful and result oriented export strategies.
- (iv) Publicity: - Product-based publicity is carried out by the Councils through preparation of mailers, brochures, and pamphlets. Generic and event-based publicity is carried out by release of advertisements in select publications.

b) Export Assistance Schemes

Various export assistance schemes are formulated to promote competitiveness of Indian exports. Implementation of various schemes is also closely monitored and procedural/policy constraints are taken up with the appropriate authorities for redressal.

c) Dissemination of Information

Relevant information relating to new products, markets, quality parameters, trade enquiries etc. are circulated to the trade from time to time.

d) Regulatory responsibilities

- (i) Designated Agency for Administration of Bilateral Quotas: - Some of the EPCs have been designated as the agency for administering the quotas negotiated under the bilateral agreement and monitoring the annual levels so as to maximise utilisation thereof.
- (ii) Monitoring of Export Ceiling on certain products: - Such designated EPCs also monitor the export of products having a ceiling of export as per the Govt. policies.
- (iii) Certification of shipments of textile products: - The designated EPCs have been certifying export documents for shipment of products as per the provisions of the EXIM Policy.
- (iv) Registration of Members: - The council issues the Registration-Cum-Membership Certificates (RCMC) to exporters of respective products as per the provisions of EXIM Policy.
- (v) Compilation of Export Statistics: - Exhaustive compilation of export statistics relating to textile products is being done by the EPCs, as per the instructions issued by the Govt.

e) Allied activities

Some of the allied activities carried out by the Councils relate to :-

- (i) settlement of trade disputes between exporters and importers, exporters and suppliers etc., amicably and speedily by providing a forum for arbitration & conciliation;
- (ii) defending anti-dumping/anti-subsidy actions and other protectionist measures and ensuring compliance with WTO regulations etc;
- (iii) issuing Certificates of Origin and other types of certificates as may be required by authorities from time to time.

18.4.3 **Suggested reorientation of the EPCs**

(a) In the post-quota regime export scenario, the role of EPCs will be confined to collection and dissemination of commercial intelligence, facilitate formulation of appropriate strategy for promotion and protection of exports, development of new market and generally guiding the industry and exporters to face upto challenges of the free trade. In this background the Committee feels that more co-ordinated and holistic approach to export promotion will be called for and therefore it would be desirable to have fewer such councils to undertake the job. The smaller councils catering to fibre based or production process based sectors may not measure upto or have the necessary resources to undertake this job in an effective and meaningful way. Therefore, the Committee recommends that the nine EPCs operating under the Ministry of Textiles may be suitably amalgamated and consolidated into 3 or 4 EPCs, viz., an EPC each for (i) fibres and yarns; (ii) fabrics and made-ups; (iii) apparels; and (iv) Handicrafts.

(b) Given the likely changes in the world textile trade and the domestic markets, the role and functions of the EPCs should be reoriented on the following lines: -

- (i) Devise strategies aimed at increasing India's market share and towards developing niche products and promoting markets therefor.
- (ii) Disseminate commercial information on a regular basis. Collect information on the items in demand in different markets, consumer preferences, trend forecast, indicative prices etc. and disseminate it among the producers and traders.
- (iii) Compile detailed statistical information on imports, trends, prices, and market shares in view of the intensified competition in world trade.
- (iv) Promote joint ventures and foreign direct investments in view of the liberalisation of domestic/world trade.
- (v) Negotiate marketing / technical tie-ups with world-renowned brands.
- (vi) Vigorously participate in international fairs/exhibitions with a view to promoting the "Made in India" label/brand.

- (vii) Networking with industry/trade associations, Indian missions in different countries in order to convey information on the product and suppliers.
- (viii) Cultivate the foreign media in order to project Indian capability and build up proper and favourable image of the Indian products and suppliers.
- (ix) Educate trade/industry on the various aspects of the WTO agreements like Anti-Dumping Agreement, Anti-Subsidy Agreement, TRIPS Agreement, etc.
- (x) Provide legal assistance/support/advice to trade/industry in dispute settlement cases at the WTO.
- (xi) Provide a suitable mechanism for resolution of disputes and redressal of complainants relating to imports/exports.

18.5 Textile Research Associations (TRAs)

18.5.1 There are eight textile research associations (TRAs), 4 for cotton sector, 2 for man-made sector and one each for wool and jute sectors. The research institutions are promoted by the respective industry associations. They are financially supported by the Govt. through outright revenue grants as well as project-related grants.

Functions

The main functions of these institutions is to carry out research and render consultancy services to the industry on various aspects of textile technology with a view to reducing the cost and improving the quality and durability of fabrics, reducing pollution, conserving energy and utilising waste, adopting new technology and improving the technology in the decentralised sector. The research may be of general or unit specific for problem solving or aimed at designing and developing balancing equipments and small gadgets for specific applications. The TRAs also provide textile testing services on eco-parameters and physical/chemical properties. They also organise short-term training courses from time to time on various technological topics designed to meet the requirements of the industry. Apart from regular training courses, tailor-made courses are also conducted according to the requirements of the corporate Sector.

Suggestions for changes in the functioning of TRAs

18.5.2 Recently National Institute of Science, Technology and Development Studies (NISTADS) has carried out a study evaluating functioning of the TRAs. Most of the recommendations made in the report are in line with the thinking of the Committee. The said recommendations, in brief, are as below :-

- (i) TRAs have to become institutions of advanced knowledge generation and dissemination to augment the technological competitiveness of the Indian textile industry in a globalised world.
- (ii) A 'Technology Mission' approach to address the full scale technology development instead of piecemeal R. & D. activities. The technology mission mode of R. & D. in TRAs will help inter-TRA interaction and create a TRA knowledge pool.
- (iii) An alternative organizational arrangement for promoting effective triangular relationship among Govt., industry and TRAs and also association of financial institutions and other institutions of excellence in formulation and execution of mission programme.
- (iv) Facilitate networks among TRAs and between TRAs and other institutions for successful execution of the projects and their commercialisation with the help of industries and financial institutions.
- (v) The governing councils of TRAs have to be made more broad based by having representation from the state Govts., funding agencies and experts from local institutions so as to synthesise the felt research needs more accurately and draw upon expert advice/guidance from external talent sources.

18.5.3 However, the Committee is not agreeable with the recommendation of NISTADS to relieve TRAs of ordinary testing, training and extension work. At the grass root level, private agencies are unlikely to come forward to undertake unremunerative training and extension work. On the other hand, provision of such services and testing services by TRAs not only ensure better man-power utilisation but also provide one-stop services to their members and clients. Some of the testing equipments also double up as R. & D. equipments, thereby optimising the use of resources. Besides, constant interaction with the industry and exporters through testing, training and extension works keeps the TRAs abreast of the felt needs to enable focussed R. & D. and to that extent, are organically linked with each other. Therefore, the Committee would not favour the change recommended by NISTADS.

18.5.4 In addition, it is also recommended that the Govt. may undertake to consolidate the results of all the TRA-undertaken R. & D. projects under appropriate heads to help focus future needs and direction of R. & D. as well as obviate the possibility of duplication of efforts. The Textile Commissioner and Textiles Committee should be more actively associated with the co-ordination among the TRAs (except IJIRA) and the feasibility of commercialisation of applied R. & D. results wherever feasible and desirable.

18.5.5 The Committee has also noted that there is no TRA in the eastern and north eastern parts of the country. The textile industry in this part of the country is rather small and scattered which has perhaps resulted in no industry initiative coming forth to promote any TRA. The industry there is also generally not doing well. There is, therefore, a case for Govt. initiative and support to promote a TRA which will help the ailing industry in the applied R. & D. areas, viz., energy conservation, pollution control, waste reduction etc.

18.6 **Cotton Corporation of India (CCI)**

18.6.1 The Cotton Corporation of India was set up in 1970 as a canalising agency for import of cotton and undertaking procurement of raw cotton for textile mills. The role/functions of the corporation arising out of the policy guidelines enunciated in the June, 1985 Textile Policy are as under :

- (i) To undertake price support operations whenever market prices of seed cotton touch or fall below the support price announced by the govt. without any quantitative limit;
- (ii) To undertake commercial operations at CCI's own risk; and
- (iii) To purchase cotton to fulfil the export quotas given to CCI by the Govt.

18.6.2 The CCI is performing the above role and also carrying out promotional activities entirely on its own out of a sense of societal responsibility as outlined below:

- (i) Supplementing cotton research and developmental efforts of the state agricultural universities/institutions.
- (ii) Supplementing the efforts of the Central/State Governments to improve production, productivity and quality of cotton.
- (iii) Promotional support to the production of certified seed by govt. agencies and distribution of certified and quality seeds of popular varieties and hybrids at a concessional price to promote the propagation of certified seeds as a means to higher production, productivity and quality.
- (iv) Undertaking developmental/extension activities in cotton growing states, including village adoption and distribution of quality pesticides.
- (v) Promoting cotton production in the non-traditional cotton growing states.

18.6.3 The Committee is impressed by CCI's performance and its rating as a mini Ratna among the PSUs, more particularly its suo moto developmental activities as a

responsible public sector organisation. The Committee recommends that CCI may continue to perform the role as envisaged in the Textile Policy of 1985 and other promotional activities as mentioned above. Besides, CCI may be actively associated with the implementation of the TMC, in all the 4 mini-missions in view of its long experience in the field of promoting R. & D., extension and trade.

18.7 Textiles Committee

18.7.1 The Textiles committee is an autonomous statutory body established under the Textiles Committee Act, 1963 (41 of 1963). The main objective of the Committee is to ensure quality of textiles both for internal consumption and for export purposes, and the manufacture and use of standard type of textile machinery. Its other major functions, inter-alia, include setting up of textile testing facilities, collection of textile consumption data and publishing time series reports, conducting industry surveys and studies on aspects of quality, productivity etc. and other developmental activities. Prior to liberalisation era, the Committee was required to concentrate on quality control measures, particularly for export promotion. In pursuance of this main activity, the Committee had framed 20 regulations of which the Govt. had issued prohibitory orders in respect of textile items covered under 7 regulations. In addition, there were also regulations for the compulsory pre-shipment inspection of 22 items of textile machinery components and accessories. The Committee was also carrying out indirect compulsory inspections for assisting the exporters in getting certain financial benefits like duty drawback, cash compensatory support (CCS), etc., and the RMG quota.

18.7.2 After onset of liberalisation in the early nineties, the Committee discontinued its regulatory role in its entirety and reoriented its role and functions completely. It now concentrates on industry-friendly and development-oriented activities. What is heartening and noteworthy is that this overnight transformation and role reversal was achieved by retraining and re-deploying the vast pool of technically qualified personnel who have admirably adjusted to the changed scenario and role.

18.7.3 The Textiles Committee has started undertaking many developmental activities. One such activity was to undertake the implementation of ISO-9000 Quality System Standards in the textile industry. Under the ISO-9000 Quality System Standards, documentation is one of the very important elements. To help the textile industry to overcome this difficulty, the trained personnel were deployed to prepare model manuals. The Textiles Committee has so far prepared model manuals on spinning, weaving, wet processing, apparel manufacturing, handloom and knitting. As a first step towards educating the textile industry about the ISO-9000 quality system, seminars and workshops were conducted in various textile producing centres. As a logical conclusion to the awareness programmes and other aids to the textile industry by way of model manuals, audio visual aids etc., the Textiles Committee started consultancy services to implement ISO-9000 in the aspiring textile units. Such

services are rendered on charging a reasonable fee depending upon the location, size, the manpower employed in the unit, etc. The textile committee has so far successfully implemented the ISO-9000 quality system standards in 28 units. Its consultancy services are going on in 24 units. It has now trained its personnel on ISO-14000 environment protection/pollution control standards and started taking consultancy cases also.

18.7.4 The Textiles Committee had also established 15 quality-testing laboratories to assist the textile industry both in domestic as well as export markets and considering the felt needs of the industry, the upgradation of the existing quality laboratories was also undertaken. When Germany, followed by Netherlands and some other western countries imposed ban on import of textiles containing certain harmful azo dyes, the Textiles Committee took up the challenge and started establishing eco-testing laboratories also. It conducted numerous workshops/seminars at various textile centres to propagate the need for producing eco-friendly textiles. It also acts as the nodal agency for implementation of the plan-funded testing laboratory upgradation programme across the country

18.7.5 In addition, the Textiles Committee undertakes various quality inspections for exports on voluntary request basis. It also conducts industry/quality surveys on the request of the Govt. or industry for various purposes. It has also got into creation of consumer awareness in a big way with the help of the NGOs and the office of the Textile Commissioner.

18.7.6 **Suggested reorientation of the Committee**

In the liberalised scenario of trade and industry, the role of the Textile Committee is envisaged to be reoriented/continued as follows :-

- (i) To continue implementation of ISO-9000 and ISO-14000 standards.
- (ii) To continue to provide testing facilities for quality depending on the felt testing needs of the trade and industry.
- (iii) To provide counselling to the trade and industry in the production of quality and eco-friendly textiles.
- (iv) To prepare model manuals on ISO-14000, to conduct eco-audit and to deal with other environmental/ecological issues.
- (v) To continue with awareness programmes and other activities connected with consumer interests.
- (vi) To continue co-ordination activities relating to setting up / upgradation of laboratories in the country and periodic evaluation of the standards thereof as a policy input for the Govt.

- (vii) To continue the quality appraisal scheme to help the trade and industry.
- (viii) HRD activities in the technical areas.
- (ix) To assist the proposed R. & D. centre for textile machinery to be set up at IIT, Mumbai.

18.8 **Office of the Textile Commissioner**

18.8.1 The office of the Textile Commissioner was established in the year 1943 primarily to oversee the supply of cloth for military and civilian use when there was a scarcity of textile materials during the 2nd World War. After the World War, this office was made responsible for administering the distribution and price control of certain varieties of cloth meant for civilian consumption in the post war conditions of scarcity. After independence and with the promulgation of Industries (Development & Regulation) Act, 1951, the Textile Commissioner was vested with suitable powers for regulation of productive capacity and production of various textile products alongwith some developmental functions. With the promulgation of the Essential Commodities Act, 1955, he was entrusted with more powers to enforce the regulatory and developmental functions. However, in the changed environment of decontrol and deregulation of the textile industry in the domestic market and globalisation of trade in the international scene, the role of this office has increasingly acquired a more significant developmental character, though it continues to carry out the residual regulatory and enforcement functions. Some of the important functions and activities of the office of the Textile Commissioner are briefly outlined below :

Regulatory & enforcement functions

18.8.2 At present, the Textile Commissioner practically carries out no regulatory function under the I(D&R) Act. Now, he offers his report on specific licensing, capital goods import or FDI cases to the Govt. on reference. His office also receives information memorandum on establishment/expansion of industrial units, essentially for statistical purposes. Under Section 3 of the Essential Commodities Act, 1955, there are now only 2 control orders, namely, the Textile (Development & Regulation) Order, 1993 and Cotton Control Order, 1986. The T(D&R)O, 1993 empowers the Textile Commissioner to issue directions regarding specifications of cloth, yarn or some other textile products, fixation of maximum or minimum quantities of production of cloth, yarn or other textile products, use and consumption, maximum prices, packing the yarn in hank, cone or any other form and markings on the cloth, yarn and other textile products for ensuring proper distribution and maintenance of accounts. At present, no price control is enforced and the Textile Commissioner enforces only two regulatory notifications, i.e., Textile (Consumer Protection) Regulation, and hank yarn packing notification. While the former prescribes certain markings on specified textile products in the interest of consumers, the latter is enforced to ensure adequate supply of hank yarn to the handloom weavers at reasonable prices. The Cotton Control Order, 1986 empowers the Textile Commissioner to enforce price, distribution and stock controls on seed cotton and ginned cotton during scarcity. At present, it is not being enforced. Besides, under

both the control orders, notifications are issued by the Textile Commissioner requiring filing of statistical returns of production, capacity etc. by the organised textile industry and the cotton ginning and pressing industry essentially for statistical purposes.

Developmental functions

18.8.3 Over the years, but more particularly since 1985, the Textile Commissioner has increasingly assumed developmental functions in tandem with the decline in his regulatory role. Some of the major developmental functions of the Textile Commissioner are outlined below:

- (i) The office of the Textile Commissioner advises the Govt. on all important aspects, of the textile industry, particularly the technical aspects and assists in formulating and implementing govt. policy on textile industry.
- (ii) This office monitors the pattern of production, supply & distribution of textiles and collect and analyse statistical data regarding textile production, consumption and export and provide input to the Govt. to formulate policies thereon.
- (iii) The Textile Workers Rehabilitation Fund Scheme (TWRFS) in case of permanently closed mills/mill divisions is being implemented by this office to provide relief on a graded scale for 3 years to displaced workers, essentially to cushion the blow of unemployment till they find alternative avenues.
- (iv) This office oversees and assists in the working of various Export Promotion Councils in order to increase the export of textiles and supervises the quota administration and inter-EPC co-ordination.
- (v) The office looks after various aspects of consumer protection relating to the textile industry. It undertakes consumer awareness campaigns with the help of the Textiles Committee and NGOs.
- (vi) It monitors the closure and sickness in the textile industry.
- (vii) This office prepares pre-budget memorandum to the Govt. based on the various recommendations received from different textile industry associations for incorporation in the budget proposal. Similarly, after the budget, the analysis of the impact of the budget proposals and recommendation for changes are also being prepared by this office for submission to the Ministry of Textiles for recommendation to the Ministry of Finance.

- (viii) It provides vital inputs for formulation of important developmental/financial schemes/plans like Technology Upgradation Fund Scheme for Textile & Jute Industries, Technology Mission for Cotton, upgradation of testing laboratories/PSCs etc.
- (ix) It also oversees/monitors the implementation of various developmental schemes.
- (x) It co-ordinates the activities of PSCs and provides guidance to the TRAs who run majority of the PSCs.
- (xi) It provides to the Govt. evaluation inputs on R. & D. proposals from TRAs for govt. funding.

18.8.4 **Suggested reorientation of the Office of the Textile Commissioner**

i) With the transformation of the Indian textile industry, the Textile Commissioner and his office have to play the crucial role of a facilitator, motivator and change agent. In matters relating to technology, quality, environment and ecology, the Textile Commissioner would have to assume a leadership role and ensure that the international parameters and standards are achieved.

ii) The information needs of the textile industry are growing and the Govt. requires continuous flow of data and analysis thereof for formulation of effective policies and their monitoring. Therefore, the activities of ERMIU which has been set up recently would have to be expanded in future to take care of the growing information needs of the industry and trade. Textile data management is crucial for future planning and development. The Office of the Textile Commissioner will have to identify the data gaps in its 'data warehouse' and try to fill the same either through survey or secondary sources. With the integration of world market, it is essential to build up the international data base also. A strong mechanism may be evolved for compiling the authentic international data. The data so compiled should be analysed, interpreted and then disseminated to the industry particularly decentralised sector. All the PSCs should also be connected 'on line' to computer system of office of the Textile Commissioner enabling them to have access to the 'data warehouse' of the ERMIU for the purpose of dissemination. Textile Commissioner's office has to play a crucial role in meeting the information needs of the govt. and industry in future. To achieve this objective, installation of necessary hardware, software and sourcing of data even from priced sources will have to be undertaken. The Ministry must provide adequate funds on a regular basis to facilitate the same.

iii) The Textile Commissioner must play an active role in the implementation of various fibre development programmes, including TMC, man-made fibres including technical textile fibres and wool.

iv) Play a more active role in modernisation of the textile industry and to provide active support in the creation of an eco-friendly, consumer-friendly textile industry.

v) With the decline of weaving and processing activity in the mill sector, the decentralised powerloom, knitting and processing sectors have assumed a vital significance for the success of the Indian textile industry. The Textile Commissioner must assume a greater developmental role for these sectors. He should undertake awareness programmes among them to promote technology, productivity, quality, cost reduction and export management. The PSCs, Textile Commissioner's regional offices, Textiles Committee and TRAs must be made full use of to bring about this transformation. For this purpose the Textile Commissioner must assume direct responsibility of implementing and administering all developmental programmes formulated for these sectors.

vi) Very little attention is being paid at present to perspective/strategic planning in the textile industry. Some of the identified areas are energy management, cost reduction, productivity enhancement, pollution control & environmental management, wet processing & finishing etc. The Textile Commissioner with his vast experience of the industry could take up this work in collaboration with other agencies concerned.

vii) A number of developed countries in the west are laying more and more emphasis on eco labeling of textile exports. The use of dyes & chemicals, which are toxic or carcinogenic, is totally banned in those countries. The office of the Textile Commissioner should co-ordinate its activities with those of the Textiles Committee so that eco-labeling of textile products and eco-audit of textile units is introduced and promoted in the country.

viii) The Textile Research Associations are doing useful work in textile research and adoption of technologies to suit Indian conditions. There is very little co-ordination among the TRAs and occasionally, there is duplication of research activities by TRAs. The research priorities are also not spelt out clearly. The Textile Commissioner with his rich experience of the textile industry could be of assistance to the TRAs in framing the research programmes, assigning research priorities and development of new products and equipments and commercial production thereof.

ix) The Textile Commissioner should monitor the technological progress of the different segments of the industry and formulate policies to support the technologically weaker segments to upgrade their technology.

x) Textile Commissioner's office should maintain close liaison with the financial institutions, to facilitate easy flow of funds under TUFs to the industry and monitor the progress of the scheme. He should assume a similar role for the implementation of the TMC mini missions III and IV with the help of CCI.

18.8.5 A recommendation was made to the Committee that the Textile Commissioner should be redesignated as Textile Development Commissioner to reflect the present ground realities of his being the principal Development Officer and Technical Adviser to the Govt. The Committee deliberated over this recommendation and concluded that this change in designation is not necessary as the present designation by no means derogates from his developmental role. However, the Committee feels that implementation of developmental schemes like running of TRA-PSCs, powerloom workers' insurance scheme, PSC upgradation etc. directly from the Ministry is not a good strategy. When the Textile Commissioner with his network of field officers and technical man-power is available, the Ministry without any such tools should not directly administer such schemes. Therefore, the Committee recommends that all developmental schemes for the textile industry including powerloom sector should be administered by the Textile Commissioner as per budgetary allocation and supervised by the Ministry as is done in the case of DC(Handlooms) for handloom schemes and DC(Handicrafts) for the handicraft schemes.

18.9 **Jute Industry**

18.9.1 At present, a large number of organisations are performing different activities in the jute sector, which are as follows :-

1. **Office of the Jute Commissioner** :- It looks after the interests of jute industry and trade, advises the Govt. and implements its policies and administers the control orders under the E.C.Act, 1955 operative for the jute sector.
2. **Jute Manufactures Development Council**:- It is a statutory body whose functions cover effective utilisation of cess fund through promoting scientific/industrial research, arrangements for better marketing of jute goods etc. It is also performing the role of export promotion council for jute goods.
3. **National Centre for Jute Diversification**:- This organisation has been set-up by the govt. for promoting diversification of jute products, particularly by forging a **stronger** linkage between the organised mill sector and the decentralised sector and creating avenues for production and use of diversified jute products.
4. **Jute Corporation of India** :-It is a public sector organisation looking after maintenance of minimum support prices, import/export of raw jute, buffer-stocking, commercial purchases of raw jute, etc. It is the counterpart of CCI for the jute fibre.
5. **National Jute Manufactures Corporation** :- It is an apex body for management of nationalised jute mills similar to NTC on the textile side.
6. **Directorate of Jute Development, Calcutta** :- It is attached to the Union Ministry of Agriculture and co-ordinates with concerned State Governments and R. & D. institutions on all matters pertaining to raw

jute cultivation including implementation of Special Jute/Mesta Development Programme.

7. **Indian Jute Development Council and Jute Advisory Board** :- These are advisory bodies. The former monitor's progress of various aspects of raw jute agronomy from time to time and the latter is primarily concerned with estimation of raw jute availability on year to year basis.
8. **Central Research Institute for Jute and Allied Fibres** :- It looks after genetic research and development of raw jute for improvement of fibre quality and yield.
9. **National Institute of Research on Jute and Allied Fibre Technology under ICAR** :- It is engaged in technological research on jute and other long vegetable fibres, improved processing of jute fibre, etc.
10. **Indian Jute Industrial Research Association** :- It is engaged in fundamental and applied research on jute and its products.

18.9.2 Of late, textile research associations like SITRA, BTRA, ATIRA, WRA etc., have been increasingly involved in research into textiles related application of jute, particularly in the UNDP sponsored jute related research projects. The institute of Jute Technology and PSG College of Technology are engaged in HRD reorientation for the jute sector.

18.9.3 **Past efforts at reorganisation**

The industry representatives stressed the need for setting up an umbrella organisation for bringing about greater harmonisation and co-ordination in the activities of different R. & D. and support organisations involved in jute-related activities. They recommended that the apex body should include representatives of industry and trade associations for purposeful interaction, avoiding duplication of efforts and speeding up the pace of technology transfer from research laboratories to the plant level. The Committee noted that in 1981 the Task Force on Jute Textiles had recommended constitution of a Jute Board for co-ordinating the activities of different organisations with Jute Commissioner as Chairman, 2 Vice-Chairmen (one Executive Vice-Chairman and another from the industry) and nine Divisions (backed up by representative Advisory Committees on each of them) covering research, export promotion, registration, marketing, costing, regulatory, economic, production, industrial relations-cum-administration. It was expected that the proposed Board, which will include representatives of all concerned interests including State Governments, would co-ordinate all the activities starting from jute cultivation upto the stage of manufacture of finished jute products including marketing and exports. The Committee was informed that the Govt. of India did not pursue this proposal.

18.9.4 **Suggested reorientation**

- i) The Committee would like to stress that since an integrated policy covering all segments of the jute sector is being formulated for the first time for its revitalisation

and growth - orientation, an effective institutional mechanism will be crucial for co-ordinating its implementation at different levels. At present, various organisations engaged in jute-related activities are functioning more or less independently with complete lack of co-ordination and cohesiveness. It was recognised that this has stood in the way of achieving purposeful results. In this background, the Committee would recommend setting up of a joint co-ordination Committee of the Ministry of Agriculture, Ministry of Textiles and State Govts. of jute growing states to co-ordinate jute research, cultivation and extension related issues. Similarly, the agencies engaged in various post-fibre stage activities need to be brought under one umbrella for better co-ordination and complementarity, viz., a Jute Co-ordination Council under the Chairmanship of Union Secretary of Textiles. It is also recommended that in the proposed Jute Technology Mission, the Ministry of Textiles and jute industry must be associated with research decisions for development or improvement of varieties.

ii) The role of the Jute Commissioner should be reoriented towards multi-faceted development in the entire jute sector and not restricted to regulatory functions only. He should closely interact not only with jute trade and industry, but also with concerned state governments, R. & D. organisations, machinery manufacturers, textile industry, entrepreneurs in the decentralised sector engaged in jute-related activities, etc. for promoting larger usage of jute in diverse fields.

iii) With the proposed increase in rates of cess on jute manufactures and resultant generation of an enhanced corpus of fund and flow of this fund to a dedicated fund created in the Ministry of Textiles, it should be possible for JMDC to broad-base its activities covering different fields as envisaged in JMDC Act. Since it has been officially recognised as performing the role of the Export Promotion Council for Jute Goods, it should take up all activities normally performed by such councils. The Council should pay equal attention to promotion of diversified products of jute as well as conventional jute products including newly developed items like hydrocarbon-free jute bags, geo-textiles, etc. It should be assisted for more intensified export promotion activities through commercial exploitation of new products, field trials, after-sales services, close contact with foreign buyers / end-users for assessing their requirements and feedback of market intelligence.

iv) The Jute Corporation of India should function in raw jute market through buying and selling of raw jute regularly in addition to conducting price support operation, as and when required, so as to operate on a self-financing basis as far as possible. For this purpose, it should achieve cost-competitiveness by rationalisation of its manpower and reduction in infrastructural costs. In this regard, it should emulate the transformation brought about in its fortunes by Cotton Corporation of India, its counter-part in cotton and adopt some of its restructuring and operational strategies.

v) The IJIRA which is the textile research institute for jute is overstaffed and entirely govt. funded. There is hardly any industry involvement in and contribution to the research activities. This is rather sad. The Committee hardly finds any justification for IJIRA's bloated structure. Govt. and IJIRA must take immediate

steps to prune its size and increase industry contribution to the research activity. Spoon-feeding of IJIRA should stop.

18.10 **Administrative set up for international trade**

18.10.1 One of the important areas for consideration is the new institutional framework to be set up in the wake of the setting up of the World Trade Organisation. The Ministry of Textiles at present has the Export Division to look after all the work relating to textile exports including quota administration and promotional work and policy formulation. The Export Promotion Councils and the Textile Commissioner look after the field work. The WTO regime has opened a host of new areas of activities of wide ranging implications. Under the Agreement on Textiles and Clothing (ATC), textile sector will be integrated into the world trading system in phases. Through the concept of single undertaking and other agreements like those on dumping, subsidies, rules of Origin, etc., management of international trade in textiles has become highly technical, complex and sophisticated. While the market opportunities for textile exports have been expanding, such access is going to be a two way process. All these call for strengthening of institutional framework for anticipating and tackling the tasks lying ahead.

18.10.2 It is relevant in this context to recall the recommendations of the 35th Report of the Department Related Parliamentary Standing Committee on Commerce on 'India and the World Trade Organisation' to both Houses of Parliament.

“In view of the complexities likely to visit both international trade and international trade negotiations during the next few years, the Govt. should considerably strengthen its infrastructure for undertaking global trade negotiations. The Standing Committee recommends the establishment of a separate Department of International Trade and Trade Diplomacy under the umbrella of the Ministry of commerce with a substantial contingent of professionally competent personnel on its staff. This department must maintain continuous liaison with the other ministries including the Ministry of External Affairs and the Ministry of Finance, the Planning Commission as well as with State Governments on matters which call for a co-ordinated and concerted approach on the part of all concerned. This department should also maintain the closest association with the semi official organisation of experts and wise men which is described below:-

There is pressing need for active involvement of the Govt., in terms of both enunciating broad policy issues and specific actions, in relation to the WTO. This requires the setting up, the Standing Committee feels, of a specialised apparatus devoted to this particular matter. It should ideally include both govt. and outside experts in the field of law, technology, diplomacy, foreign trade and economics. This body would be entrusted with functions and responsibilities at several levels. At the broadest level, it should facilitate India's taking the initiatives to set the agenda and raising issues at the WTO rather than simply reacting to the agenda set by the US and the other developed countries. Such issues relevant for India would include among others (a) lack of proper implementation of the Uruguay Round of agreement by the developed countries, in both letter and spirit, (b) the growing problem of increased

concentration of world production and distribution which has been effectively encouraged by the WTO since 1995, (c) the need for protection of bio-diversity and the rights of people to indigenous resources and (d) controls on labour mobility which continue to be enforced.”

18.10.3 The observations though made in respect of the Ministry of Commerce, are equally valid in respect of the Ministry of Textiles also. It will be useful to have a look at what other countries like the USA are doing.

18.10.4 The main organisation in the US is the OTEXA (Office of Textiles & Apparel) under the Commerce Department. The two important divisions of the OTEXA are the Industry Assessment Division and the Trade & Data Division.

i) The Industry Assessment Division evaluates the current state of the domestic fibre, textile and apparel industries; recommends the establishment of quotas to prevent market disruption; analyzes the economic impact of fibre, textile and apparel industries and recommends appropriate action; assesses the impact of changes in trade policy and the US textile and apparel programme on the domestic industry; collects, develops, monitors, maintains and disseminates economic data and information concerning fibre, textile and apparel markets and industries; and prepares data and economic analysis on these industries for publications/studies, brief papers, speeches and reports.

ii) The Trade and Data Division recommends and implements trade classification schemes to implement the WTO Agreement on Textiles and Clothing and bilateral agreements; initiates and participates in fraud, transshipment investigations and participates in negotiations and consultations on matters of transshipment classification and investigation; presents classification and investigation issues to the Office of Director and Chairman of CITA; participates in GATT and Free trade Agreement negotiations; assures import data quality by reviewing import data, identifying problems by working with the Census Bureau and the US Customs Service; conducts data investigations and reconciliations with foreign governments; conducts classification and categorisation seminars for foreign governments; reviews and implements visa agreements; processes visa waivers; obtains descriptions and samples of imported textile and apparel products. The Trade and Data Division also identifies barriers to trade and maintains an inventory of foreign regulations affecting US textile/apparel exports. TDD solicits textile and apparel exporters to advise them of any barriers or problems they encounter.

iii) In addition, the Committee for the Implementation of Textile Agreements (CITA), another important institution, was established by Presidential Executive Order 11651 on March 3, 1972 to supervise the implementation of textile bilateral agreements and to propose and to implement Article 3 import restraints. CITA is comprised of members from the Commerce, State, Labour, and Treasury Departments and the Chief Textile Negotiator, US Trade Representative's Office. The Commerce Department's Deputy Assistant Secretary chairs it for Textiles, Apparel and Consumer Goods Industries. OTEXA provides the staff support for the CITA, monitors all agreements and provides the statistical data upon which the CITA actions are taken.

iv) The CITA carries on several functions beyond overseeing the gradual integration of quotas and utilising the agreement on textile and clothing's (ATC) transitional safeguard mechanism. As under MFA, CITA's work load includes a number of tasks related to assuring compliance with US trade agreements that are not directly associated with imposing quotas. These tasks involve co-ordinating US govt. efforts to prevent fraud and illegal routing of US textile and apparel imports through third countries (transshipment violations), implementing penalties against violators and assuring that the US customs service enforces these penalties reviewing and commenting on regulations concerning the origin of textile and apparel products in co-operation with the US customs service.

18.10.5 A similar organisational structure is prevalent in the EU as well. The main function of this institution is that it is always on the scanning mode so that opportunities as available under the WTO dispensation and their own EU regulations are effectively utilised to increase their exports, their own industry and their overall interests are protected. The underlying principle is one of being pro-active by creating opportunities through a great deal of knowledge based professionalism rather than being reactive to unfolding trade and economic situations.

18.10.6 If USA and EU, which account for a substantial part of the global trade in textiles and hold strong position globally therein, feel the need for and actively use such proactive professional institutional framework to safeguard their interests, a developing country like India, often required to defend its position and improve its performance, should have a stronger institutional arrangements in a proactive mode. The need for such a framework is all the more imperative when indications are that the EU is planning to expand its membership and enter into a grand alliance with the US to form TAFTA. Therefore, early and effective implementation of the recommendation of the Parliamentary Standing Committee referred to in para 18.10.2 is not only desirable but essential. The Committee would further recommend that a professionally qualified International Trade Advisor on the lines of Economic Advisor should be appointed in important economic ministries like Textiles which have a strong bearing on the national economy, exports and employment. He should be the link between the Ministry and the proposed Department of International Trade and Trade Diplomacy to provide two way input and feedback.

18.11 **Central Silk Board (CSB)**

The CSB is a statutory body created by an Act of Parliament to look after the interests of silk producers and silk textile industry. However, CSB is too much mired in regulatory functions and the silk industry perceives it to be pro-sericulture and anti-industry. It is not a healthy situation and the role of CSB needs to be reexamined in the context of the globalisation of textile trade. The Committee has examined this issue in greater detail in the chapter on 'Raw Material' and has recommended that the CSB Act should be repealed and CSB abolished. In its place, an R. & D. organisation comprising the R. & D. institutes/centres presently under the CSB should be created whose activities will be limited to the areas of (i) R. & D. in sericulture, (ii) transfer of technology and (iii) training. It could be rechristened as Central

Sericulture Research and Development Organisation (CSRDO). A separate Development Commissioner (Silk) should be created to handle silk fibre development including post-technology transfer extension and silk reeling. Since the present CSB is highly overstaffed, the staffing of the two successor organisations should be trimmed after a thorough study and the excess staff given VRS or transferred to the surplus cell.

18.12 **Nodal Centre for Upgradation of Textile Education (NCUTE)**

Govt. has set up NCUTE in IIT, Delhi. The centre aims at identifying specific areas of textile industry where manpower modernisation is needed and particularly, the need to bridge the existing gaps in textile education and training, both in volume and contents. This is sought to be achieved through mapping of the existing scenario and quantifying the felt-need-based gaps and then arranging short duration training programmes specially designed for teachers/trainers, preparing of educational software, revision of syllabi, etc. It is noted that while the effort is in the right direction, not much headway seems to have been made inspite of the centre being a limited-duration, specific-mandate arrangement. Given the existing training and HRD gaps and currently launched TUFs widening the gap further, the task needs to be expedited within a rigid time-bound framework. The Committee, therefore, recommends that activities of this centre may be monitored on a regular basis to remove impediments in its functioning in order to achieve the desired objective in a time-bound manner. The issue has been discussed in detail in the chapter on 'Human Resource Development'.

18.13 **Other organisations**

The Committee has given its views in general on reorientation of the role of some of the major govt./semi-govt./autonomous/statutory bodies associated with textile industry. The role of other such agencies also need to be reviewed and redefined in the changed scenario of globalised economy. The Govt., while giving the study on this issue to an outside agency (or agencies) as proposed hereinbefore may cover all the govt./semi-govt./autonomous/statutory bodies associated with textile industry including the above ones, which need to play a pro-active role for alround, balanced growth of the different segments of the industry.

Tables

TABLE 1.1

INDIA'S POSITION IN WORLD TEXTILE ECONOMY

	Unit	World	India	India as % of World	India's Rank in the World
Installed Capacity					
A. Spinning -- 1997					
1. Spindles (Cotton system)	Mn. No.	166.36	32.83	19.73	2
2. Rotors	Mn. No.	7.81	0.25	3.20	7
B. Weaving -- 1997					
1. Shuttle Looms	Mn. No.	3.64	1.83	50.27	1
2. Shuttleless Looms	Mn. No.	0.74	0.01	1.35	--
SubTotal		4.38	1.84	42.00	
3. Handlooms	Mn. No.	4.60	3.90	84.78	1
Total		8.98	5.74	63.92	
Production					
Fibre/Yarn -- 1997					
Natural					
1. Raw Cotton (1997-98)	Mn. Kgs.	19849	2613	13.16	3
2. Wool (Greasy) (1996-97)	Mn. Kgs.	2525	44	1.74	11
3. Silk	Mn. Kgs.	81	13	16.05	2
4. Jute (1997-98)	Mn. Kgs.	3509	1764	50.27	1
Sub Total		25964	4434	17.08	
Man-Made					
1. Synthetic	Mn.Kgs	21684	1255	5.79	5
2. Cellulosic	Mn.Kgs	2309	234	10.13	3
Sub Total		23993	1489	6.21	
Grand Total		49957	5923	11.19	
Spun yarn -- 1996					
Cotton Yarn	Mn. Kgs.	17629	1885	10.69	3

TABLE 1.2

EXPORTS OF TEXTILES AND CLOTHING
FOR THE YEAR 1997 (MAJOR COUNTRIES)

		EXPORTS OF TEXTILES		EXPORTS OF CLOTHING		TOTAL
		1997		1997		1997
Sr. Nos.	Country	Billion US \$	% Share in World Exports	Billion US \$	% Share in World Exports	Billion US \$
1	China	13.83	8.91	31.80	18.01	45.63
2	Hong Kong	14.60	9.40	23.11	13.09	37.71
3	Italy	12.90	8.31	14.85	8.41	27.75
4	Germany	13.05	8.40	7.29	4.13	20.34
5	USA	9.19	5.92	8.67	4.91	17.86
6	S.Korea	13.35	8.60	4.19	2.37	17.54
7	Taiwan	12.73	8.20	3.41	1.93	16.14
8	France	7.52	4.84	5.35	3.03	12.87
9	UK	5.62	3.62	5.28	2.99	10.90
10	India	5.45	3.51	4.86	2.75	10.31
11	Netherlands	3.01	1.94	3.66	2.07	6.67
12	Pakistan	4.59	2.96	1.81	1.02	6.40
	World	155.28	100.00	176.61	100.00	331.89

TABLE 1.3**EXPORT OF COTTON YARN BY INDIA**

YEAR	EXPORTS		
	Quantity (Mn.Kg.)	Value (Mn. Rs.)	Value (Mn. US \$)
1984-85	9.06	364.20	30.63
1985-86	10.90	459.40	37.53
1986-87	27.98	1013.50	79.24
1987-88	85.63	3431.10	264.54
1988-89	40.38	2355.70	162.69
1989-90	62.12	3642.70	218.65
1990-91	90.11	5163.50	287.66
1991-92	125.95	9890.30	403.36
1992-93	128.63	11666.10	441.73
1993-94	178.84	16053.30	511.74
1994-95	228.53	26116.50	832.00
1995-96	262.78	33620.80	1005.11
1996-97	464.90	53731.10	1515.26
1997-98	485.44	58656.50	1580.61
1998-99	486.78	59578.64	1417.86

TABLE 1.4**PRODUCTION OF CLOTH**

(Mn.Sq.Mtrs)

Year	Cotton	Blended	100% Non Cotton	Khadi, wool &Silk	Total
1985-86	12467	1660	3086		17213
1986-87	12727	1817	3393		17937
1987-88	12626	1815	3536		17977
1988-89	13658	2321	4039	367	20385
1989-90	13936	2118	4544	388	20986
1990-91	15431	2371	5126	402	23330
1991-92	14647	2712	5229	390	22978
1992-93	16343	2684	6018	430	25475
1993-94	17790	3155	6527	426	27898
1994-95	17019	3661	7495	431	28606
1995-96	18900	4025	8535	498	31958
1996-97	19841	4888	9569	540	34838
1997-98	19992	5751	11153	540	37436
1998-99	17953	5700	12007	540	36200

TABLE 2.1**PRODUCTION OF RAW MATERIAL**

(In Mn. Kg.)

Item	World	India	India as % of World	India's Rank in the World	Country with 1 st rank
<u>FIBRE/YARN</u>					
(A) <u>Natural</u>					
Cotton (1997-98)	20018	2686	13.42	3	China
Silk	81	13	16.05	2	China
Wool (Greasy)(1996-97)	2525	44	1.74	11	Australia
Jute (1997-98)	3509	1764	50.27	1	India
TOTAL	26133	4507	17.25		
(B) <u>Man-made</u>					
(i) <u>Synthetic</u>					
P.S.F.	6773	428	6.32	5	China
A.S.F.	2709	81	2.99	6	Japan
P.F.Y.	7914	654	8.26	5	China
N.F.Y.	3457	78	2.26	6	U.S.A.
Others	831	14	1.68	N.A.	N.A.
Sub-Total	21684	1255	5.79		
(ii) <u>Cellulosic</u>					
V.S.F.	1687	179	10.61	3	China
V.F.Y.	297	55	18.52	2	China
Others	325	-	-	N.A.	N.A.
Sub-Total	2309	234	10.13		
TOTAL (i)+(ii)	23993	1489	6.21		
GRAND TOTAL (A+B)	50126	5996	11.96		

TABLE 2.2**AREA AND PRODUCTION OF COTTON IN THE IMPORTANT COUNTRIES**Area - '000' Hectares
Production - '000' Tonne

COUNTRY	1996-97		
	Area	Production	Yield (Kg./Hectare)
Argentina	870	320	367.82
Australia	388	615	1585.05
Brazil	682	285	417.89
China	4753	4203	884.28
Columbia	88	53	602.27
Egypt	387	341	881.14
Greece	428	312	728.97
India	9122	3024	331.54
Israel	29	52	1793.1
Mexico	246	234	951.22
Pakistan	3148	1615	513.02
Paraguay	105	45	428.57
Sudan	282	103	365.25
United States	5208	4124	791.86
Uzbekistan	1402	1062	757.49
Others	6499	3092	470.12
Total	33637	19480	579.12

Source : Cotton :- World markets & Trade, ICAC. 1997-98 , EICA.
For India, Cotton Advisory Board.

TABLE 2.3**AREA, PRODUCTION AND YIELD OF COTTON**

(Lakh bales of 170 k.g. each)

COTTON YEAR	AREA (Lakh Hectares)	PRODUCTION (Lakh Bales)	YIELD (Kg/Ha)
1951-52	65.56	31.33	81.24
1961-62	79.78	46.37	98.81
1971-72	77.99	65.64	143.08
1981-82	80.57	84.00	177.24
1991-92	76.01	119.00	266.15
1992-93	75.41	138.00	311.10
1993-94	74.40	121.50	277.62
1994-95	78.61	138.50	299.52
1995-96			
i) Sept.95 to Aug.96	90.63	168.70	316.44
ii) Sept.95 to Sept.96	90.63	170.70	320.19
iii) Oct.95 to Sept.96	90.63	170.20	319.25
1996-97	91.22	177.90	331.54
1997-98	88.29	158.00	304.22

Note : - Cotton year, which used to be from 'Sept. to Aug', changed to 'Oct. to Sept.' from 1995-96 onwards.

TABLE 2.4

Prices of Raw Cotton
Major Selected Varieties

PERIOD	B Deshi	J-34 SG	F414 SG	H-4Mah	S6B	MCU 5	DCH 32	WEIGHTED AVERAGE	
								(Rs./kg)	(US \$ /Kg)
1981	9.14	14.20	-	15.67	17.51	17.34	-	15.28	1.94
1991 March	17.01	25.59	28.12	28.82	30.93	33.74	35.71	26.71	1.49
June	19.12	31.21	33.46	32.48	37.96	37.96	41.33	31.15	1.27
Sept	16.31	32.34	35.15	33.88	44.99	44.99	49.21	35.38	1.44
Dec	18.84	30.65	33.46	38.95	41.62	-	-	35.67	1.45
1992 March	19.97	29.95	34.87	38.38	38.81	43.02	52.58	33.61	1.37
June	24.75	32.76	32.76	35.86	39.93	44.15	50.62	34.12	1.29
Sept	22.35	27.00	30.09	33.04	34.03	37.96	44.99	30.05	1.14
Dec	16.59	23.49	26.86	27.70	28.96	-	46.12	26.99	1.02
1993 March	20.67	25.45	29.95	28.12	31.78	38.52	39.09	27.69	1.05
June	22.64	30.09	34.87	31.92	36.27	41.06	41.62	30.54	0.97
Sept	22.50	30.65	34.87	32.90	39.37	41.62	43.02	31.82	1.01
Dec	25.31	33.74	36.84	37.96	40.77	46.40	-	36.57	1.17
1994 March	37.54	49.56	53.11	50.68	53.22	59.75	62.56	49.50	1.58
June	38.17	54.62	59.47	55.96	59.05	58.91	58.28	51.01	1.63
Sept	32.90	49.00	53.99	53.15	61.86	60.46	59.26	49.82	1.59
Dec	39.99	56.52	61.22	54.83	62.43	64.90	72.61	58.67	1.87
1995 March	42.39	59.05	65.03	64.89	67.77	73.71	77.76	61.52	1.96
June	37.33	51.67	61.31	59.76	65.24	71.71	78.74	56.09	1.68
Sept	36.76	51.12	58.32	55.68	62.48	67.77	76.20	54.00	1.61
Dec	29.86	45.78	55.29	60.18	58.14	73.89	82.95	53.47	1.60
1996 March	22.67	39.82	47.38	56.52	51.85	69.85	70.43	45.71	1.37
June	23.85	45.89	51.68	51.79	52.81	64.57	75.59	46.09	1.30
Sept	23.06	45.34	52.02	54.70	59.97	66.72	79.02	48.98	1.38
Dec	22.78	40.56	50.55	50.34	52.02	64.33	66.86	45.54	1.28
1997 March	24.07	42.40	51.18	52.36	52.42	64.18	69.01	46.07	1.30
June	28.75	49.98	56.45	56.38	58.77	68.90	76.42	51.37	1.38
Sept	33.25	41.76	57.37	58.21	60.32	70.30	76.56	52.78	1.42
Dec	35.50	-	54.83	53.99	55.40	67.77	82.04	53.38	1.44
1998 March	41.76	54.27	57.65	57.08	60.04	71.50	84.92	55.73	1.50
June	44.78	56.52	58.91	58.14	60.74	68.89	86.32	55.72	1.33
Sept	41.83	48.09	-	56.52	59.97	74.52	87.51	54.16	1.29
Dec	41.34	46.47	-	52.37	55.26	65.03	74.17	51.38	1.22
1999 March	37.33	44.92	-	50.69	52.66	66.44	72.06	48.93	1.16
June	38.67	47.81	-	53.57	56.52	67.49	73.11	49.07	1.17

TABLE 2.5**INSTALLED CAPACITY AND PRODUCTION OF
MAN-MADE / FILAMENT YARN**

(Mn. Kg.)

YEAR	INSTALLED CAPACITY (Per annum)			PRODUCTION		
	MAN-MADE FIBRE	MAN-MADE FILAMENT YARN	TOTAL	MAN-MADE FIBRE	MAN-MADE FILAMENT YARN	TOTAL
1984-85	172.66	119.27	291.93	161.88	122.71	284.59
1985-86	173.44	129.55	302.99	154.63	148.85	303.48
1986-87	263.71	159.55	423.26	184.99	162.80	347.79
1987-88	281.42	176.69	458.11	220.98	191.71	412.69
1988-89	356.76	230.23	586.99	263.63	223.10	486.73
1989-90	435.91	238.82	674.73	305.25	244.45	549.70
1990-91	473.41	273.96	747.37	337.86	278.46	616.32
1991-92	483.94	343.17	827.11	342.06	295.18	637.24
1992-93	508.94	345.65	854.59	380.37	333.83	714.20
1993-94	545.81	368.52	914.33	453.34	387.60	840.94
1994-95	581.51	440.23	1021.74	478.62	407.97	886.59
1995-96	601.56	619.88	1221.44	498.38	493.02	991.40
1996-97	791.56	679.62	1471.18	588.22	601.56	1189.78
1997-98	1007.57	893.23	1900.80	708.42	768.55	1476.97
1998-99	1063.59	1032.95	2096.54	781.93	858.34	1640.27

TABLE 2.6**CONSUMPTION OF MAN-MADE FIBRE / FILAMENT YARN**

(Mn. Kg.)

YEAR	CELLUOSIC	SYNTHETIC	TOTAL
1984-85	154	171	325
1985-86	148	196	344
1986-87	142	238	380
1987-88	162	257	419
1988-89	172	312	484
1989-90	194	337	531
1990-91	202	413	615
1991-92	215	438	653
1992-93	207	482	689
1993-94	232	631	863
1994-95	251	730	981
1995-96	262	783	1045
1996-97	239	988	1227
1997-98	252	1245	1497
1998-99	235	1375	1610

TABLE 2.7
PRICES OF POLYESTER FIBRE / YARN

(Rs. / Kg.)

YEAR	POLYESTER STAPLE FIBRE		POLYESTER YARN (POY)	
	DOMESTIC	INTERNATIONAL	DOMESTIC	INTERNATIONAL
1991-92	80.13	29.86	168.63	60.98
1992-93	79.73	37.69	144.35	89.28
1993-94	78.50	36.86	146.31	57.06
1994-95	104.55	49.53	153.20	61.76
1995-96	89.05	64.27	150.31	79.25
1996-97	61.56	43.23	90.29	56.06
1997-98	51.30	39.10	89.44	69.88
1998-99	47.95	40.23	69.94	42.85

For international prices - (CIF) ASFI Bulletin May, 1999.

TABLE 2.8**DOMESTIC & INTERNATIONAL PRICES OF RAW MATERIAL FOR
MAN-MADE FIBRE / YARN INDUSTRY**

(Rs. / Kg.)

YEAR	DMT		PTA		MEG	
	DOMESTIC	INTERNATIONAL (C.I.F.)	DOMESTIC	INTERNATIONAL (C.I.F.)	DOMESTIC	INTERNATIONAL (C.I.F.)
1991-92	32.51	13.39	34.23	15.11	27.32	24.85
1992-93	30.60	14.34	32.65	16.51	24.85	9.14
1993-94	29.83	16.71	32.68	20.37	21.92	10.26
1994-95	42.83	29.32	49.88	26.54	28.08	19.09
1995-96	55.33	40.70	63.53	39.07	32.47	25.12
1996-97	30.00	20.69	31.38	22.04	27.92	18.23
1997-98	28.25	20.77	26.79	21.11	31.10	22.84
1998-99	21.73	18.30	22.00	14.18	23.55	16.22

TABLE 3.1**GROWTH IN SPINNING MILLS AND CAPACITY**

As on	NO. OF MILLS			INSTALLED CAPACITY	
	SPINNING	COMPOSITE	TOTAL	SPINDLES (Mn.)	ROTORS (‘000)
31/03/1985	674	281	955	25.57	0
31/03/1986	702	282	984	26.02	0
31/03/1987	744	283	1027	26.12	0
31/03/1988	752	283	1035	26.25	0
31/03/1989	769	282	1051	26.46	45
31/03/1990	770	281	1051	26.59	60
31/03/1991	777	285	1062	26.67	67
31/03/1992	846	271	1117	27.82	113
31/03/1993	874	268	1142	28.09	127
31/03/1994	909	266	1175	28.60	139
31/03/1995	1148	268	1416	30.70	186
31/03/1996	1294	275	1569	31.75	226
31/03/1997	1438	281	1719	33.15	276
31/03/1998	1504	278	1782	33.88	313
31/12/1998	1509	279	1788	33.93	317

TABLE 3.2**INSTALLED CAPACITY OF SMALL SCALE SPINNING UNITS****(As on 31st March, '99)**

Sr. No.	STATE/UNION TERRITORY	NO. OF MILLS	INSTALLED CAPACITY		WORKERS ON ROLL
			SPINDLES	ROTORS	
1	ANDHRA PRADESH	7	13954	2560	256
2	DELHI	2	352	0	24
3	GUJARAT	12	22714	936	392
4	HARYANA	57	16245	11038	3910
5	HIMACHAL PRADESH	1	0	1080	25
6	KARNATAKA	4	27425	1320	853
7	KERALA	3	2200	0	58
8	MADHYA PRADESH	4	2400	160	136
9	MAHARASHTRA	11	22282	720	909
10	ORISSA	2	5488	0	23
11	PUNJAB	9	11544	1576	297
12	RAJASTHAN	5	800	1728	210
13	TAMILNADU	703	1437686	15662	19515
14	UTTAR PRADESH	38	54564	922	1319
15	DAMAN & DIU	2	526	0	26
16	PONDICHERY	1	2136	0	29
TOTAL		861	1620316	37702	27982

TABLE 3.3**PRODUCTION OF SPUN YARN BY THE
COTTON/MAN-MADE FIBRE TEXTILE MILLS.**

(In Mn. Kg.)

YEAR	COTTON	BLENDED	100% NON COTTON	TOTAL
1985-86	1253	129	72	1454
1986-87	1302	144	80	1526
1987-88	1321	152	82	1555
1988-89	1310	185	92	1587
1989-90	1372	173	107	1652
1990-91	1510	207	107	1824
1991-92	1450	234	122	1806
1992-93*	1569	247	125	1941
1993-94	1697	305	140	2142
1994-95	1696	346	158	2200
1995-96	1894	395	196	2485
1996-97	2148	484	162	2794
1997-98	2213	583	177	2973

* From 1992-93 onwards the data include production of spun yarn by Small Scale Spinning Units.

TABLE 3.4**TEXTILE MACHINERY (SPINDLES) SHIPMENT**

(In Million)

CONTINENT (DESTINATION)	CUMULATIVE SHIPMENT 1988-97			
	SPINDLES			
	SHORT STAPPLE	LONG STAPLE	TOTAL	% OF WORLD SHARE
AFRICA	1.09	0.13	1.22	3.01
AMERICA, NORTH	1.66	0.15	1.81	4.47
AMERICA, SOUTH	1.59	0.12	1.71	4.22
ASIA & OCEANIA	23.95	1.99	25.94	64.08
(INDIA)	(11.04)	(0.35)	(11.39)	(28.14)
EUROPE - EAST	1.91	0.58	2.49	6.15
EUROPE - WEST	3	1.07	4.07	10.06
EUROPE - OTHERS	2.41	0.3	2.71	6.70
NOT SPECIFIED	0.52	0.01	0.53	1.31
WORLD	36.13	4.35	40.48	100.00

Source : International Textile Machinery Shipment Statistics, Volume 20/1997.

TABLE 3.5

SITRA PRODUCTIVITY NORMS FOR SPINNING MILLS

(40s COUNT)

DEPARTMENT	HOK	OHS
MIXING & BLOW ROOM	2.2	0.25
CARDS	2.0	0.22
DRAWING	0.7	0.08
FLY FRAMES	2.7	0.30
RING FRAMES	13.9	1.57
TOTAL	21.5	2.42
PRODN. /SPINDLE/ 8 HOURS	90 g.	
SPINDLE UTILISATION	98%	
CONE WINDING HOK	8.5	

HOK : Operative hours to produce 100 kg. of yarn

OHS : Operative hours engaged per 1000 spindles

Note : (1) The above norms are attained by about 15% of SITRA member mills which are fairly modern.

(2) The wage cost will be 6.75% of sale value for mills attaining the above norms, paying wages at Rs 25 per operative hour and producing 100% cone yarns.

TABLE 4.1**PRODUCTION OF CLOTH BY
MILLS AND DECENTRALISED SECTOR****(In Mn. Sq.Mtrs.)**

YEARS	MILL SECTOR	DECENTRALISED SECTOR	TOTAL
1951	4331 (74%)	1525 (26%)	5856
1961	5463 (61%)	3421 (39%)	8884
1971	4782 (48%)	5198 (52%)	9980
1980-81	4533 (36%)	7911 (64%)	12444
1990-91	2589 (11%)	20741 (89%)	23330
1991-92	2376 (10%)	20602 (90%)	22978
1992-93	2000 (8%)	23475 (92%)	25475
1993-94	1990 (7%)	25908 (93%)	27898
1994-95	2271 (8%)	26335 (92%)	28606
1995-96	2019 (6%)	29939 (94%)	31958
1996-97	1957 (6%)	32882 (94%)	34839
1997-98	1948 (5%)	35488 (95%)	37436
1998-99	1785 (5%)	34415 (95%)	36200

TABLE 4.2**SHARE OF HANDLOOMS, POWERLOOMS AND HOSIERY
IN TOTAL CLOTH PRODUCTION**

(In Mn. Kg.)

YEARS	MILL	HANDLOOM	POWERLOOM	HOSIERY	KHADI, WOOL & SILK	TOTAL
1989-90	2667	3924	11632	2375	388	20986
	(13)	(19)	(55)	(11)	(2)	(100)
1990-91	2589	4295	13348	2696	402	23330
	(11)	(18)	(57)	(12)	(2)	(100)
1991-92	2376	4123	13262	2827	390	22978
	(10)	(18)	(58)	(12)	(2)	(100)
1992-93	2000	5219	14644	3182	430	25475
	(8)	(20)	(58)	(12)	(2)	(100)
1993-94	1990	5851	15994	3637	426	27898
	(7)	(21)	(57)	(13)	(2)	(100)
1994-95	2271	6180	15976	3748	431	28606
	(8)	(22)	(55)	(13)	(2)	(100)
1995-96	2019	7202	17201	5038	498	31958
	(6)	(23)	(53)	(16)	(2)	(100)
1996-97	1957	7456	19352	5533	540	34838
	(6)	(21)	(55)	(16)	(2)	(100)
1997-98	1948	7604	20951	6393	540	37436
	(5)	(20)	(57)	(17)	(1)	(100)
1997-98 (R)	1948	4952	23603	6393	540	37436
	(5)	(14)	(63)	(17)	(1)	(100)

R : Cloth production is revised based on the findings of powerloom survey and handloom survey conducted by the Office of the Textile Commissioner.

TABLE 5.1**STATE WISE AND REGION WISE PROCESSING UNITS**

Sr. No.	Region	State	Status of the Unit			Total Units	(% W.R. To All India Total)
			Composite Processing units	Independent Processing Units	Hand Processing Units		
1	NORTHERN	Punjab	8	247	60	315	2.5
		New Delhi	2	198	N.A.	200	1.59
		U.P.	13	15	41	69	0.55
		Rajasthan	1	20	1725	1746	13.86
		Haryana	--	80	75	155	1.23
		Sub Total	24	560	1901	2485	19.73
2	WESTERN	Maharashtra	20	34	112	166	1.32
		Gujarat	23	413	75	511	4.06
		M.P.	10	5	16	31	0.24
		Sub Total	53	452	203	708	5.62
3	SOUTHERN	Tamil Nadu	8	781	2614	3403	27.02
		Pondicherry	2	3	8	13	0.1
		Kerala	4	7	64	75	0.6
		Karnataka	16	18	150	184	1.46
		Andhra Pradesh	12	105		117	0.92
		Sub Total	42	914	2836	3792	30.1
4	EASTERN	West Bengal	10	120	600	730	5.8
		Bihar	--	10	550	560	4.45
		Orissa	2	6	4061	4069	32.3
		Assam	2	3	150	155	1.23
		Arunachal Pradesh	--	1	--	1	0.01
		Meghalaya	--	--	54	54	0.43
		Tripura	--	--	42	42	0.33
		Sub Total	14	140	5457	5611	44.55
		All India Grand Total	133	2066	10397	12596	100

TABLE 10.1

LIST OF CONTROL ORDERS / NOTIFICATIONS WHICH ARE IN FORCE

Sr. No.	Title of Order/Notification
1	Textiles (Development & Regulation) Order, 1993 [under Section 3 of the Essential Commodities Act, 1955]
2	Textiles (Consumer Protection) Regulation, 1988 [stamping and marking on fabrics & textiles]
3	Control on production
4	Display of stock of yarn
5	Notification of Hank yarn packing
6	Notification of Textile Statistical Returns
7	Textiles Committee (CESS) Rules – 1963
8	Cotton (Control) Order, 1986
9	Submission of Statistical return by cotton ginning factory, cotton pressing factory and cotton ginning & pressing factory
10	Restriction on Production
11	SSI Reservation under ID & R Act, 1951
12	Handloom [reservation of articles for prod.] Act, 1985
13	Jute Textiles (Control) Order, 1956
14	Jute (Licensing and Control) Order, 1961
15	Jute Packaging Materials (Compulsory Use in Packing Commodities) Act, 1987
16	Jute Manufacturers Cess Act, 1983
17	Jute Manufacturers Development Council Act, 1983
18	Central Silk Board Act, 1948
19	Central Silk Board Rules
20	Karnataka Silkworm Seed, Cocoon and Silk Yarn (Regulation of prod., supply, distribution and sale) Act.

TABLE 13.1**TEXTILE MACHINERY PRODUCTION**

(Value Rs. Crore)

MACHINERY CATEGORY	1994-95	1995-96	1996-97	1997-98 (P)
SPINNING	786.47	885.09	652.88	672.17
SYNTHETIC FIBRE	251.79	119.67	126.86	272.46
WEAVING	110.34	118.77	108.13	98.34
PROCESSING	112.04	90.78	90.53	98.02
MISC.SPG.,WVG. & PROCESSING	5.03	1.97	1.75	3.86
TEXTILE TESTING/ MEASUURING INSTRUMENTS	18.96	29.89	34.22	29.56
HOSIERY MACHINERY & NEEDLES	30.46	37.54	35.85	43.97
SPARES & ACCESSORIES	194.34	216.60	240.72	282.33
GRAND TOTAL	1509.43	1500.31	1290.94	1500.71

Source : - Annual Report of FITEI 1997-98.

P = Provisional.

TABLE 15.1**INDIA'S EXPORT OF TEXTILES AGAINST TOTAL EXPORTS**

YEARS	TOTAL TEXTILE EXPORTS		OVER ALL EXPORTS		TEXTILE EXPORT AS % OF TOTAL EXPORT
	Rs. (Millions)	Mn.US \$	Rs. (Millions)	Mn.US \$	
1985-86	20856.00	1703.92	108470.00	8861.93	19.23
1986-87	26657.00	2084.21	124170.00	9708.37	21.47
1987-88	37962.00	2926.91	156110.00	12036.24	24.32
1988-89	44343.00	3062.36	201480.00	13914.36	22.01
1989-90	66359.00	3983.13	276810.00	16615.25	23.97
1990-91	82509.00	4596.60	325550.00	18136.49	25.34
1991-92	144095.00	5796.80	440420.00	17885.00	32.41
1992-93	191142.00	6599.60	536880.00	18537.00	35.60
1993-94	250107.00	7973.90	697510.00	22237.00	35.86
1994-95	313363.00	9980.20	826740.00	26330.00	37.90
1995-96	355261.00	10685.10	1063530.00	31797.00	33.60
1996-97	418282.00	11839.10	1181700.00	33470.00	35.37
1997-98	460925.00	12342.10	1206143.00	32440.80	38.04
1998-99	527208.00	12533.10	1416035.00	33641.50	37.25

TABLE 16.1**BANK CREDIT TO TEXTILE INDUSTRY**

(Rs. Crores)

ITEMS	Jun-91	Jun-92	Jun-93	Mar-94	Mar-95	Mar-96	Mar-97	Mar-98
COTTON TEXTILES	4124	4427	4594	4802	5907	7592	8053	9331
JUTE TEXTILES	343	328	321	410	502	605	543	1089
OTHER TEXTILES	3855	4198	4518	4916	6590	7802	9685	10651
TOTAL TEXTILES	8322	8953	9333	10128	12999	15999	18281	21071
TOTAL BANK CREDIT TO INDUSTRIAL SECTOR	62452	76284	78714	80482	102310	124937	138548	161038
CREDIT TO TEXTILES AS % OF TOTAL CREDIT TO INDUSTRY	13.30	11.73	11.85	12.55	12.70	12.80	13.51	13.08

TABLE 16.2**SANCTIONS AND DISBURSEMENTS TO THE TEXTILE INDUSTRY**

(Rs. Crores)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	Cum upto end March 1999
AIFI's Sanctions	3523	7266	4637	3672	5196	5163	46178
Share in AIFI's sanction to all Industries	9.1	13.1	7.9	7.4	7.2	6.2	9.4
Disbursements	2504	4095	4077	3166	3854	4655	34612
Share in AIFI's disbursements to all Industries	10.3	13.3	11.7	8.2	7.7	9.1	10.5

Note : The AIFI's include IDBI, ICICC, SIDBI, IIBI, IFCI, LIC, UTI & GIC.

TABLE 16.3**REFINANCE ASSISTANCE BY SIDBI**

(Rs Lakhs)

ITEMS	1995-96		1996-97		1997-98	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
Jute	262.49	100.22	5.99	1.60	406.66	261.76
Yarn	1957.97	1449.48	284.84	173.47	1694.41	1421.11
Spinning weaving Cotton	1422.56	1089.33	182.31	120.57	2795.47	2656.93
Spinning weaving Wool	476.16	500.43	17.41	16.71	314.10	191.19
Hosiery (Other than Mills)	1383.47	1245.15	470.07	349.85	1424.09	1189.73
Textile Garments	8796.43	7595.93	570.72	286.35	11830.54	10006.93
Others	7193.92	7168.46	16487.02	12403.33	13139.73	11349.35
TOTAL	21493.00	19149.00	18018.36	13351.88	31605.00	27077.00

TABLE 16.4**LIMITS SANCTIONED TO THE TEXTILE INDUSTRY BY NABARD**

(Rs. Crores)

YEAR	Limits sanctioned		
	Primary Apex/Regional Weavers Coop. Societies for production & marketing and procurement of cloth	Apex / Regional Weavers Coop. Societies for trading in yarn.	TOTAL
1993-94	529.96	20.55	550.51
1994-95	609.69	23.64	633.33
1995-96	701.32	27.47	728.79
1996-97	759.11	29.26	788.37
1997-98	743.59	29.24	772.83

TABLE 16.5

OPERATIONAL CRITERIA FOR FINANCIAL ASSISTANCE TO SPINNING MILLS

Sr. No.	Parameter	Criteria
1	Production / Sple. / 8 hours (adj To 40s) in grams	Not less than 80 g.
2	Spindle utilisation (%) (During the recent 2 year period)	90% Short-term 85% Long-term
3	Operative hours to produce 100kg. Yarn (adj to 40s) (HOK) spinning	30 upto spinning 90% of norm in Post
4	Salaries & Wages Cost	Not more than 13.5% of sales
5	Profits	Net profit during normal trading conditions (1990-1, 1993-4)
6	Investment on Modernisation	Not less than 2% on sales during 5 years (1990-95)

TABLE 16.6

PROGRESS UNDER SHG BANK LINKAGE PROGRAMME BY NABARD

PARTICULARS	CUMULATIVE POSITION AS ON		
	31/03/96	31/03/97	31/03/98
No of SHGs Linked	4757	8598	14317
Percentage of Women Groups	73.5	76	78
Families covered (million)	0.08	0.15	0.25
<u>Banks participated :</u>			
Commercial Banks	28	29	31
RRBs	60	79	102
Coperatives	7	12	17
TOTAL	95	120	150

Summary
of
Recommendations

SUMMARY OF RECOMMENDATIONS

CHAPTER-2 - RAW MATERIAL

1. It is imperative to augment the availability of different varieties (from standard to specialised) of textile fibres/yarns of internationally acceptable quality at reasonable prices to provide a platform to the value added textile products to acquire 'world class' status.

2. In spite of its natural cotton advantage, India should attach equal importance to cotton and non-cotton fibres. It is necessary to provide additional thrust for consumption of non-cotton fibres, particularly in value added blended textiles and technical textiles, to release high value cotton for value added textile exports.

(para 2.1)

Cotton

3. The cotton policy should primarily aim at improvement of production, productivity and quality of cotton with stable price structure while ensuring remunerative prices to the farmers. To ensure market-driven production pattern, a joint Coordination Committee of the Ministry of Textiles and Ministry of Agriculture may be set up on a permanent basis for handling all aspects of cultivation of cotton, particularly release of seed varieties. The user industry, the Textile Commissioner and the Cotton Corporation of India must be a part of this Committee.

(paras 2.2.1 & 2.2.2)

4. **Improvement in productivity and quality**

i) **Raising share of irrigated cotton**

A concerted campaign be launched for increasing the irrigated area under cotton to 50 percent from existing 35 percent through wider adoption of drip and sprinkle irrigation systems.

ii) **Farming co-operatives**

Small and marginal farmers should be encouraged to organise themselves into co-operatives at the village, taluka and district levels to enable them to own costly implements for mechanised farming and to make arrangements for supply of good quality seed and other inputs like fertilisers and pesticides in bulk.

iii) **Farm – Corporate linkage**

The involvement of corporate sector should be encouraged to bring modern management practices to cotton farming and promote a more focussed approach to solving problems of low productivity, varietal deterioration etc. and enabling farmers to obtain good inputs, technical advice and an assured market.

iv) **Extension network**

Incentives to the supervisory level staff engaged in the extension work may be provided either through Technology Mission on Cotton or through initiatives of the

industry and trade bodies who have a direct stake in cotton economy. Extension staff should have the exposure to latest technology, inputs and farm practices through training, seminars and workshops. Demonstration farms may also be set up by the extension agencies to demonstrate to the farmers improvement in yields through new methods of cultivation. To demonstrate the Israeli method of cultivation, even wasteland can be used.

v) Availability of certified/standard seeds

An integrated approach should involve all concerned agencies in producing certified seed in cotton as compared to food grains and oilseed crops with an objective of 100 percent supply of certified seeds. Till such time, all out efforts should be made for the supply of atleast good quality "truthfully labelled seeds" to the cotton growers. A mechanism with strict legislative backup may be evolved to regulate the seed production, selection and marketing to ensure supply of only quality seeds to the growers.

vi) Cotton varietal imbalances

A large number of varieties and hybrids in excess of 80 or perhaps 100 are grown in India. This should be restricted to 3 to 4 varieties for each agro climatic zone and not more than 18 to 20 varieties as a whole representing various staple lengths and other quality parameters.

vii) Denotification of varieties

(a) A permanent empowered Committee under the AICCIP with representation from Ministry of Textiles, CCI, EICA, ICMF etc. may be constituted for fixing of norms for quality parameters, and to advise on all R. & D. activities, with particular reference to release of varieties to be taken up under Mini Mission I of TMC.

(b) There should be strict regulation for restricted release of research hybrids in order to avoid multiplicity of varieties and duality of decision making on varietal release, the State Varietal Release Committee should have only a recommendatory jurisdiction while the Central Varietal Release Sub-Committee should have the authority to take a final decision.

viii) R. & D. for improvement of varieties

Fibre parameters should receive emphasis at the R. & D. stage when the varieties/hybrids are developed. The R. & D. efforts should be focussed towards commercial acceptability of the variety in addition to the variety being high yielding, early maturing and pest resistant. Fibre properties of the cotton can be improved to match the properties of polyester fibre etc. for blending.

ix) Judicious application of fertilisers and pesticides

A study may be carried out for estimation of reasonable requirement of fertilisers and pesticides per hectare on agro-climatic zone and national average basis, to restrict farmers using over doses due to ignorance and panic. This would also help in standardising the consumption norms.

x) Integrated pest management

A mass "insecticide resistance management" (IRM) programme should be launched synergising all the "integrated pest management" (IPM) efforts carried out so far, to cover major cotton growing states.

xi) Credit

In order to take small and marginal cotton growers out of the clutches of the village traders and commission agents, the rural credit system needs to be streamlined and strengthened. In this context, a model scheme for issue of Kisan Credit Cards to farmers so that they may use them to readily purchase the inputs and draw cash for their production needs to be formulated by NABARD expeditiously.

xii) Contamination of cotton

To tackle contamination of cotton due to mishandling of seed cotton, there is a need to improve the work culture and increase the awareness levels among market yard/ginnery workers about the contaminants. The mills should encourage pre-gin and post-gin cleaning by adequately compensating ginners for cleaner lint.

xiii) Ginning practices

More than outdated and obsolete ginning machinery, antiquated ginning practices are responsible for contamination of cotton. The two Mini Missions III and IV under TMC must address the problem of contamination of cotton at the market yard/ginning stage and develop appropriate models for implementation. CCI's role may also be expanded in the area of decontamination of cotton.

(para 2.2.3)

Organic cotton

5. Organic cotton can also eliminate the use of toxic dyes which cause environmental pollution and reported hazards to human health. Govt. may notify and demarcate certain areas by proper notification for growing eco-friendly cotton, wherever it is possible, looking to agro-climatic conditions. For certification of organic/coloured cotton, govt. may set up an internationally accredited certifying agency.

(para 2.2.4)

Reducing production cost

6. Apart from raising productivity, higher net returns by farmers, can be obtained by measures like (i) shifting emphasis to organic manures and bio-fertilisers to reduce the cost of nutrition; (ii) intensification of IPM to reduce dependence on costly chemical pesticides; (iii) introduction of shorter maturity varieties to bring down crop cycle; (iv) hybrid technology by developing new high yielding hybrids for areas not covered by them now; (v) emphasis shifted from longer fibre to higher productivity and overall fibre quality; (vi) transgenic cottons with in-built resistance to major pests/diseases; (vii) ginning outturn of commercial varieties/hybrids stepped up to 35-42 per cent so that seed cotton may fetch higher price per quintal; and (viii) breeding

work for raising oil content in cotton seed may be intensified so as to enhance the seed cotton price.

(para 2.2.5)

Strengthening marketing infrastructure

(i) Support for parking of cotton

There is urgent need to provide adequate parking facilities for cotton by considerably strengthening the storage and warehousing facilities at strategic locations.

(ii) Marketing infrastructure for cotton

In many states, market yards are functioning unsatisfactorily or not at all. The State Governments need to take prompt steps to activate or upgrade the non-functioning and malfunctioning market yards.

(para 2.2.6)

Need for an umbrella organisation

7. A national non-governmental body called National Cotton Council of India with representation from all the stake holder segments of the cotton industry should be set up as an umbrella organisation to bring about the needed co-ordination and foster a healthy spirit of co-operation in the interest of strengthening the cotton textile economy.

(para 2.2.7)

Maharashtra monopoly procurement scheme for cotton

8. In a free economy and particularly in a commodity like cotton which is traded freely all over the country, the existence of the monopolistic system in a single state does not appear to be logical or even economically desirable. Therefore, Monopoly Cotton Procurement Scheme of Maharashtra may be done away with.

(para 2.2.8)

Minimum support price (MSP)

9. MSP in order to retain its credibility ought to be fixed on more transparent logic. The methodology for fixing the MSP by CACP should be more open and transparent and productivity of cotton should be considered as one of the parameters for fixation of price to provide encouragement for improvement in productivity.

(para 2.2.9)

Technology mission on cotton (TMC)

10. The TMC which aims at improving almost the entire gamut of activities in the cotton economy should be launched immediately and implemented in a time-bound manner to achieve the desired objectives. ICAR should give proper direction to R. & D. under TMC keeping in mind the need of the user industry. Since two Ministries are involved in the implementation of TMC, it will be highly appropriate to designate one officer for co-ordination of all the four Mini Missions to achieve time bound results. An Inter- Ministerial Coordination Committee should be constituted for consideration

of policy issues arising in the course of implementation of the Mission as well as for monitoring implementation of the various programmes under the four Mini Missions.

(para 2.2.10)

Export policy of cotton

11. To follow the consistent policy approach which the Committee has adopted everywhere towards full scale liberalisation, cotton exports may also be placed under OGL.

(para 2.2.11)

Man-made fibres/yarns

12. Consumption of man-made fibres/yarns may be encouraged to reduce the pressure on cotton supply and improve the competitiveness of the Indian textile industry. The man-made fibre/yarn products contribute to the competitiveness of the cotton textile industry in several ways.

(paras 2.3.1 to 2.3.3)

Cellulosic fibres/yarns

13. Policy guidelines in the context of cellulosic industry may be guided by the following aspects:

- (i) The availability of wood pulp may be augmented by further liberalising the import policy of rayon grade wood pulp.
- (ii) To improve the availability of indigenous rayon grade wood pulp, Govt. may permit raising of plantation of eucalyptus, on unproductive, marginal/sub-marginal lands through farm forestry route.
- (iii) Adoption of bio-technology and tissue culture for softening of hardwood pulp into softwood pulp.
- (iv) To improve consumption of cellulosic fibres/yarns, the excise duty on cellulosic fibres/yarns and the blended yarns of such fibres may be further reduced to bring it at par with cotton yarn.
- (v) To facilitate technology upgradation in the cellulosic sector, the fiscal policy of machinery required for the manufacture of cellulosic fibres/yarns need to be further liberalised.
- (vi) Market development efforts aimed at promoting the use of VSF in non-woven segment may be launched.
- (vii) Export of VSF may be allowed freely.

(paras 2.3.4 to 2.3.8)

Synthetic fibres/yarns

14. The policy initiatives with regard to synthetic fibre/yarn industry could be guided by the following considerations :

- (i) The small units in the polyester segment should focus their attention on the development of speciality fibres to carve out their own niche market in order to survive in the competitive environment.

- (ii) To internationalise the cost of synthetic fibres/yarns it is essential to facilitate their access to fibre intermediates at international prices. This could be done by liberalising the import duty of such items to create 'credible threat' of imports and also stressing upon indigenous manufacturers of such items, which are a few in number, to supply the same at international prices.
- (iii) Focus on R. & D. facilities for development of new or specialised varieties of synthetic fibres/yarns.
- (iv) Synthetic sector should be encouraged to produce specialised fibres/yarns required for the production of technical textiles and other non-apparel usage.
- (v) The process of gradual lowering down of the fiscal levy structure of the synthetic fibres/yarns sector be continued till status of uniformity in duty structure of all textile fibres/yarns is reached.
- (vi) Raw materials for Technical Textiles - The imports of such fibres/yarns which have no indigenous angle may be permitted with 'zero' rate of customs duty. Likewise, these items may be exempted from excise duty.
- (vii) Standards for man-made filament yarn and spun yarn in line with the world standards may be prescribed in order to improve the quality and competitiveness of the synthetic/blended fabrics.
- (viii) A Man-made fibre/yarn Advisory Council may be set up immediately to take an integrated approach to solving the problems of man-made fibres/yarns and man-made/blended textiles and accelerate their growth.
- (ix) To encourage integrated policy approach for around development of the synthetic fibres and filament yarns the synthetic fibres/yarns may be transferred from the administrative control of the Department of Chemicals and Petrochemicals to the Ministry of Textiles.

(paras 2.3.9 to 2.3.16)

Raw wool

15. The policy with regard to the woollen sector could be guided by the following considerations :

- (i) The import duty in respect of apparel grade raw wool may be further reduced.
- (ii) Selective breeding farms should be encouraged to be set up, preferably in the private sector or as joint ventures to increase production of carpet grade wool. Concerted efforts should be made for increasing the per sheep productivity in the country.

- (iii) Collaborative research in development of highland wool in the Himalayan region should be undertaken by the Govt. in collaboration with the industry.
- (iv) A pilot project be set up with private sector participation on marketing of wool to ensure remunerative prices to the wool growers. An experiment as in the case of dairy development (Amul) could be explored through a cooperative network.
- (v) Collaborative research tie ups should be taken up with Australia and New Zealand in the fields of research, selective breeding, testing and training etc.
- (vi) The import duty on raw material for shoddy industry, i.e., synthetic/woollen rags should be further liberalised and kept at par with raw wool.
- (vii) The mandate and the role of the Central Wool Development Board needs to be reviewed and redefined in the changed scenario.
- (viii) To encourage technology upgradation in the woollen sector, the import duty on woollen machinery may be further reduced.
- (ix) Adequate pre-loom and post-loom processing facilities may be made available to improve the quality of the wool fibre.
- (x) The Govt. may take up angora wool development plan under UNDP with proper marketing and processing tie-ups to increase the production of angora wool.

(para 2.4)

Silk

16. The policy formulation with regard to silk may be guided by the following considerations:

- (i) Encouragement ought to be provided for the formation of progressive organisations of industry groups which articulate industry needs and funnel the assistance available from Govt. or other agencies improving marketability of their goods, for compiling industry data and setting up systems of market intelligence.
- (ii) Sericulture may be developed in the hinterland in collaboration with the user industry on the pattern of sugarcane development programme.
- (iii) Encourage tissue culture and genetic engineering (germ plasm) to improve the productivity and quality of silk.
- (iv) Encourage non-sericulture states which have potential to focus attention on development of sericulture.

- (v) Authority should be demarcated statutorily between the Centre and the states for sericulture to avoid conflicting policy thrusts or directions.
- (vi) The exports of value added items produced out of Eri and Muga silk should be encouraged
- (vii) A state level mechanism for the coordination or integration of activities of the directorate of handlooms and the department looking after sericulture is necessary for unity of perspective and purpose.
- (viii) There is adequate infrastructure created in the on-farm side in the country. Further capacity building in this area has to be discouraged till utilisation improves.
- (ix) Varieties of silk which are not produced in the country should be permitted to be imported.
- (x) The CSB Act should be repealed and CSB abolished. In its place an R. & D. organisation christened as Central Sericulture Research and Development Organisation (CSRDO) comprising of the R. & D. institutes/centres presently under the CSB should be created. A separate Development Commissioner (silk) should be created to handle silk fibre development including post-technology transfer extension and silk reeling.
- (xi) Besides the reeling cocoons, there are other products obtained during silkworm rearing and reeling operations. At present, the utilisation of by-products in the country is meagre. Extensive research work is required for utilisation of these by-products to the maximum level within the country.
- (xii) The focus of development so far has been on mulberry silk only and non-mulberry silks were neglected. Such silk should have separate R. & D. focus and external funding for non-mulberry areas should be encouraged. The Govt. should formulate a 'White paper' on this sector with identifiable targets/objectives to be achieved.
- (xiii) The very profile of the silk industry in the World is changing and in the light of the general fall in production of raw silk elsewhere in the World, ensuring our strategic positioning at the time of restraint phase out in global trade in 2004 is important.
- (xiv) Under the existing Import and Export Policy (1997-2000), silk is in the restricted list. To provide facility to exporters, duty free import of silk is permitted under the Duty Exemption Scheme. In addition, in October 1998, the import of mulberry silk yarn of certain specified grades has been permitted under SIL. The Govt. should continue to allow such imports of silk into the country to encourage investments in the downstream industry for the upgradation of quality and profitability.

(para 2.5)

CHAPTER-3 - SPINNING

17. The Committee endorses the conditionality of matching value addition with new spinning capacity under TUFSS but unconditional technology upgradation of existing capacity in the scenario of excess spindleage in the country.

(para 3.4)

Excess capacity

18. It may not be possible to tackle the issue of excess capacity through TUFSS alone, particularly since there appears to be no compulsion for scrapping of replaced spindles. Therefore, Govt. may seriously consider formulation of a separate scheme in this regard to suitably tackle the issue which has serious implications for the long-term health of this sector.

(paras 3.5.1 to 3.5.6)

Sickness and closure of co-operative spinning mills

19. Some State governments have been able to get the trade union support for closure of terminally sick co-operative spinning mills by offering compensation under voluntary retirement scheme. Once the workers' dues are settled, winding up procedure under the Co-operative Act can be followed with relative ease. This strategy can be considered by other State governments where sickness amongst co-operative spinning mills is of a high order.

(para 3.5.9)

Export policy of cotton yarn

20. Quantitative ceiling on export of cotton yarn should be removed and exports of cotton yarn placed under OGL.

(para 3.6)

Hank yarn obligation (HYO)

21. To improve the economic viability of the spinning mills, HYO Scheme should be done away with.

22. To cater to the yarn demand from the handloom sector, two alternatives are recommended:

(a) **Supply of dyed cone yarn to handlooms**

- (i) Govt. may carry out a comprehensive feasibility study for setting up of small capacity units upto 350 kg per day (30 kg/vessel) in the decentralised handloom and powerloom clusters. Now still smaller dyeing machines to dye yarn in cone, cheese or hank form are also available. The excise revenue realised from the stopped revenue leakage to powerloom weavers after the abolition of the hank yarn obligation, could be utilised for setting up of cone/hank dyeing facilities at substantially subsidised costs. Govt. may formulate a suitable time bound scheme of, say, 3 years for the purpose and in the interim, the

HYO scheme may continue in a declining format to be completely abolished on achievement of the desired cone dyeing capacity.

- (ii) To encourage setting up of such units financial norms under TUFSS may be further reduced appropriately for such units.
- (iii) In order to create 'awareness' amongst the handloom weavers with regard to the benefits of the machine dyed yarn, 'Education Centres' may be set up in different parts of the country, particularly in places of handloom concentration.

(b) Cones to be converted to hank by weavers

It is envisaged that mills may produce only cone yarn and the requirements of the handlooms can be met by converting the cones to hanks by the 'master weaver' or a co-operative of the weavers in a common shed. Such converted yarn can further be dyed in a small machines now available at Rs.2.60-3.00 lakh only.

(para 3.7)

Wool top making and spinning of woollen, shoddy and worsted yarn

23. In order to augment the availability of raw materials for the woollen sector, customs duty structure on such imports may be reduced.

(para 3.8)

Silk reeling and spinning

24. There is a greater urgency for upgradation of technology in reeling so as to improve the quality and cost competitiveness of silk fabrics in the international markets.

25. Developing high-yielding bivoltine races more suitable to India's climate and resistant to local diseases is a pre-requisite for the development of filature silk in the country.

26. State level mechanism for the coordination or integration of activities of the Director of Handlooms and the department looking after sericulture, is necessary for unity of perspective and purpose.

27. Govt. intervention by way of facilitation is required for creation of infrastructure for clustering of reeling and weaving activities; conceiving and establishing silk industrial estates for quality processing in the post-yarn stages; and HRD.

(para 3.9)

CHAPTER-4 - WEAVING

Mill sector

28. The composite mill sector has intrinsic strengths and has the capability to supply high value added, superior quality goods both for domestic and overseas markets. In the context of globalisation, thrust on quality standards and insistence on eco-friendly textiles, the role of composite sector assumes special significance. Effective action, therefore, needs to be taken to remove the impediments and irritants hampering its modernisation and growth.

(para 4.2.1)

29. Technology upgradation

(i) The benchmark level of technology in the mill sector is recommended to be automatic looms. The mill sector may be encouraged to scrap all their ordinary looms. Govt. must take the hard decision to scrap all plain looms in the NTC mills so that those cannot be resold.

(ii) In the emerging scenario of free competitive and globalised trade, mills will have to make concerted efforts to continue modernisation as an on-going process at a rate of 4 to 5 percent of their sales turnover.

(paras 4.2.2 to 4.2.4)

30. Management practices

Alongwith technology upgradation, adoption of modern management practices which are less easily copied is also very essential to acquire competitiveness. However, managerial practices together with design inputs that are uniquely designed to take advantage of technology can be copied less easily and hence provide unique competitive advantage.

(para 4.2.5)

31. Corporate governance

Management accountability through a stricter code of corporate governance is very much essential for healthy industrial relations and corporate growth. This may require stricter statutory provisions and also restructuring of boards of the mills through adequate representation to independent and reputed non-executive professional directors. Govt. may consider constitution of a panel of such professional directors of high repute and integrity for ease of choice by mill managements.

(para 4.2.6)

32. Conducive labour laws/exit policy

Conducive labour laws and rational exit policy are essential for corporate growth and optimisation of national resources.

(para 4.2.7)

33. Mills in metropolitan cities

Mills in the metropolitan areas should be permitted to shift to rural areas. Most of the finance for this purpose can be obtained by selling the land in the cities. A rational and uniform govt. policy can be formulated for systematic shifting out of

such mills. Though land is essentially a state subject, given the magnitude and multi-locational nature of the mill land problem, there is a strong case for an urgent national policy thereon.

(para 4.2.8)

34. **NTC mills and STC mills**

The NTC mills which are potentially viable should be revived by the Govt. and the remaining mills closed down with provision for reasonably attractive terminal benefit payment to the workers through sale of land asset. The states could also adopt this strategy for their unviable STC mills. To revive the potentially viable NTC mills, such mills be privatised.

(para 4.2.9 & 4.2.10)

35. **Closure of mills**

Liberalisation of chapter V of the Industrial Disputes Act, 1951 (ID Act.) would subject the mills to "rational and easy exit policy" and would curtail the practice of illegal closure.

(para 4.2.12)

36. **Sick mills**

(i) The Board for Industrial and Financial Reconstruction (BIFR) in its present form has not succeeded in achieving its objective of either closing down the non-viable mills or to revive the potentially viable mills. With the easy exit policy the BIFR will become redundant. The management and lender(s) may decide on revival or closure of the mill considering the options available.

(ii) The definition of 'sickness' may be modified to cover the cases of 'potential sickness' and a strong mechanism in the office of the Textile Commissioner may be set up to monitor the health of the textile mills so that the potential sickness is detected in time and remedial measures are taken by the govt. to prevent the unit from falling sick.

(para 4.2.13 & 4.2.14)

37. **Powerloom sector**

(i) To recommend policy intervention, powerloom sector has been broadly categorised in the following manner:

Tier-1 Powerloom units with shuttle-less looms;

Tier-2 Powerloom units with automatic looms;

Tier-3 Powerloom units with semi-automatic looms;

Tier-4 Powerloom units with ordinary looms;

(ii) In addition to in situ upgradation of wider width plain looms, TUFS should permit replacement of narrow looms and old wider width looms to be replaced by semi-automatic looms. In fact, because of higher cost of such replacement, 50 percent of margin money should be provided as loan at zero or nominal interest.

(iii) The development strategy should aim at maximum in situ upgradation or replacement of plain looms in a time-bound manner, say, in 5 years, and accretion of new automatic and shuttleless looms.

(iv) The benchmark technology for in situ upgradation or replacement of looms should be semi-automatic status (automatic under TUFS) with or without dobby/jacquard while for incremental looms it should be automatic.

(v) The Union Govt., State Govts. TRAs, PDEXCIL & NIFT etc. may formulate a proactive action plan to identify the plain loom powerloom weavers desirous of upgrading their technology and to guide them in bankable project formulation and implementation thereof under TUFS.

(paras 4.3.1 to 4.3.5)

38. **Demonstration projects**

To increase the level of awareness among the powerloom weavers, Govt. may accord top priority to establishing demonstration centres at the PSCs to demonstrate the positive effects of loom modernisation.

(para 4.3.6)

39. **Ancillary facilities**

The modernisation of powerlooms will necessitate creation of additional facilities for yarn preparation, warping, sizing, cone winding, finishing, dyeing etc. The future strategies, therefore, should aim at creation of matching facilities on centralised basis.

(para 4.3.7)

40. **Consolidation of powerloom units**

It is desirable to incentivise family-held powerloom units to consolidate into a single bigger unit of 12 looms or more which will facilitate their absorption of the benefits of economies of scale and also enable them to avail of the benefit of organised credit facility which is mostly denied to them because of fragmented small nature of their units.

(para 4.3.8)

41. **Credit availability**

Committee's recommendations for co-operativisation of powerloom weavers, setting up of powerloom service co-operative societies and consolidation of family holdings and encouraging financial institutions to provide working capital against group guarantee or hypothecation would augment the access of the powerloom weavers to adequate working capital.

(para 4.3.11)

42. **Powerloom service co-operative societies**

The powerloom service cooperative societies may be set up to facilitate joint input servicing and output marketing on professional lines. SIDBI should encourage formation of service co-operative societies of weavers in the decentralised powerloom sector and finance them on the pattern of the one existing at present for financing agriculture service co-operatives by NABARD.

(paras 4.3.12 & 4.3.13)

43. **Powerloom Service Centres (PSCs)**

There is a need to strengthen the PSCs in a more structured and time-bound manner in terms of high tech looms, man power and other infrastructural facilities on a war footing within the next 2 to 3 years. The PSCs should focus on 'out-reach' activity by providing 'on-site' training to the weavers. Depending on the production profile, production turn over and level of sophistication, value addition etc. of their catchment area, the PSCs should be graded into 3 grades and the infrastructure, manpower and service facilities should be provided appropriately. In the areas of concentration of knitting activity, the powerloom service centers may be converted into composite powerloom and knitting service centers to cater to the felt needs of knitters along with powerloom weavers.

(para 4.3.14)

44. **Upgradation of PSC laboratories**

The work of upgradation of testing laboratories must be accelerated to enable the powerloom sector to cope with the increasing demand for better product quality and higher productivity, apart from meeting the eco-standards.

(para 4.3.15)

45. **Computer aided design centres**

So far, the Govt. has set up 20 CAD centers in the PSCs and WSCs in major textile centers in the country. It is necessary to set up more such centers in the areas of powerloom concentration.

(para 4.3.16)

46. **Workshed-cum-housing scheme**

Instead of the proposed workshed-cum-housing scheme for the powerloom weavers, the focus should be on relocating the workshed in case of powerloom weavers operating from house. A separate suitable scheme may be formulated for development of textiles parks and relocating the looms in the proposed 'textile parks', which will have all the infrastructural facilities.

(para 4.3.17)

47. **Export of fabrics by associations & co-operative societies on behalf of powerloom weavers**

On a long term basis, individual powerloom weavers should be encouraged to become direct exporters and PEE quota may not be given to powerloom weaver below tier 3. In the interim (two years) the PEE quota system may be modified to cover consolidated powerloom units (tier 3 and above), consolidated units in tier 4 and weavers' co-op. societies in the ratio of 1:1:2.

(para 4.3.18)

48. **Protection against import of cheap fabrics**

To protect the indigenous industry from cheap imports, specific duty may be imposed on imports of fabrics. In addition 'deemed export status' to the indigenous fabric manufacturers, concessional packing credit and other export benefits to make the local fabrics more competitive is also recommended.

(para 4.3.19)

Knitting sector

49. **De-reservation of hosiery and knitting items**

If India has to be a global player in knitwear sector the hosiery and knitting sector may be removed from the purview of SSI reservation without any further loss of time.

(para 4.4.2)

50. **Knitting service centres**

Powerloom service centres may be converted into powerloom and knitting service centres in the areas of concentration of knitting/hosiery activities. In case powerloom service centre does not exist in the area of knitting concentration, independent knitting service centres may be considered for setting up.

(para 4.4.3)

51. **Technology upgradation**

The fiscal levies on high-technology and medium-technology machinery for knitting segment may be reduced.

(para 4.4.4)

52. **Infrastructure support**

The garment and knitwear parks either independently or as a part of 'textile parks' may be set up with all the infrastructural facilities. State Govts. should take the lead and the Ministry of Textiles may provide the necessary backup including infrastructure development assistance. In the textile park, all stages of production from spinning, weaving/knitting, processing, garmenting etc. may be covered to make such parks 'self contained'.

(para 4.4.5 & 4.4.6)

53. **Handloom sector**

(i) Since it is around the skills of the weaver that all other handloom related activities revolve, the focus of the policy should be the development of handloom weaver. The development paradigm would mobilise and organise handloom weavers for their socio-economic development, to make them stand up on their own with only essential service support.

(ii) The handloom weavers have been categorised in the following manner with a view to recommending appropriate policy interventions:

1st tier – Weavers producing unique, exclusive, high value added items.

2nd tier – Weavers producing medium priced fabrics and made-up articles from not-so-fine counts of yarn.

3rd tier – Weavers producing plain and low cost textile items.

(iii) The weavers of 3rd tier and their progeny need to be provided with alternate avenues of livelihood. The least painful conversion would be to convert them into

either skilled weavers' in cooperative or commercial 1st tier handloom units or powerloom weavers of 3rd tier with semi-automatic looms. For conversion into the 3rd tier of powerloom, the handloom weavers will get the same support as envisaged for the powerloom weavers. The weavers of 1st tier will be strengthened and weavers of 2nd tier provided adequate support to graduate to 1st tier.

(iv) Awareness among the weavers towards the latest trend in the fashion market and the impact of globalisation and import penetration should be created through proper education in simple language and through appropriate medium.

(paras 4.5.1 to 4.5.9)

54. **Welfare schemes**

(i) The Committee favours earnest and accelerated implementation of the House-cum-Workshed Scheme for all handloom weavers on a priority basis.

(ii) An Infrastructure Development Fund may be created from where financial assistance may be extended to the weavers for purchase of house sites and making them eligible to get assistance under weavers' housing scheme.

(iii) Existing welfare schemes for the handloom weavers are sufficient and there is no need for any additional schemes for the welfare of the handloom sector. However, it is essential to consolidate the existing multiple welfare schemes along functional lines and their universal coverage across the board.

(paras 4.5.10 to 4.5.12)

55. **Technology upgradation**

(i) Considering the state of primitive technology practiced in the handloom sector, there is need for superior technology in pre-weaving and weaving process to ensure quality production. The role of apex societies should not be confined to marketing of fabrics alone but should include provision of pre-loom, post-loom service facilities to the weavers in cluster areas to ensure quality of the fabric.

(ii) The Andhra Pradesh govt. has proposed to launch a massive programme for assisting the handloom weavers in modernising their existing looms and acquiring modern looms. Under the programme 5 modifications/additional attachments/changes in the looms developed by the Weavers' Service Centers are proposed to be popularised. Other State Govts. may also try to emulate the example of Andhra Pradesh govt. by encouraging the Weavers' Service Centres to bring about effective changes in the handlooms or adopt the A.P. technology which may result in improving the skills and productivity of the weavers.

(paras 4.5.13 to 4.5.20)

56. **Product development**

(i) R. & D., design intelligence, testing, training & HRD support should be provided by WSCs and IIHTs.

(ii) A Research and Development Centre should be established to accurately forecast the demand for handloom products well in advance, and to organise

production according to the changing tastes of the market. Collecting and processing of commercial intelligence should be the prime objective of the Centre.

(iii) A Product Development Fund should also be set up to meet the cost of developing new products with wide spread application of computers and information technology.

(iv) The proposed Design Intelligence Centre of NIFT should dedicate a part of the centre to feeding and educating the handloom sector for converting trend forecast and design intelligence into viable product ideas and eventually marketable products. It should be linked to the R. & D. centre proposed for the handloom sector.

(v) The apex societies should have their own computer aided design centres and mini handloom production units with 10 to 12 handlooms for developing various products designed as a result of market intelligence.

(vi) Eventually the apex societies should aim to connect the R. & D. centre atleast with the major commercial production units through a computer network facilitating easy communication of designs developed.

(paras 4.5.21 to 4.5.26)

57. **Marketing**

(i) The handloom sector should be geared up to meet the challenging requirements of the market and the policies proposed should therefore, have provisions for adequate infra-structural facilities such as, design development, transfer of technology through product development, feedback borne out of market Surveys and Studies etc.

(ii) One major effect of trade liberalisation and the consequent revitalisation of the industry is certainly going to be a new look market place. Commercial intelligence is of vital importance to niche marketing of handloom products.

(iii) Intricate designs and quality of par excellence are required to be maintained to strengthen the marketing capabilities of handloom products.

(iv) An appropriate format may be prescribed for a model MOU between the national organisations and primary weavers' cooperative societies with a minimum percentage of commitments to be executed by both the parties in a specified time limit.

(v) To overcome the problems of marketing, it is recommended that Marketing Complexes may be established in the main commercial centres.

(vi) The Handlooms (Reservation of Articles for Production) Act, 1985 should be repealed and the reservation removed. As an alternative, a new system of 'reserving' identified bulk-buyers (e.g. Railways, Police, Defence Services) for the handloom market is recommended. The bulk-buyer will stipulate the standards that shall be

adhered to. The present system of STS through ACASH should be thoroughly checked and reviewed.

(vii) Marketing is expected to be driven by information technology (I.T.) in the ensuing competitive economy. To take advantage of this, I.T. booths may be set up on the pattern of STD/ISD Booths in the areas of handloom concentration.

(viii) A 'National Handloom Mart' on the pattern of 'International Apparel Mart' may be set up with the close involvement of the industry to make it successful.

(ix) Efforts should be made to create a directory of designs to showcase not only the heritage of India but also to document the available designs in the country that have a potential in the export market.

(x) Assistance should be extended for adequate publicity for hand woven products highlighting the heritage value and uniqueness of designs and weaves as the USP, through electronic media and through international magazines by an appropriate Central and All India Agency, which will create a new clientele for the hand woven fabric.

(paras 4.5.27 to 4.5.40)

Made-Ups

58. Policy approach for the growth of the made-up sector can be as below:

- (i) Technology upgradation in and expansion of the raw material sector;
- (ii) Removal of restrictions, regulations and reservations;
- (iii) Facilitation of product development, production and marketing facilities;
- (iv) Rationalisation of fiscal and export promotion policies and programmes;

(para 4.6.3)

59. **Mill Sector**

The following steps are necessary to give a fillip to the growth of made-ups and their exports in the mill sector:

a) **Technology upgradation**

- (i) The emphasis has to change from coarse medium counts to medium fine and superfine counts in piece dyed, printed, yarn dyed and surface textures like dobby and jacquard.
- (ii) Technology upgradation in bleaching, dyeing and printing, backed up by state-of-the-art, automatic stitching is required.

b) **Marketing and quota policy**

- (i) Efforts to increase exports in non-quota markets must be made.
- (ii) Emphasis on strict quality control and attractive packaging is essential.

- (iii) Substantial part of the Group II fabrics quota should be earmarked for made-ups based on higher price realisation.

c) **General**

- (i) Reservation of specified made-ups for the handloom sector must be done away with.
- (ii) Promotion of 'Made in India' brand image must be improved.
- (iii) Emphasis on increased use of information-technology.

(para 4.6.4)

60. **Powerloom sector**

In addition to the recommendations made for mill sector, which are equally applicable to the powerloom sector, the following steps to improve the growth of made-ups in the powerloom sector are listed below:

- i) Weaving preparatory quality must be upgraded.
- ii) Technology upgradation in processing activity should be encouraged.
- iii) Usage of good quality blended fabrics should be increased.
- iv) Proper sampling and strict inspection standard must be enforced by the manufacturers/exporters.

(para 4.6.5)

61. **Handloom sector**

The steps required to be taken to improve the production and exports of handloom made-ups are as below:

- i) Machine dyeing and finishing of yarn and fabrics should be introduced.
- ii) Additional incentives should be provided under TUFS to promote large/medium process houses in the three areas of handloom concentration, i.e., Karur (Tamilnadu), Panipat (Haryana), Kannur (Kerala).
- iii) A set of qualified designers (as against WSC artists) must be encouraged and patronised to adopt and adapt existing designs and create new designs.
- iv) The exporters must be made to realise the value of packaging in export marketing.
- v) A market study ought to be done with focus on handloom textiles / made- ups in the US, EU and Latin American markets to bridge the gap between the buyers' needs and our capabilities.

(para 4.6.6)

Carpets

62. The Committee recommends the following measures for improving the production and export growth of carpet industry:

- (i) Indigenous wool production should be augmented with due emphasis on productivity, quality and lustre.
- (ii) A cluster approach to production of carpets needs to be encouraged to have input processing and carpet weaving within the same cluster to boost exports of quality carpets.
- (iii) Carpet looms shall be modernised to ensure increased productivity. The Govt. must provide financial support to the NPC to design and develop steel looms in different sizes.
- (iv) Improvement of infrastructural facilities, especially in the Bhadohi-Mirzapur carpet belt, must be given top priority and adequate funds for the purpose need to be provided.
- (v) Carpet suppliers should introduce innovative and creative designs for creating both demand and preference for Indian designed carpets among overseas retailers. They should increasingly make use of CAD/CAM facilities for the purpose to create a unique identity for Indian carpets.
- (vi) Efforts should be made to produce fine oriental hand knotted carpets based on Indian designs.
- (vii) Value realisation of medium grade hand knotted carpets should be increased by producing trendy carpets in fashionable colours.
- (viii) The carpet industry must increasingly make use of the various facilities offered by the WRA to improve production processes and product quality.
- (ix) The carpet industry shall promote eco-friendly carpets.
- (x) The Govt. may entrust NPC with a project and provide financial support for developing an appropriate process for washing carpets.
- (xi) Complete eradication of child labour except those learning with family should be ensured. This can be achieved by strengthening the system of registration by exporters of only those looms that do not violate the law in this regard.
- (xii) India has a vast storehouse of traditions and techniques which should be systematically documented in terms of area, techniques, design etc. for reference by designers, researchers, exporters etc. The DC(Handicrafts) should take the initiative in this respect with the help of NID and WRA to accomplish this task in a time-bound manner.
- (xiii) Imaginative and energetic steps must be taken to promote the brand image of Indian carpets. Introduction of the 'Kaleen' mark has been a significant step forward in this context. Such arrangements must be refined and strengthened.

(para 4.7.6)

CHAPTER-5 - PROCESSING AND FINISHING

63. The focus for improvement in processing facilities should be on cotton sector, primarily with a view to improving the export of value-added cotton based textile items. Our target for export of processed fabrics should be 90 percent as against the present 46 percent.

(para 5.4.1)

64. Since processing activity is the weakest link in the production value chain of textile items, apart from coverage under TUFS, additional policy initiatives may be needed to accelerate technology upgradation in this segment. The facility of investment allowance or accelerated depreciation may also be made applicable to installation of the processing and finishing machines which improve the quality of the processed fabric or eco-friendliness of the process.

(para 5.4.2)

65. The Committee recommends setting up of about 400 new processing units-about 200 high-tech units and 200 medium-tech units. Govt. may encourage setting up of processing units particularly of small and medium capacity. The processing units could be set up either by professional associations/co-operative societies or group of fabric manufacturers can join together to set up such facilities for captive consumption. Individual entrepreneurs can also be motivated to set up processing units particularly in the clusters of decentralised weaving / knitting segments. For processing units, financing norms under TUFS may be further reduced appropriately to facilitate setting up of such units which are highly capital intensive.

(para 5.4.3)

66. State government's should identify areas where processing units can be permitted to be set up after assessing area-wise pollution loads and develop parks for such processing units providing good quality infrastructure (uninterrupted power, soft water etc.) to encourage the setting up of world class processing units. The Ministry of Textiles, Govt. of India, can consider introducing a scheme on the lines of Critical Infrastructure Balancing Fund of Ministry of Commerce and Integrated Industrial Area Development Programme of Ministry of Industry to provide infrastructure grants to State Governments for setting up such Processing Parks.

(para 5.4.4)

67. High-tech processing machines with minimal or no indigenous angle should be permitted to be imported with 'zero' duty, while such medium-tech processing machines may be permitted to be imported with concessional duty.

(para 5.4.5)

68. In addition to the 20 CAD/CAM centres already established in the PSCs and WSCs, more such centres may be liberally established, particularly in the clusters of decentralised textile centres with substantial processing activities. Colour matching centres may be set up close to clusters of small process houses.

(para 5.4.7)

69. There is an urgent need for strengthening of existing textile testing facility network through the establishment of more and more testing laboratories and service centres, particularly in the clusters of small processing units.

(para 5.4.8)

70. Textile processing activity has been notified as a 'hazardous activity' with stringent regulations while industry holds the contrary view. Govt. may constitute a committee comprising of representatives from the industry, pollution control experts and concerned govt. officials to examine the issue in depth and recommend appropriate uniform, desirable and pragmatic norms and guidelines to encourage pollution control.

(para 5.4.9)

71. Different High Courts have been adopting different norms/standards to evaluate the functioning of various processing units perhaps due to the absence of a well-informed and coordinated defence, resulting in orders for immediate closure of processing units at different places. The situation is serious enough to require immediate governmental intervention. The Committee recommends following action points to tackle the situation :

- (i) Urgent compilation of information about all such cases in which there have been (restrictive) orders of different High Courts.
- (ii) Urgent compilation of information about all such cases pending in different High Courts.
- (iii) An approach to the Supreme Court with a request for 'bunching' of all these cases and their transfer to the Supreme Court for coordinated and in depth consideration.
- (iv) Authentic presentation of common norms/standards so as to facilitate a coordinated evaluation of all the pending cases/complaints.
- (v) The High Courts have based their orders on the classification of the textile processing by the Central Pollution Control Board as a 'hazardous process'. The basis of such classification will have to be ascertained.
- (vi) In any case, units that have been operating for long years without causing any apparent, major immediate health hazard, cannot be, in all fairness, asked to close down abruptly on environmental considerations. The Supreme Court can be requested to permit suitable and reasonable interim arrangements.

(para 5.4.10)

72. Investment in environment protection, pollution control measures and for acquiring ISO 14000 norms must be encouraged by providing interest/capital subsidies or income tax deduction on investments on such plant and machinery. An

annual 'national award' may also be considered to be instituted for "environment friendly companies".

(para 5.4.11)

73. Hence, in addition to modernisation / upgradation of chemical processing of textiles, the ecological aspects deserve greater attention both from the point of view of domestic market as well as international market for the sake of social accountability.

(para 5.4.12)

74. Acid, direct and disperse azo dyes, banned in Germany and in India, may not be allowed for dyeing / printing in textile processing units and lists of safe substitutes may be made available to dyeing / printing units.

(para 5.4.13)

75. Use of enzymes in finishing cellulosic fibre fabrics may be preferred to chemical softeners. Safer substitutes for non-eco-friendly textile chemicals may be produced and made available to the textile processing sector (sizing, de-sizing, bleaching, dyeing, printing and finishing) and production of such chemicals may be encouraged and R and D efforts are directed to develop safer textile chemicals, substituting the current non-eco friendly toxic / carcinogenic /sensitizing dyes and chemicals.

(para 5.4.14)

76. In the field of energy conservation, combined processes, wherever possible, may be recommended such as replacement of prolonged kier-boiling at high temperature (120 - 130 C) by J-box operations of scouring and peroxide (where halogenated hydrocarbons like perchloroethylene, trichloroethylene, trichloroethane etc. are being used) with safer solvents may be encouraged. Standing bath principle of dyeing/ finishing may be encouraged to conserve water, chemicals, dyes, and heat.

(para 5.4.15)

77. Serious attempts should be made to list all the textile chemicals/finishing agents/surfactants and their toxicity data collected from books, journals, encyclopaedias, handbooks especially recent issues of toxicological and related journals and safe alternatives to the existing toxic/poisonous/sensitizing/carcinogenic chemicals should be developed.

(para 5.4.16)

78. Stronger structured co-ordination links should be established among different TRAs to strengthen the R. & D. activity in terms of textiles wet processing, avoiding duplication of R. & D. efforts.

(para 5.4.17)

79. Efforts should be made for the development of natural and vegetable dyes on commercial scale. Establishment of an exclusive institute for the research and development of natural and vegetable dyes on commercial scale may also be considered.

(para 5.4.18)

80. The dyes/chemicals crucial for high quality processing may be identified and import of such identified dyes/chemicals with no or negligible indigenous angle may be permitted with 'zero' duty.

(para 5.4.19)

81. There is need to have periodical and constant monitoring of the developments in the production and marketing environment. Studies on specific issues may be conducted through experts at regular intervals to provide the govt. with adequate and timely policy inputs.

(para 5.4.20)

CHAPTER-6 - CLOTHING

Policy approach

82. The policy approach to the clothing segment shall be on the following lines :
- a) A holistic view shall be taken of the apparel sector and its linkages to input sectors in order to ensure maximum utilisation of the opportunities, emphasising the strengths and meeting the challenges.
 - b) Such an approach shall take into consideration factors like the emerging new products of importance, higher unit value realisation, sharpening the competitive edge both in the domestic and overseas markets.
 - c) All efforts shall be made to shift to a position of market innovation and market dominance, both internally and externally.
 - d) Efforts shall be focused on de-bottlenecking of procedures to smoothen transactions and ensure consumer satisfaction and adequate returns to entrepreneurs, particularly in exports.
 - e) High value, high quality and high-tech manufacturing facilities should be the over all approach for clothing sector.
 - f) In view of the developments worldwide, the role of garments need to be redefined. Some kind of a collaborative model may be allowed to emerge for the small-scale garment manufacturers such that the country benefits from the synergistic relationship between the advantages of small-scale manufacturing and large scale distribution and marketing.
 - g) The govt. policy in regard to the export-import and fiscal matters must be made more logical and stable.
 - h) The artificial distinction thrust upon the industry as between the domestic and export market must be done away with.

(paras 6.2.1 to 6.2.3)

83. **Improvement in productivity**

(i) A lot more of automation at each stage of garmenting, i.e., cutting, stitching, button fixing etc. is essential to improve productivity. The programme of modernisation must target 'fabricators' on priority who form the backbone of apparel export production in India. Govt. intervention is necessary to initiate modernisation of fabricators through the medium of exporters.

(ii) Along with infusion of state-of-the-art technology, adoption of modern management techniques, information technology and scientific tools may be encouraged to improve the productivity and quality of the clothing.

(iii) The question of labour productivity also needs serious attention. The necessity is not only one of upgradation of skills of workers but also of achieving such upgradation in respect of maximum possible of workers in the minimum amount of time.

(iv) While development of human skills is crucial at the shop floor and managerial level, equally important will be those at the entrepreneurial level. A modern Entrepreneurial Development Institute can be thought of exclusively for creating a band of techno-savvy entrepreneurs.

(v) To improve the productivity of the factors of production, measures may, inter alia, include :

- a) Promoting joint ventures or strategic alliances with leading international manufacturers to bring in world's best practices in manufacturing.
- b) A dedicated "Productivity Cell" to specifically address the issues related to productivity in the textile and apparel sector needs to be organised with the active participation of NIFT/ ATDCs and other industry associations.
- c) Expanding the network of NIFT, ATDCs, JTS and IITs in a planned manner to meet the training needs of the clothing sector.

(para 6.4)

84. **International competitiveness**

(i) The EXIM policy and fiscal policy should be so oriented as to make available the inputs and capital goods to garment makers and exporters at reasonable costs.

(ii) Specific steps need to be taken to acclimatise the exporters to e-commerce technology.

(iii) Steps should be taken to install a rating system of exporters which will be internationally acceptable enabling them to acquire acceptance by the retail chains, which are becoming an important link in the distribution network.

(iv) A Cabinet empowered Inter- Ministerial High Level Standing Committee in the Ministry of Textiles may be thought of to coordinate and take decision relating to all matters concerning clothing exports.

(para 6.5)

85. **Raw material for clothing sector**

(i) One of the possible ways of greater access of the apparel exporters to local inputs is to expand the concept of deemed exports so that the sale of fabrics to garment units for conversion and exports should be accorded a 'deemed export status'. All the benefits that are due to exports including export packing credit should be given to fabrics that are sold to garment units for conversion and exports.

(ii) Another source of fabrics is through import. An easy scheme for importing such fabrics and accounting for them should be evolved so that the desired product diversification in the apparel sector can be achieved.

(iii) In order to encourage production of trimmings & embellishments in India, manufacture of these accessories should be included in the list of industries where 51 percent FDI is allowed on an automatic clearance basis.

(iv) For setting up of manufacturing units for any of the accessories, import may be permitted with zero duty for machinery with no indigenous angle. In addition, exporters may be permitted import of trimmings and embellishments to the extent of 2 percent of their export turnover on 'duty free' basis without any restriction.

(para 6.6)

86. **Industrial reservation policy for clothing**

In order to derive maximum advantage arising out of economies of scale and scope depending upon the entrepreneurs assessment of financial and commercial viability, the level of investment may be left to the discretion of the concerned entrepreneur by removal of the garment sector from SSI reservation.

(para 6.7)

87. **Foreign direct investment policy**

(i) India needs to have a pro-active policy for inviting foreign direct investment in apparels through a special scheme allowing up to 100 percent equity participation and exempting such units from prescribed export obligations.

(ii) The textile and apparel industry is still out of the list of industries enjoying the automatic approval for 51 percent FDI. Such approval can be thought of in some areas considered crucial for the garment sector. It would still be better to have a dedicated FDI policy for apparel sector spelling out where such approvals will be automatic and where they will be on a case by case basis.

(para 6.8)

88. **Apparel park**

(i) Presently, the concept of mono product parks/zones are being promoted vigorously. Such a concept can be tried for garments where common facilities for embroidery, quilting, washing, needle detection etc are available with minimum investment size and profile. The apparel park can be set up independently or as a component of a textile park. However, all parks whether textile park, apparel park or processing park they should be "self contained".

(ii) Emphasis in equal measure should also be laid on improving the inadequate infrastructure facilities in existing large apparel clusters.

(para 6.9)

89. **Labour policy**

A congenial labour environment is necessary to ensure the maximum productivity and skills upgradation. The labour laws need to be amended suitably to

provide garment manufacturers certain degree of flexibility in organisational restructuring.

(para 6.11)

90. **Long term marketing strategy**

(i) There remain quite a few products for which special additional quotas are given, if produced under special programmes like OPT. Such programmes are presently available with the US, EU and Australia (which is a non-quota destination). Efforts are called for at the level of units to enter into such areas, suitably supported by adequate policy interventions by the Govt.

(ii) With the fall in prices of synthetic fibres and yarns, shifting of our export focus to synthetic garments partially, will enable garment industry to have its presence felt in importing countries throughout the year instead of the present seasonality in demand for Indian garments.

(iii) The need of the hour is a shift of the emphasis to non-cotton and blended garments, especially for synthetics. Innovative fabrics have started entering the markets, which should be adopted for conversion by the garment units.

(iv) There are several apparel items which are yet to be addressed in export market. The garment industry will have to expand its production base from traditional 6-7 apparel items to other non-traditional items including industrial and technical textiles demanded in world markets. The industry can enter into joint ventures with manufacturers abroad for manufacturing such garments where required know-how may not be fully available indigenously.

(v) Industry also needs to improve its export market base by making a dent in newly emerging markets like South Africa, Latin America, Russia etc.

(vi) To improve the intrinsic and extrinsic worth of the product through design features, utility features and the like, the Govt. can provide an infrastructural framework, viz. CAD/CAM facilities, training of designers, providing fashion design intelligence etc.

(vii) A strong nexus is required to be developed between designers, weavers, clothing manufacturers to respond speedily to the dynamic market scenario.

(viii) The pricing initiative is no longer available in the hands of the exporters in view of the intense competition presently experienced and which is expected to grow further. Growth is possible by only increasing the 'value for money' by improving the innovativeness in the product.

(ix) The Indian exporters have to readjust to the emergence of the retail chains for whom quality and not brand name is important. These should be perceived actually as new growth opportunities by the exporters. The future strategy lies in identifying the emerging powerful retail champions and becoming an integral part of the sourcing chain.

(x) Efforts are called for to adopt e-commerce technology by the clothing exporters with suitable policy support from the Govt.

(xi) In view of quicker communication and a globalisation, the role of strategic alliances between export firms and foreign partners needs to be promoted at a faster rate than ever before. Such alliances in the form of joint ventures, licensing arrangements or provision of technology and know-how have to be carefully chosen with reference to the strategic objectives of the companies involved.

(xii) The international reputed fashion designers should be encouraged by the govt. to promote Indian fabrics and clothing.

(xiii) International apparel mart should be set up to facilitate display of different kinds of apparel produced in the country at one place for foreign buyers.

(para 6.12)

91. **Linkages between the retailers and clothing manufacturers**

As the retail marketing is purely in the private sector, the role of the Govt. to that extent is limited. To facilitate standardisation of production, an exercise is called for to organise an anthropometric survey in the country accommodating the regional variations to provide a benchmark for the garment manufacturers. Likewise, under the Consumer Protection Act and/or quality standardisation of apparels, labeling eco and health parameters and other consumer protection measures are called for to protect the interests of the consumers.

(para 6.13)

CHAPTER-7 - JUTE INDUSTRY

92. There is an urgent need to formulate an integrated jute policy encompassing all activities in the jute segment which should work under the overall guidance of an apex body for coordinating the activities of different organisations and effective monitoring of the development programmes at the field level so as to harness the benefits thereof in a more focussed manner.

93. The main focus of the jute policy should be to achieve an increase in productivity and upgradation of quality of raw jute on the one hand and to stimulate additional demand for jute goods both in domestic and international markets on the other through development of new generation, cost-competitive and performance-effective jute and jute-blended products liberally supported by funds.

(para 7.3.2 & 7.3.3)

94. **Sickness**

Most of the jute mills are either sick or approaching towards sickness. To remedy the situation, the following areas need attention on a priority basis :-

- (i) A radical change in the approach for improving quality-composition and productivity of raw jute.
- (ii) Liberalised import policy of capital goods including second hand imports;
- (iii) Cost reduction through technological up-gradation and indigenisation of machinery manufacture with adequate fund support from the Govt. on softer terms;
- (iv) Manpower rationalisation though liberalised labour policy and introduction of productivity-linked wage structure.
- (v) Setting up power plants including captive generators to cut down mounting power cost and improve quality of power.
- (vi) Greater emphasis on diversification and gradual integration with other fibre textiles through diversified jute products (JDPS).
- (vii) Intensification of R&D efforts towards product development for performance-effective and cost-competitive packaging and non-packaging products;
- (viii) Vigorous thrust on expansion of marketing outlets for both traditional and diversified jute products.
- (ix) Intensive campaign for promoting jute packaging for coffee, cocoa and other edible items.

- (x) Accent on HRD for building up a trained manpower cadre at the plant level; and
- (xi) Setting up an apex body for securing greater coordination between different agencies operating in the jute sector.
- (xii) The govt. may work out criteria in consultation with TRAs and AIFIs for potential viable and non-viable sick mills. The viable sick mills may be revived through rehabilitation fund while non-viable sick mills be permitted to close down.

(para 7.4)

95. **Productivity of raw jute and upgradation of quality thereof**

(i) Productivity of jute and mesta can be improved through development of short-duration and drought-resistant, improved/hybrid variety of seeds which could withstand water-logging to some extent and fit in rotation of transplanted paddy. The production of breeder, foundation and improved seeds needs to be stepped up and the distribution channel for certified seeds would also need to be restructured so as to ensure timely positioning of seeds at various distribution points within easy reach of growers.

(ii) For upgradation of quality of jute, there are two major areas which would need to be tackled. These are adoption of (a) line sowing on a large scale backed by improved technology for weeding and thinning and (b) improved methods of retting through application of ribbon retting technology and enzymatic treatment.

(iii) The Committee favours use of weeders and application of suitable weedicides to reduce cost of cultivation.

(iv) Provision of adequate marketing support to growers is crucial for bringing about planned improvement in productivity and quality as the returns to the farmers influence their decision to bring the area under jute cultivation.

(v) A Technology Mission for Jute (JTM), on the lines of Technology Mission for Cotton should be a step in the right direction for effective implementation of JMDP and also for strengthening of marketing infrastructure.

(vi) For effective implementation of the proposed JTM, a joint working group consisting of senior representatives of the Union Ministry of Agriculture, Ministry of Textiles, main jute/mesta producing State Govt.s, R&D organisations and representatives of jute consumers etc. should be set up for periodically monitoring the implementation of the programme at the field level.

(para 7.5)

96. **Productivity of the jute industry**

(i) An organised drive should be launched to cut down the mounting costs of (a) raw material (b) wages and (c) power in order to ensure competitiveness of jute

products. For achieving cost reduction, technology up-gradation should be accorded top priority. Incidence of wage cost could be reduced by achieving 30 mandays per tonne. A dialogue should be initiated with the labour unions with the active intervention of the State Govt.(s) so that the concept of linking wages with productivity is accepted.

(ii) Jute mills may be freely allowed to set up their own power plants including captive generators to cut down mounting power cost and improve quality of power.

(iii) Product mix should be gradually changed by the industry with the main emphasis on development of lighter, stronger and small-sized consumer packs with aesthetical appearance and features like moisture barrier, fire retardancy, water proofing, rot proofing, dyeing, bleaching, printing etc as per customers' requirements.

(iv) As units in the decentralised sector largely depend on jute mills in the organised sector for supply of yarn (including blended yarn) and cloth, a close linkage between the two sectors should be forged with requisite support from organisations like NCJD and JMDC.

(v) Establishment of a brand name or symbol like 'Jutemark' comparable to the 'Woolmark' may be used on jute consumer products which will involve laying down of acceptable quality parameters and establishment of facilities for testing and quality assurance marking.

(vi) Entrepreneurs including the existing units in organised sector should be encouraged to set up units in areas where main users are located.

(para 7.6)

97. **Strategy for modernisation of jute industry**

(i) The main thrust of the policy should be to make all-out efforts for gearing up indigenous manufacture of high technology equipments at affordable prices. As, however, indigenisation of new technology machinery will take some more time, import of both second-hand and new equipments by jute mills should be allowed on a duty-free basis for keeping the cost of investment manageable for jute mills.

(ii) In the absence of availability of new machinery of appropriate technology, maximum emphasis must be laid, with liberal govt. support for massive time-bound R&D to produce high-tech machinery indigenously. In the immediate context, a liberal import duty structure on import of new or second hand machinery and a more liberalised vintage stipulation of, say, 10 years instead of the present 5 years would help the healthier units to access TUFs funds for technology upgradation.

(iii) The setting up of a rehabilitaiton fund to bring the potential viable units upto the credit worthiness level of the TUFs so as to enable such units to avail of loan under TUFs is also recommended.

(para 7.7)

98. **Product diversification**

(i) Under national jute development programme, a number of promising technologies have been developed for manufacture of diversified products with the active involvement of both jute and textile research organisations in the country. Commercialisation of these identified technologies needs to be accelerated.

(ii) Quite a few items like shopping bags, floor covering, decoratives, wall hanging, etc have already been developed which have a large potential market both within India and abroad. Production-base of such diversified products needs to be strengthened and an aggressive marketing strategy adopted for promoting such products.

(iii) An aggressive marketing campaign requires to be launched for promoting the use of jute-based geo textiles in areas like erosion control, separation, filtration and drainage and soil reinforcement with necessary support from the Govt.

(iv) To encourage investment in diversified jute projects import of plant & machinery including second hand machinery with no indigenous angle may be permitted with 'zero' duty. Income tax holiday for a period of five years and accelerated depreciation at the rate of 125 percent may also be allowed for such units.

(v) A special fund to supplement the cess collections may be created for funding various development related activities in the jute sector, which will require heavy investment.

(para 7.8)

99. **Marketing strategy**

(i) The external market assistance scheme being operated by JMDC out of cess fund collection for giving marketing support for export of diversified and value-added jute products produced by organised and decentralised sectors should be continued at least upto the end of the 9th Plan.

(ii) JMDC should accord equal priority for promotion of markets for both packaging and diversified products through participation in trade fairs and exhibitions, buyer-seller meets, visit of delegation and other promotional efforts.

(iii) The Committee favour continuation of the Mandatory Jute Packaging Order without any more dilution till the end of the 9th Plan, barring any unforeseen developments. Some new items like oilseeds, processed food, spices etc., in addition to foodgrains and sugar may be considered for inclusion in this order to help the industry to recover from the adverse impact of recent dilution for packaging end-uses. However, to ensure a fair non-exploitative pricing, an independent authority must be put in place to determine pricing of the bags.

(iv) Professional associations or groups of manufacturers may jointly set up processing units under TUFS for captive consumption. Independent entrepreneurs may also be motivated to set up such units under TUFS to provide the processing services to the jute industry.

(para 7.9)

CHAPTER-8 - TECHNICAL TEXTILES

100. A serious, pragmatic and integrated approach and supportive policy may be formulated for promoting technical textiles so as to achieve at least a share of 10 percent in the emerging technical textile world market.

101. In deciding priority, the most important strategy would be to ensure indigenisation in the areas of national importance, immediate export potential, social upliftment of weaker sections, space research, defence and national security etc.

102. The technical textiles may be treated as a 'thrust' area and priority may be accorded for its growth and development in the country. Measures may be taken to facilitate bridging the gap between availability and potential requirement and capabilities in terms of existing capacity, availability of raw materials, technology gap, testing facilities, R. & D. facilities etc. so as to make investments in the technical textiles attractive for the entrepreneurs.

(paras 8.1 to 8.3)

103. **Raw material**

Technical textiles consume all fibres starting from usual natural fibres to high performance speciality fibres. Since technology and know-how of production of these high performance polymers/fibres are unlikely to be transferred to India in the near future, identified and customised raw materials, which are not produced indigenously should be permitted to be imported on duty free basis.

(para 8.4)

104. **Processes, machineries and equipments**

. To promote production of technical textiles, the plant and machinery for technical textiles with no indigenous angle should be allowed to be imported on duty free basis with actual user condition.

(para 8.5)

105. **Technology and know-how**

Textile manufacturers need to consider the level of their in-house technologies, know-how and competence and make concerted efforts to modify them to the extent possible to the requisite level. To encourage development of technology, the cost of technology on developed and approved products should be 100 percent tax deductible.

(para 8.6)

106. **Research and Development**

R. & D. activities will need to have focussed attention to guide and steer the industry to exploit the emerging market, to enable it to not only survive but thrive with minimum engagement in basic research. It will also be required that the R. & D. institutions committed to the R. & D., consultancy, technical service in a field of value added technical textiles are encouraged and financially supported by the Govt. as a policy measure considering the huge potential of technical textiles globally.

(para 8.7)

107. **Testing facilities**

Since technical textiles require stricter quality and performance standards and in view of the exorbitant cost of such equipments, centralised test facilities are required to be created in strategic locations, particularly for the small and medium scale units. Govt. may initiate an urgent action plan for creation of testing facilities in the appropriate textile research association's (TRA's) laboratories in a planned manner.

(para 8.8)

108. **Quality assurance**

It must be ensured that the quality assurance system incorporated by the manufacturers of technical textiles is based on quality management based on zero-defect concept. Manufacturers should plan an in-built quality system for the plant(s) producing technical textiles. Specialised consultancy for certification as per ISO-9000 Standards for quality systems may prove an effective tool in this regard.

(para 8.9)

109. **Regulatory measures**

Since technical textiles are quite different from conventional textiles requiring strict adherence to stringent functional requirements of safety, environmental hazards, space or defence application, as the case may be, it is expedient that the issue of mandatory regulation and legislation are incorporated in production and use of such textiles. Compulsion for use of technical textiles in areas involving human safety, environment, hazardous chemicals, appropriate legislation may be necessary. A special, comprehensive legislation for protection of consumers and environment with special emphasis on technical textiles will meet the objective.

(para 8.10)

110. **Fiscal support to entrepreneur**

For the purpose of attracting investments in the area of technical textiles, fiscal support may be provided in the following manner to the prospective entrepreneurs :

- (i) Technical textiles are covered under TUFS but additional support in terms of relaxation of financing norms may have to be provided for facilitating establishment of projects in this area.
- (ii) Specified technical textiles should be exempted from state and local levies for a period of 10 years.
- (iii) Concessions in income tax.
- (iv) Conditions relating to captive power generation under TUFS may be suitably relaxed for technical textile projects, if found necessary.
- (v) The technical textiles may attract merit rate of excise duty, i.e., 8 percent.
- (vi) Duty free import of identified and customised raw materials and capital goods with 'actual users' condition.

(para 8.11)

111. **Nodal centre for technical textiles**

To accelerate the growth of technical textiles, it will be prudent to entrust the assessment of the application areas vis-à-vis market development, development of products, co-ordination etc. to a Nodal Agency having adequate competence, input and commitment. The funding for the Nodal Centre may be provided through the Textiles Committee from its cess. The SASMIRA which has already taken initiative for promoting technical textiles and done a lot of spade work in this direction may be designated as the Nodal Agency for technical textiles.

(para 8.12)

112. **Market promotion**

Though technical textiles are having multifarious applications, awareness about such textiles is generally lacking. There is a need for massive promotional/educational awareness programmes for developing demand for technical textiles. The govt. must also sponsor and support such awareness programmes for promoting technical textiles in different parts of the country on a regular basis atleast for a initial period of 4 to 5 years. For this purpose, a technical cell may be opened in the office of the Textile Commissioner and with close cooperation with Nodal Agency for technical textiles such awareness programmes may be organised. To encourage entrepreneurship, Minsitry of Textiles should institute a national award for excellence in the field of technical textiles.

(para 8.13)

113. **Market support**

(i) To encourage indigenous production of technical textiles, the technical textile products developed in India should be given priority and leverage particularly in Govt., public sector and govt. connected organisations encouraging them to use new technical textile products as against conventional products used presently.

(ii) The Govt. should also prohibit the use of non-eco friendly and hazardous material by phasing them out over a period, to ensure that environmentally and health-wise hazardous materials are banned and replaced by superior high performance fibres.

(iii) Govt. may also set up a Task Force to set up Indian standards for different technical textiles to promote indigenous technical textiles. Further, a market development/product development fund may be created to capture atleast 10 percent of the global market in 10 years.

(para 8.14)

114. **Registration of technical textile units**

In order to avoid the misuse of the govt. support, the registration of units of technical textiles with the office of the Textile Commissioner may be made compulsory.

(para 8.15)

115. **Venture capital fund**

A Venture Capital Fund should be established with a corpus of Rs.150 crore for developing the technical textiles.

(para 8.16)

CHAPTER - 9 - INFRASTRUCTURE

116. Roads

The road system in the country needs to be strengthened to improve the turn around of trucks and reduce considerably the costs of transportation of goods for the textile industry and thereby contribute to making the industry more globally competitive.

(para 9.2)

117. Air and Sea Ports

(i) Infrastructure at the major seaports needs to be improved to international standards and the efficiency in the management and handling of export and import cargo at these ports raised immediately. Privatisation of ports' development and of port operations will also help in improving infrastructure and management levels.

(ii) A complete EDI system with adequate cargo information service is essential.

(iii) Privatisation of air cargo terminals will lead to modernisation of equipments and facilities and hence, desirable.

(iv) The important centres of textile manufacturing and export should be linked by rail and road to international airports.

(para 9.3)

118. Power

(i) The disadvantages suffered by the textile industry on account of the high power cost must be alleviated at the earliest. Captive generation of power by textile units be allowed by the Govt. and State electricity duty and excise and customs duties on power generator sets should be removed until the availability of sufficient and quality power is ensured to all segments of the industry. H.S.D. and L.D.O. may also be made available to the industry at international prices or, atleast, duty-free. The MODVAT facility may be made available on the purchase of H.S.D.

(ii) The issue regarding power tariff to the industrial sector on the basis of normative pricing be strongly taken up at the Govt. level and the subsidy to the other sectors should be borne by the Govt. through the more fair and transparent budgetary provisions.

(para 9.4)

119. Water

In the fiercely competitive world textile market, to enable our textile industry and, in particular, the processing sector to survive amongst other inputs, adequate quantity of good quality water at reasonable cost must be made available.

(para 9.5)

120. Telecommunications

A modern, state-of-the-art telecommunications network is essential if the Indian economy is to be effectively integrated with the world economy. The Indian

exporters must be provided access to these new technologies so that they can benefit from the faster, cheaper and more reliable means of world-wide communications.

(para 9.6)

121. **Textile parks**

(i) The Committee recommends setting up of 'Textile Parks' in various parts of the country. Such parks should have units of all the stages of the textile production chain, from spinning, pre-weaving, weaving/knitting, processing, upto clothing/made-up manufacturing. In some areas, only 'apparel parks' can also be set up independently while in others, apparel parks may form a part of the composite textile parks. Good quality infrastructure, particularly uninterrupted power, treated water, world class telecommunication facilities, banks, post offices, insurance agencies, container services, fire engines, custom offices must be provided in the parks.

(ii) State Governments should declare the units set up in such parks as public utilities provided the units are exporting atleast 25 percent of their turnover. Foreign textile companies can be encouraged to set up their units in such parks.

(iii) Ministry of Textiles may introduce a suitable scheme to provide infrastructure grants to State Governments for setting up of Textile Parks.

(para 9.7)

122. **Strengthening of infrastructure in Service Organisations**

(i) **Textile Research Associations (TRAs)**

The Committee recommends a one time Govt. grant to replace the obsolete R. & D. equipments of all TRAs and also to provide additional equipments on felt need basis.

(para 9.8.1)

(ii) **Powerloom Service Centres (PSCs)**

(a) PSCs need to be strengthened in a time bound manner in terms of hi-tech looms, testing equipments, manpower and other infrastructure facilities.

(b) To facilitate creation of new design and improvement of the design in keeping with the latest trends in fashion, market demand etc. the network of CAD/CAM facility in PSCs should be strengthened and expanded.

(c) In the area of concentration of knitting activity the powerloom service center may be converted into composite powerloom and knitting service center.

(para 9.8.2)

(iii) **Weaver Service Centres (WSCs) / Indian Institutes of Handloom Technology (IIHTs)**

WSCs/IIHTs may also be strengthened on the lines of observations made for PSCs.

(para 9.8.3)

(iv) Apparel Training & Design Centres (ATDCs)

The network of ATDCs ought to be expanded on felt need basis and strengthened in terms of course content and latest stitching/garmenting machinery, quality inspection machinery, well-equipped library etc.

(para 9.8.4)

(v) Export Promotion Councils (EPCs)

The EPCs need to strengthen their data intelligence and dissemination base. They have to build up the necessary infrastructure to erect an EDI set up for regular inter-action with industry, exporters, airports, seaports, customs, DGCIS, Ministry of Textiles, NIFT etc.

(para 9.8.5)

CHAPTER-10 - REGULATIONS AND CONTROLS

123. The regulations and controls have gradually been reduced during the last one and a half-decade but still the textile industry is over-regulated, necessitating further review of the existing controls and regulations with a view to liberalising the textile industry further.

(para 10.1.1 & 10.1.2)

124. **Essential Commodities Act, 1955**

(i) The textile industry should be free from all controls and restrictions except some regulations which are absolutely essential for the accelerated and harmonious growth of the industry and protection of consumers and environment. Further, the controls and regulations prescribed should be simple and easy to comply with and implementable as well as enforceable. For this purpose, it will be desirable to factor in the changes occurring in production processes, trade and commerce in a pragmatic way for easy acceptance and better chances of compliance.

(ii) All the textile items except raw cotton ginned or unginned and cotton seeds and raw jute & jute textiles may be removed from the purview of the Essential Commodities Act. The only areas which still need govt. control/regulation on a sustained basis are related to “consumer and environment protection” and “collection of statistical data”. The present Textile Consumer Protection Regulations (TCPR) have been notified under T(D&R)O which, in turn, derives its legal sustenance from the EC Act. Consequent upon removal of textiles from the EC Act as recommended herein-before, it will become necessary to enact a Textiles Consumer Protection Act. It is recommended that a comprehensive Act for ‘consumer and environment protection’ including strict quality parameters in consultation with different segments of the industry and N.G.O.’s/Associations connected with consumer protection movement be formulated simultaneously with removal of textiles from the purview of E.C.Act.

(iii) The Act may provide for giving quasi-judicial powers to the enforcement agencies for adjudication of cases. The existing stamping regulations should be reviewed and suitably modified so as to make them more pragmatic and more consumer friendly. Govt. may also examine the feasibility of extending the stamping regulations to the handloom fabrics, khadi fabrics, silk fabrics, jute fabrics, knitted fabrics, non-woven fabrics and industrial fabric, garments and made-ups. As far as possible, stamping should be at the final stage where it reaches the final consumer.

(iv) Given the vital importance of statistical information input in the policy planning process, it is absolutely essential to enact legislation for timely collection of data. For this purpose, a limited separate enactment to cover the need for periodic data collection may be issued. However, the penalty prescribed under this Act need not be as stringent as under the E.C. Act. Under the new Act, minor offences may be

made eligible for “compounding” at the level of the administering authority so that only the chronic offenders could be prosecuted for more severe punishment and that too, by way of penalty in terms of steeper fine and only in extreme, repeat cases, imprisonment.

(v) The Govt. may also examine the feasibility of combining the consumer protection measures and statistical data requirements in a single enactment to avoid multiplicity of legislations. However, recommendation for removal of textile items from the purview of the EC Act, 1955 is contingent upon enactment of appropriate legislation(s) for consumer protection, environment protection and statistical data collection and not otherwise. If separate legislation for these purposes is not found feasible or practical, then suitable provisions may be made in the EC Act for compounding of minor, occasional/first time offences and giving such authority to the prosecuting agency, i.e., the Textile Commissioner.

(paras 10.8.1 to 10.8.6)

125. **Hank yarn obligation scheme**

Given the right environment on input management, the handloom sector can survive without the hank yarn obligation scheme. Therefore, it is in the national interest that hank yarn obligation scheme should be removed with provision for assured supply of required yarn to the handloom weavers in a more structured manner.

(para 10.8.7)

126. **Handlooms (Reservation of Articles for production) Act 1985**

In the liberalised import scenario, the reservation policy would lose its meaning and relevance. Hence, it would make no sense to prevent the domestic textile industry from producing such reserved items which will provide unlimited access to imports from abroad. The Committee, therefore, strongly recommends that Handloom Reservation Act and the order issued thereunder should be done away with.

(para 10.8.8)

127. **SSI reservation policy**

With liberalisation of trade, it has become very important for different segments of the textile industry to strengthen their technology base to compete in the global economy. Post-2004, the SSI reservation would not prevent liberal imports but stifle domestic competition. Therefore, the reservation policy should be immediately done away with in respect of clothing and knitwear segments.

(para 10.8.9)

128. **Central Silk Board Act**

CSB Act, 1948 should be repealed and CSB's R&D functions and industrial developmental functions should be separated.

(para 10.8.10)

129. **The Karnataka silk worm seed, cocoon and silk yarn, (Regulation of production, supply, distribution and sale) Act**

The above Act applies only to Karnataka weavers. It may be impressed upon the Karnataka Govt. to re-examine this issue in depth and to take appropriate steps to

solve the problem of the silk weavers of the state which has also indirectly affected adversely the long term interest of and returns to the silk producers whose interest these steps are purported to subserve.

(para 10.8.11)

130. **Jute Textiles (Control) Order, 1956 and Jute (Licensing & control) Order 1961**

A draft amalgamated order, i.e., Jute and Jute Textiles Control Order incorporating the essential provisions of two control orders, i.e., Jute Textiles (Control) Order, 1956 and Jute (Licensing & Control) Order, 1961 is pending with the Govt. for a decision. This matter may be finalised as early as possible. Likewise draft amalgamated "Jute Manufacturers Cess and Development Council Act", amalgamating the present Jute Manufacturers Cess Act, 1983 and Jute Manufacturers Development Council Act, 1983 is awaiting Ministry's approval. This matter may be finalised early, though with the change proposed with regard to flow of jute cess to the dedicated fund to be created in Ministry of Textiles.

(paras 10.8.12 to 10.8.13)

131. **Jute Packaging Materials (Compulsory use in Packing Commodities) Act, 1987**

This Act should be retained till the end of the 9th Plan without any further dilution except in an exceptional situation. Some new items like oilseeds, processed food, spices etc., in addition to foodgrains and sugar, may be considered for inclusion in this order to help the industry to recover from the adverse impact of recent dilution for packaging end-uses subject to an independent price fixing authority. However, vigorous steps must be taken to ensure that jute diversified products and jute blended spinning processes developed by various TRAs under the UNDP programme are commercialised at the earliest and on a large scale so that the need for compulsion in jute packaging is done away with by the end of the 9th Plan.

(para 10.8.14)

132. **Export Contract Registration Scheme**

The Export Contract Registration Scheme for jute goods being administered by Jute Commissioner on a voluntary basis is not serving any useful purpose in the matter of export. This scheme is not considered to be consistent with free trade regime nor seen to be serving any worthwhile purpose and hence, it should be dismantled at the earliest.

(para 10.8.15)

CHAPTER-11 - INDUSTRIAL RELATIONS

133. Industrial Disputes Act, 1947

(i) Uniformity in dealing with industrial relations

The Industrial Disputes Act, 1947, is applicable throughout the country. However, some of the State Governments have also enacted separate laws on the same subject. With a view to bringing uniformity, it is necessary to have a single law on the subject of industrial relations throughout the country.

(ii) Notice of change (Section 9-A)

In a fiercely competitive environment where decisions are to be taken at rapid pace the notice of 21 days as per existing I.D. Act by an employer to effect any change in the condition of service, is too long. 7 days' notice period would be more reasonable and appropriate.

(iii) Practice of "Go-slow"/Work-to-rule/mass casual leave

The definition of 'strike' given in section 2(q) of the Act may be modified by including in the definition such obstructive practices as 'go slow' or work-to-rule', mass casual leave which are often resorted to at present. A sub-section may also be added in chapter VI of the ID Act under section 26-A to determine go slow/work-to-rule practice.

(iv) Lay-off under section 25 (M)

The prior permission as stipulated therein for lay-off should not be a pre-requisite. The employer should have sufficient rights/powers to exercise the option of 'lay-off' with appropriate lay-off compensation when the situation warrants.

(v) Retrenchment under section 25 (N)

As per the provisions of Section 25 (N) of the Industrial Disputes Act, employers are required to seek permission of the State Govt. for retrenchment. Since such permissions are rarely given, the above section should be modified to the effect that instead of requiring the State Government's prior permission for retrenchment by the employer, he should be given the right to carry out the retrenchment as and when required on payment of 60 days' average wages for every completed years of service in place of the 15 days' wages as at present. In addition, penalty may be imposed for non-payment of retrenchment compensation.

(vi) Closure under Section (25 (O))

Section 25 (O) prohibits the closing down of an unit without the prior permission of the State Govt. The denial of permission by the State Govts. for the closure of mills often leads to illegal closures and the workers are denied even their statutory dues. Therefore, closure should be allowed to mills freely and permission to

sell land without any restraint by the central enactment. Section 25(O) should be deleted from I.D.Act.

(vii) Voluntary Retirement Scheme (VRS)

Voluntary retirement scheme should be made more attractive. To take care of the adverse selection bias of the existing VRS, both the number of years of completed service and the number of years of remaining service should also be taken into account to make the scheme balanced.

(viii) Labour courts

Section 7 should be suitably amended to ensure that only those officers who belong to the judicial service of either the Central or the State Govt. and have reasonable experience are only appointed as the Presiding Officer of labour courts and also the courts and tribunals should be constituted of two members bench; one of them from the judicial service fulfilling the qualifications laid down and the second member from the administrative services, preferably of the Central govt. on the pattern of Central Admn. Tribunal (CAT).

(ix) Law of limitation for reference of industrial disputes

It is recommended that for a labour court or a tribunal, to dispose of an industrial dispute, some limitation period say, one year, shall be specified after which it should become time barred.

(x) Negotiating councils

The negotiating councils may be introduced by an amendment in the I.D.Act, to enable the trade unions and employers to come on a forum for negotiations and sort out the issue amicably and speedily.

(xi) Grievance redressal machinery

By suitable amendment in the I.D.Act, establishment of grievance redressal machinery may be introduced, within the organisations, with proper appeal procedure, so that maximum disputes are settled within the organisation itself and there is no necessity for either third party conciliation or adjudication.

(xii) Exemption for R. & D. units

Amendment to the I.D.Act passed in 1982 exempting R & D and educational establishments from the Act has still not been notified. Requisite notification may be issued immediately.

(para 11.5.2)

134. Payment of Bonus Act, 1965

The payment in the nature of bonus, whether minimum or maximum, be linked to higher productivity and efficiency, instead of linking with paid annual wages. This will motivate the employees to give off their best and enable the unit to become cost competitive in the global economy.

(para 11.5.3)

135. **The Contract Labour (Regulation & Abolition) Act, 1970**

This Act should be made more flexible for engagement of contract-labour for jobs of non-perennial nature and where the activity is one of supporting infrastructure. The contract labour should also be permitted in weaving, pre-weaving and processing sectors where the units are predominantly in the decentralised sector and often work on job work basis. The Act should be amended empowering the employer to absorb only those contractual employees who have the requisite qualifications for the job.

(para 11.5.4)

136. **The Madhya Pradesh Industrial Employment (Standing Orders) Act, 1961 and the Industrial Employment (Standing Orders) Act, 1946**

Even though both the enactments deal with the working and the service conditions of the employees, they apply to two different categories of industrial units. Both differ in their approach and this difference has created a situation which is to the disadvantage of the employers covered by the State Act. With a view to giving more autonomy to have provisions which are suitable to an undertaking, the central Act, i.e., the Industrial Employment (Standing Orders) Act, 1946 should uniformly be applied to all states to the exclusion of all state enactments on the subject.

(para 11.5.5)

137. **The Employees Provident Fund and Miscellaneous Provisions Act, 1952**

The 12 percent of employer's contribution to the provident fund is too heavy a burden for the industry. In the fiercely competitive business scenario, it should be rolled back to the original 8.33 percent for the textile industry.

(para 11.5.6)

138. **The Employees State Insurance Act, 1948**

In such cases where employer and employee jointly demand for total exemption from ESIC, it should be permitted.

(para 11.5.7)

139. **Trade Union Act, 1926**

Union leadership at the unit level should be restricted to internal leadership only, and by suitable amendment in the Act, outsiders should be banned. At the most, workers of the same industry may be permitted to negotiate with management on their behalf on all disputes. However, at the industry level, not more than 25 percent of the union leadership may be permitted from professional union leadership. Industry level negotiations should be confined to major industry-wide issues only.

(para 11.5.8)

140. **The Factories Act, 1948**

Overtime working may be allowed without prior permission if workers are willing and appropriate extra payments are made to the workers. The employment of women in night shift should not be banned provided transport and other facilities including appropriate security are provided. Regarding the ambulances, dispensary etc. it should be totally dispensed with where it is covered under ESIC. In case of joint demand from employer and employees for exemption from ESIC and such

consequential exemption, the factory management should take appropriate measures for ambulance, dispensary etc. The provision in respect of canteen should also be suitably changed.

(para 11.5.9)

141. **Apprentice Act**

The provisions of the Act for non adherence are too harsh while the well intentioned provisions do not serve any worthwhile purpose in the textile and garment sectors. Under the circumstances, the provisions of the Apprentice Act should not be made obligatory in the textile industry.

(para 11.5.10)

142. **Payment of Wages Act**

Scientific rationalisation of work assignment and achievement of higher productivity through multi-disciplinary training of workers and production process improvement are essential for mitigating the impact of wage rise, which is linked with consumer price index.

(para 11.5.11)

143. **Administration of Labour Laws**

There should be a single agency for enforcement of various labour laws instead of (1) labour department and (2) factory inspectorate to avoid duplication of record keepings etc.

(para 11.5.12)

144. **Statutory and legal dues of the workers of the mills under liquidation**

Govt. may provide over riding priority to the statutory and legal dues of the workers of the textile mills under liquidation over thereof other secured creditors for ensuring full payment of such dues to the workers.

(para 11.5.13)

145. **100 percent EOUs/EPZ units/Textile parks**

Liberalised industrial and labour laws as recommended in preceding paragraphs may be made applicable in the first instance to 100 percent EOUs, EPZ units and to the textile parks. In EPZ units, Development Commissioner of Export Processing Zones may be declared as ex-officio Regional Labour Commissioner. The 100 percent EOUs and Textile parks should also be declared as 'public utility services'.

(para 11.5.15)

146. **Workers of mills closed illegally**

(i) The consequence of illegal closure have been very serious for displaced workers who get no terminal benefits including their rightful dues. This issue needs to be addressed immediately. The Textile Workers Rehabilitation Fund scheme should be reviewed and modified to cover the workers of mills permanently closed illegally and also suitably enhancing the wage limit of Rs.2500 per month.

(ii) Also the NRF scheme may also be reviewed and modified to cover mills of private sector and state public sector also.

(iii) An insurance scheme may also be created by Govt. with a small corpus which may become gradually self supportive.

(iv) A Task Force may be constituted to examine this issue in detail. Considering the resource constraints, mills may be permitted to utilise the equity value of their land asset for funding VRS scheme and/or clearing legitimate dues of the workers in the event of the closure of the mills.

(v) The recommendation of Abid Hussian Committee to form area based Textile Restructuring Asset Trusts (TRATs) in the identified areas of concentration of textile workers to implement a time-bound area based textile restructuring plan, needs to be seriously considered by the govt. for ameliorating the conditions of the displaced workers of the closed mills.

(vi) The Committee recommends that a plan may be drawn up for wide ranging training programmes for displaced workers to enable their redeployment in other segments of the industry.

(para 11.5.17)

147. **Powerloom workers**

(i) Govt. may adopt a two-pronged strategy to protect/safeguard the interest of the powerloom workers. Firstly, the powerloom owners may be encouraged to consolidate their small units into bigger viable units of, say, 12 looms or more. The recommendations of Abid Hussian Committee for setting up Labour Enforcement and Welfare Agency (LEWA) in each powerloom concentration area, as an implementing agency for enforcement of labour regulations and welfare measures etc. may seriously be considered by Govt. Powerloom sector may be exempted from various labour and other laws and institutional arrangements like LEWA may take care of the labour regulations and welfare measures etc.

(ii) The Group Insurance Scheme for powerloom workers introduced by the Govt. in association with Life Insurance Corporation of India since 1992-93 has met with extremely lukewarm response and hence requires incorporation of appropriate changes. State Govts. should also play a more pro-active role to ensure the success of the scheme as the sector provides large scale employment within their state. The scheme may be administered through the Textile Commissioner.

(para 11.5.18)

148. The submission of report of the Govt. (Ministry of Labour) appointed Second National Labour Commission to, inter alia, evolve an 'umbrella legislation' for ensuring a minimum level of protection to the workers in the decentralised sector, be expedited.

(para 11.5.19)

CHAPTER-12 - HUMAN RESOURCE DEVELOPMENT

149. In view of the globalisation of the textile trade and gradual phasing out of the import barriers, there is urgency to promote training institutes par excellence and of international standard by setting up new institutes or by enriching the existing institutes with adequate facility. **This should be done in a 'campaign mode'.**

(para 12.2.1)

150. The objectives of the training policy of the Govt. could be the following :

- i) Developing and training of skilled personnel to work as supervisors/line jobbers/fitters/trainers and operatives.
- ii) To undertake research work in developing improved methods of working and overall system of monitoring and controlling the work at the shop floor.
- iii) To develop weavers/jobbers/loom owners for the decentralised powerloom sector.
- iv) Inducting a workforce to the industry having, apart from technical knowledge and high skills, a deep sense of commitment and belonging, sharing the responsibilities with the management.
- v) To impart training to the trainers.
- vi) To undertake in-plant training of the existing workforce in the mills.
- vii) To meet the training requirements of the 3rd tier of handloom weavers, who will either be converted to the 3rd tier of powerlooms or taking up other job avenues in garmenting, processing etc.
- viii) To meet the training requirements of the 3rd tier and 2nd tiers of handlooms who wish to graduate to the 1st tier.
- ix) To impart training to the displaced workers of the closed mills.
- x) To meet the training needs of the 4th tier of the powerlooms graduating to the 3rd tier and powerlooms of the 2nd and 3rd tiers graduating to next higher level.
- xi) To develop training manuals, audio-visual materials including development of video films to impart correct work methods and practices.

(para 12.2.2)

151. Govt. has set up a “Nodal Centre for Upgradation of Textile Education” to identify specific areas of technology where manpower modernisation is needed and particularly, the need to bridge the existing gaps in textile education and training, both in volume and contents. Activities of this centre may be monitored on a regular basis to remove impediments in its functioning in order to achieve the desired objective in a time-bound manner.

(para 12.2.3)

152. The industry woefully lacks adequate training arrangement for operative levels and we have to make commensurate arrangements for producing workmen of requisite quality and standard conversant with use of latest equipments. Considering the number of people to be trained every year, the requirement of number of training institutes will be considerable. Existing ITIs which are not textile-specific are grossly ill-equipped in terms of quality as well as under-equipped to carry out this task. The private entrepreneurs may also be encouraged for setting up textile-specific institutes. To encourage contribution from the textile industry to the educational institutions, incentives may be provided to the industry.

(para 12.2.4)

153. **Sectoral training needs**

(i) **Organised sector**

(a) In the context of the fast developing technologies and increasing use of electronics in machinery, short-term structured training programmes for various managerial levels need to be devised and conducted by 'textile-specific' Engineering institutes. Textile technologists working in production, quality control or even marketing areas will also need to acquire specialised managerial skills, for which the textile technology courses will have to introduce appropriate behavioural science and management courses to produce well-rounded technocrat-managers. More and more seminars and orientation programmes would require to be organised to usher & develop the capabilities of the supervisors and managers. To provide the right kind of education, the textile institutes have also to have the latest equipments which existing institutes are lacking. Govt. may assess the needs of the existing institutes with the help of the NCUTE at the earliest possible and provide the necessary funding or motivate the industry for the same.

(b) By and large, textile labour has been acquiring skills on the job without the benefit of systematic training programme. However, in the competitive scenario, the lack of proper training, work culture and quality consciousness can not be ignored. Therefore, setting up of 'textile specific' ITI's to cater to the operational need of technology upgraded textile industry is absolutely essential.

(c) It is essential to organise part-time courses for persons already in job and who cannot be released for full time training for knowledge upgradation along with technology upgradation.

(d) The easy exit policy under ID Act would result in closure of a number of non-viable sick mills and displacement of the workers. Wide ranging training programmes may be organised for such workers to enable them to get the alternate avenue of job. The displaced workers should also be made eligible for stipend for attending training programmes to motivate them to join the same.

(paras 12.3.1 to 12.3.4)

(ii) **Handloom sector**

(a) Training in modern management techniques of production, marketing, accounting, cost analysis etc. is an essential input in the handloom development

programme. There is also a need for personnel to be trained in design development and market trend analysis.

(b) The conversion of third (lowest) tier of handloom weavers into powerloom weavers with certain benchmarked technology or even other textile-related activities, viz., garment manufacturing will require concerted effort by the Govt. to provide requisite training to convert these handloom weavers into powerloom weavers or other attractive employment avenues. Powerloom Service Centres and ATDCs should be suitably strengthened for the purpose. The converted and graduated workers should also be given stipend for attending such training programmes.

(paras 12.3.5 to 12.3.6)

(iii) Powerloom sector

(a) With the launch of TUFS, the technology levels of this sector are expected to improve, necessitating improvement in the skills of the powerloom weavers. Further, the graded upgradation of technological level of the powerloom sector, necessitate organisation of training programmes on a large scale, particularly in the major powerloom centres.

(b) The govt. should immediately upgrade powerloom service centres and modernisation of all PSCS be completed during the 9th Plan period itself. Powerloom weavers graduating from the lower tier to the higher tier may be given stipend for attending training programmes.

(c) Powerloom Service Centres operating in the area of knitting concentration may be strengthened in terms of machinery and staff which can also provide training facility to the workers of knitting sector.

(d) Pre-weaving and post-weaving facilities are extremely weak, impacting adversely on the quality of fabrics. Therefore, training facilities in the PSCs may be created to provide training on such aspects alongside the presently conducted on-loom training and loom-maintenance training.

(paras 12.3.7 to 12.3.9)

(iv) Woollen sector

(a) It is felt that the human resource development aspects have rather been neglected in the wool sector. It is, therefore, necessary to make concerted efforts to meet the training requirements of the woollen industry in collaboration with the industry and other wool producing countries.

(b) Collaborative tie-ups should be taken up with Australia and New Zealand in the field of research, and training in the areas of farm management, sheep rearing, testing and report writing, wool marketing, processing of wool and woollen products, quality control as these countries have done reasonably well in the development of wool industries. A beginning made by Indian Woollen Mills Federation in this regard may be supported by Govt. and also initiated in some other universities.

(c) The proposed Institute of Carpet Technology at Bhadohi, U.P. should be made functional on a priority basis.

(d) There is a lot of scope for human resource development in shoddy and carpet industry. Weavers have to be trained with special emphasis on women workers. There is also a lot of scope for design development in the carpet industry specially as there is need to develop and sustain a unique Indian style in carpet making. NIFT must also be involved in preparing projects for product and design development in collaboration with the industry and the trade.

(paras 12.3.11 to 12.3.14)

(v) Sericulture

(a) The improvement of silk production involves imparting extensive training to persons involved in silk activities from silk worm rearing and silk reeling onwards. The CSB organises a number of training programmes at its research and training institutes. However, there is still a wide gap which can be filled up by strengthening these activities.

(paras 12.3.15 & 12.3.16)

(vi) Clothing sector

(a) The industry currently requires training and upgradation of man-power skills at three levels, viz supervisory, managerial and operational. The ITIs ought to start textile and apparel related courses in a big way. More ATDCs may be set up, particularly in the clusters of clothing units. At present, ATDCs are set up by the AEPC funded through forfeited BG/EMD fund deposited in a P.D.A., but after dismantling of the quota system, Govt. will have to finance ATDCs. Since fund requirement on a recurring basis for such institutes including capital cost will be substantial and since RMG sector also contributes to Textiles Committee cess, a suitable grant from the Textiles Committee cess fund (proposed PDA) may be given with a matching grant from the Govt. to fund all ATDCs including student stipends.

(b) It is interesting to note the initiatives taken by the competing countries for training of their workers. The best model seems to be the one available in Hong Kong. Govt. may study the Hongkong model in depth and adopt it with whatever modifications are felt necessary to suit our requirements.

(paras 12.3.17 to 12.3.23)

(vii) Jute sector

(a) The jute industry will need properly trained manpower at all levels to derive maximum benefit from technological developments.

(b) The human resource development for upgrading the qualities of senior, middle and junior level supervisors and also skills of operators needs to be strengthened in the coming years, more particularly to cater to the emerging diversified jute product sector which has tremendous potential for not only production and export of value-added jute-blended textiles but also creating substantial employment. This can be

achieved by introducing structured training and development programme for all categories of employees at the plant levels and also at IJT. For this purpose, IJT should work out detailed programme schedule for training of all levels of supervisory and managerial personnel and workers at the plant level. In addition, it should conduct a few short-term courses at the Institute with the objective of introducing concept of supervision at the lower and middle level.

(paras 12.3.24 & 12.3.25)

(viii) Technical textiles

For meeting the training requirements of the technical textile sector, which will be mainly at the higher level, technical textiles should find place in the curriculum of the textile academic institutions. NCUTE should be requested to examine this issue and incorporate the same in their proposed curriculum and syllabus for appropriate textile courses and also identify the institutes that can undertake such courses. Further, the Ministry of Textiles should interact with relevant ministries, such as Ministry of Human Resources and Ministry of Science & Technology etc. to ensure that technical textile are included in the existing curriculum of different branches of Engineering and Science.

(para 12.3.26)

(ix) Cotton selection and ginning & pressing

No formal training is being offered in cotton selection and seed cotton processing (i.e., ginning and pressing) by any institution in the country except for occasional courses of short duration organised by TRAs and CIRCOT. There is necessity to launch a six month's certificate course for cotton selection, ginning and pressing operations and management in major cotton producing and processing states.

(para 12.3.27)

154. Non-tariff barriers

Training facilities may be provided for creation of a cadre of Indian lawyers and cost accountants who may specialise in the area of anti-dumping and anti-subsidy enquiries under WTO. The Indian Institute of Foreign Trade and other institutes including Institute of Cost Accountants and Law institutes may be involved for amending their syllabus/curriculum to provide training for this area of activity. The Govt. should also provide short-term training courses to exporters/related agencies in various aspects of the WTO. The IIFT could be designated as the Nodal Agency for this purpose and the Ministries of Commerce and Textiles may jointly take the lead in conceptualisation and implementation of this action plan in a time-bound manner in the next 2 to 3 years.

(para 12.3.28)

155. Training for trainers

To meet the huge training needs of the textile industry, the trainers will also need to be trained. The training requirements of the trainers is a felt need in the textile

industry. It is also necessary to develop training manuals, audio-visual materials, including development of video films to impart correct work method and practices.

(para 12.3.29)

156. Govt. may establish a 'National Council of Textile Education' to oversee and channelise the textile industry's training mechanism. The textile courses may be excluded from the purview of All India Committee of Technical Education (AICTE) and placed under the purview of the proposed Council. This council can also be entrusted with the task of an accrediting agency which will vouch for the standards and adequacy of the skills imparted. In a nut shell, this permanent, professional council should take off from where NCUTE finishes its time-bound, one-time task.

(para 12.4)

CHAPTER-13 - TEXTILE MACHINERY INDUSTRY (TMI)

157. Specific objective-oriented policy inputs may be provided for accelerated modernisation and growth of the TMI in view of the recent launch of Technology Upgradation Fund Scheme (TUFS) for the textile and jute industries, which is expected to result in huge demands for high tech machinery from the different segments of the textile industry. In order to meet the twin objectives, in terms of import substitution and better quality and productivity resulting in cost reduction and strengthening textile exports, the TMI has to be provided with the required support and environment through appropriate policy inputs, which would enable it to manufacture quality machinery of latest technology in cost-effective manner upto its full potential.

(paras 13.1 & 13.2)

158. The TMI while planning their future production of high-tech machinery will have to choose the appropriate state-of-the-art technology which leads to energy saving and is cheaper as compared to imported machinery in order to reduce the interest burden of the textile manufacturers, in view of relatively higher cost of power and interest in our country.

159. The foreign manufacturers should be encouraged to invest in manufacturing units of India, so that they can supply machineries of the latest generation from local units and not resort to supply of complete machinery from their existing plants in their own country or a third country.

(para 13.3)

160. With regard to import of high-tech, state-of-the-art machineries, their import be permitted, if such machineries are not produced indigenously. However, TMI should be encouraged to invest in technology and modernise itself to meet the domestic needs for such machineries.

161. **Fiscal policy changes**

- (i) **Import duty on inputs** - The first and immediate pre-requisite of putting the domestic industry at par with imports is to allow import of inputs for the manufacture of textile machinery at 10 percent below the rate applicable for complete imported machinery and equipments.
- (ii) **Import duty on specified machinery** - The duty on specified items of textile machinery (list 10 of customs notifications No.11/97-cus.) with almost no indigenous production base which is at present 15 percent may be reduced to zero or 5 percent. Such reduction in import duty on complete machinery entails reducing the duty on raw materials, components and accessories of such machineries to zero percent to provide level playing field to the indigenous manufacturers.
- (iii) **Import duty on machinery for technical textiles** - The identified and customised machinery required for manufacture of technical textiles with no indigenous

angle should also be permitted duty free with actual user condition to motivate entrepreneurs to establish projects for technical textiles.

- (iv) Import duty on jute machinery - Only a few jute machinery are produced within the country. Jute machinery with no indigenous angle should be permitted for duty free import.
- (v) Excise duty on textile machinery - The current rate of excise duty on textile machinery is 16 percent. Since net of MODVAT, generally excise duty does not in effect survive on capital goods, it is only logical that capital goods that are incapable of modvating due to various reasons should, ab initio, bear no basic excise duty. Hence, basic excise duty on all types of textile machinery and their components be reduced to zero or at the least, 8 percent.

(para 13.4.2)

162. Import of second hand machinery

- (i) Import of high-tech second hand machinery, more particularly those listed in List 10 of customs notifications no.11/97-cus should be permitted provided they were not more than 10 years old and had at least 10 years of residual life. Such machineries do not have significant indigenous angle also.
- (ii) As regards jute machinery, the same is not manufactured indigenously except for a few and the industry has to depend on imports. Till such time suitable technology is developed and such machinery produced indigenously at competitive prices, the import of second hand jute machinery of acceptable vintage should be permitted on duty free basis.

(para 13.4.3)

163. Research and development

In the long run, the textile machinery industry can survive and prosper only if sufficient attention is paid to the research and development. Ministry of Textiles may take a proactive role in establishing the R. & D. centre initiated by TMI at IIT, Bombay at the earliest by substantial contribution to the capital cost of the centre.

(para 13.4.4)

(i) TUF for textile machinery industry

The basic objective of making available state-of-the-art textile machinery at competitive prices to the user industry can be best served by upgrading the textile machinery industry. For this purpose, there is need for a Technology Upgradation Fund for this sector which could be modestly configured at about Rs. 1500 crore for a period of five years.

(para 13.4.5)

(ii) Venture capital fund

A Venture Capital Fund with an initial corpus of Rs.150 crore with 50:50 sharing between the Govt. and IDBI and operated through IDBI may be set up, to encourage manufacture of state-of-the-art machines which require large investment by way of know-how and new machine tools.

(para 13.4.6)

(iii) **Information support**

There is lack of information on the availability of the state-of-the-art machinery for different segments, particularly decentralised segments of the textile industry. The TRAs need to function as a 'resource base' for maintaining data base on this aspect. The Office of the Textile Commissioner should be entrusted with the responsibility of coordination, collection, compilation and dissemination of such data among the TRAs.

(para 13.4.7)

(iv) **Support measures for export**

India is strategically located for export of textile machinery as it can cater to the neighbouring countries like SAARC nations. Moreover, India is the only country in Asia barring Japan with the technological and technical capacity to produce the entire range of textile machinery. The TMI should be encouraged to set up turnkey/semi-turnkey projects and offer consultancy in management and training services abroad.

(para 13.4.8)

(v) **Need for transfer of TMI to the Ministry of Textiles**

The TMI is a dedicated capital goods industry with a single customer industry, i.e., textile industry. Transfer of TMI to the administrative control of the Ministry of Textiles would enable the latter to appreciate the peculiar problems faced by the manufacturers of textile machinery, its strengths, weaknesses, needs of the user industry and to take a comprehensive balanced view between the apparently conflicting but mostly complementing interests of the textile industry and the TMI and more importantly, develop and implement synergistic growth strategies for both the industries.

(para 13.4.9)

CHAPTER-14 - TECHNOLOGY UPGRADATION

164. In the context of an integrated world market wherein survival of the indigenous textile units will be at stake, it is of paramount importance that various segments of the Indian textile industry upgrade their technology urgently through a well thought out action plan.

(paras 14.1.1 to 14.1.2)

165. Segment wise recommendations for technology upgradation

(i) Cotton cultivation

To improve the cotton productivity, the share of irrigated cotton area needs to be improved together with water conserving and cost-effective irrigation and moisture retention methods. The other recommendations include improving the availability of certified standard seeds to the farmers and de-notification of the large number of obsolete varieties to prevent mixing of varieties, R. & D. in improvement of varieties to strengthen the hybrid varieties and improve quality parameters of the existing good varieties, integrated pest and fertilisation management to improve the cotton yield. Corporate sector and Ministry of Textiles also need to be closely associated with the direction of R. & D., field extension in order to bring modern farming practices and good quality seeds and other inputs like fertilisers and pesticides to the farmers.

(para 14.2.1)

(ii) Cotton processing

Technology upgradation of ginning machinery and improved working environment and scientific ginning practices to focus on the concept of ideal ginning to improve the quality of the cotton leaving the ginneries.

(para 14.2.2)

(iii) Spinning

Even though the Indian textile spinning sector is relatively more modern than other segments of the textile industry, still large number of mills are using obsolete technology. Inclusion of the spinning sector under TUFSS would facilitate technology upgradation of this segment.

(para 14.2.3)

(iv) Handloom weaving

(a) Service Centres should be set up to provide pre- and post-weaving facilities at one place so that the weavers produce better quality fabrics and be able to market products for better price.

(b) The Weavers' Service Centres at Bangalore & Vijaywada have modified the handlooms with modification/ additional attachments/changes in the looms, which will promote the appropriate skills, reduce the fatigue and increase the productivity and production of value added items, thereby improving the earnings of the weavers. Govt. of Andhra Pradesh proposes to launch a massive loom modernisation programme based on these changes. Other State Governments may also encourage

weavers service centres to bring about such effective changes in the handlooms, which may result in improving the skills and productivity of the weavers.

(paras 14.2.4 to 14.2.6)

(v) Powerlooms

The plain looms installed in the powerloom sector should either be dismantled and replaced with or upgraded in situ into semi-automatic looms. There should be statutory restriction on further installation of any plain looms. Incremental installation of looms should be at the benchmark technology level of automatic looms.

(para 14.2.7)

(vi) Weaving in the mill sector

In the emerging scenario of competitive, free and globalised trade, mills will have to make concerted efforts to continue modernisation as an on-going process. The benchmark technology for mill sector should be automatic looms. Obsolete looms should be scrapped.

(para 14.2.8)

(vii) Knitting

Immediate dereservation of the knitting segment is strongly recommended, which will result in enhancement of capacity and quality of knitted fabrics. Fiscal levies on knitting machinery included in TUFs should be further reduced.

(para 14.2.9)

(viii) Processing and finishing

Since processing activity is the weakest link in the entire textile production value chain, apart from coverage under TUFs, additional policy initiatives will be needed to accelerate technology upgradation in this segment. The facility of investment allowance or accelerated depreciation may be made applicable to installation of high-tech processing machines. Investment in environment control, pollution control measures and for acquiring ISO-14,000 norms must be encouraged by providing interest/capital subsidies or income-tax deduction on investments on such plants and machinery and permitting high rate of depreciation for such machinery. Common ETPs may be encouraged in the areas of concentration of small process houses.

(para 14.2.10)

(ix) Clothing

To facilitate desirable level of investment in high technology, immediate dereservation of the garment sector from the SSI reservation is recommended.

(para 14.2.11)

(x) Textile machinery

(a) To cater to the modernisation requirement under TUFs and in view of the high cost of comparable imported machinery, it is essential that Indian textile machinery industry be upgraded to produce most of the modern equipment that is needed by the textile industry.

(b) To strengthen the textile machinery industry, the Committee has, inter alia, recommended for : reducing the import duty on inputs for the manufacture of textile machinery to 10 percent below the rate applicable for import of relevant complete machinery and equipment, reduction in import duty on essential machinery including technical and jute textile machinery with no indigenous angle, reduction in excise duty on textile machinery to zero or to the merit rate of 8 percent since it is practically not modvatable due to the decentralised nature of the textile industry, and focus on R & D. In the long run, textile machinery industry can survive only if sufficient attention is paid to the Research and Development. A Technology Upgradation Fund for this sector may be set up with corpus of about Rs.1500 crore for a period of 5 years. A Venture Capital Fund for the textile machinery industry with an initial corpus of Rs.150 crore with 50:50 share of the Govt. and IDBI is also essential to facilitate and encourage development of new technologies.

(paras 14.2.12 to 14.2.14)

166. **Information technology**

In a competitive environment whose hallmarks are productivity, quality and quick response, there is need for rapid absorption of information technology including e-commerce at all levels and in all areas of manufacturing and international/domestic trade by the various segments of the industry.

(paras 14.3.1 to 14.3.2)

167. **Technology upgradation fund scheme (TUFS)**

The Committee is, more or less, in agreement with the tehno-operational parameters framed by the Govt. for TUFS but has different views on certain aspects as follows:

(i) **Import of second hand textile machinery**

The auto coners along with high speed preparatory, i.e., warping and sizing machines and shuttle-less looms of the rapier and projectile technologies of upto 8 years' vintage should also be allowed to be imported under TUFS since machinery with maximum expired life of 5 years are hardly available.

(para 14.4.2)

(ii) **Other eligible investments**

Under TUFS, certain investments like land and factory building, energy saving devices, effluent treatment plant, water treatment plant for captive industrial use and captive power generation are covered under the TUFS with a condition that such investment will not normally exceed 25 percent of the total investment in plant and machinery. The Committee feels that eligible investments might include miscellaneous fixed assets and other preparative expenses which normally form part of the project. The Committee recommends a flexible approach in the matter and proposes a ceiling of 25 percent of the project cost or 30 percent of the investment in eligible textile plant and machinery, whichever is less. Further, energy saving devices ETP and WTP are essential and integral to quality assurance in production and should

therefore be considered as a part of the essential machinery and as such, eligible for full coverage under TUFSS rather than be subjected to the ceiling of 25 percent.

(para 14.4.3)

(iii) Ring spinning

Under TUFSS, new spinning units or capacity expansion is permissible only if investment is also made in specified down stream value addition activity. In some of the areas where there is no concentration of weaving activity setting up of weaving preparatory would not be feasible or advisable. Hence, as a desirable alternate option, investment in production of special yarns etc. should also be included specifically. Moreover, expansion of the capacity to the minimum economic size level also needs to be permitted in the existing spinning units subject to certain conditions.

(para 14.4.4)

(iv) Replacement of plain looms

The TUFSS has provided for in situ upgradation of plain looms of a minimum 140 cms. width to semi-automatic looms for powerloom sector but does not cover replacement of existing plain looms of below 140 cms. width by semi-automatic looms. Such narrow width looms and obsolete wider width looms in the SSI sector also be covered under TUFSS for replacement by semi-automatic looms with further concessions because of higher investments.

(para 14.4.5)

(v) Financial norms

(a) The Nodal Agencies have prescribed minimum of 20 percent of the cost of the scheme as promoter's contribution. While the minimum criteria may be desirable to ensure a continued stake for the investor in the success of the project/unit, insistence on substantial collateral may hurt the interests of small borrowers, viz., in situ modernising powerloom units. Therefore, lending institutions should consider alternatives like group guarantee etc. in order to ensure better fulfilment of TUFSS objectives wherever feasible.

(para 14.4.6)

(b) The financial norms for technical textile products may be further relaxed.

(para 14.4.7)

(vi) Monitoring of fund flow

While TUFSS is an open ended fund, it is necessary for the lending institutions and the Govt. to regularly monitor flow of funds so as to ensure requisite flow of funds to the deserving segments like weaving, processing and readymade garments etc. Govt. may set up a suitable national level and regional/state level monitoring mechanism for this purpose. The state govts. may also be involved in the same for more effective feedback and follow up.

(vii) Co-option of other banks

The Nodal Agencies may co-opt not only commercial banks and SFCs but also cooperative banks because in many areas the cooperative banks have a responsible

and significant presence in the textile sector lending. Refinancing of such loans by such co-opted banks may not be insisted upon. Govt. should take the lead in sorting out this issue.

(para 14.4.8)

168. **Research and development**

Technology upgradation has close linkage with R & D approach in the country. Thrust areas for R & D could be as below:

- (i) New technologies open fresh possibilities. Advances in material sciences have lead to new raw materials. Engineered textiles with advanced technology and new materials, if recognised as a frontier area for R. & D. would in the long run help our industry to remain competitive in the ensuing years and decades.
- (ii) Continuous R. & D. focus on improving the quality of yarns, grey and finished fabrics to international levels may be continued.
- (iii) Importance of R. & D. work of basic nature needs no emphasis. At least one research project out of them sanctioned to a R. & D. institution must be a work of fundamental nature.
- (iv) R. & D. efforts may focus on systems and ways and means of achieving desired quality and quick response through networking. This involves paying attention to advancement in production technology and linking them with appropriate network and application of I.T.

(para 14.5)

CHAPTER-15 - INTERNATIONAL TRADE

169. Policy approach

(i) The Ministry of Textiles, should prepare an export road map for the industry setting out the goals, barriers to achievement and how industry can help the govt. design appropriate policies. Benchmarks for strategic export sectors may also be developed.

(ii) A national export strategy has to be evolved in a time-bound manner by appointing a Task Force in the Ministry of Textiles comprising industry representatives, financial institutions, academicians, other ministries and the State Govts.

(iii) A national information infrastructure plan for the 21st century may be evolved, a vision paper published and an International Trade Advisory Council formed with strong private sector representation.

(iv) A system should be installed to regularly monitor the situation through a set of indicators, such as level of employment, productivity, corporate profits, investment in technology, WTO matters, investment in work force, and average age of capital etc.
(para 15.3)

170. Export promotion schemes

It is imperative to make Indian export promotion schemes WTO-consistent.

(para 15.6)

171. Export promotion measures

(i) Co-operative/group exporting activity may be encouraged in which the participating units combine to produce for export and get the benefits available under export promotion schemes.

(ii) Import and export procedures should be simplified enabling importer/exporter to reduce delivery time. Infrastructural problems like transports, port handling which, though sector-neutral, also need to be improved to provide impetus to export growth.
(para 15.7)

172. Awareness about WTO

Ministry of Textiles must launch a massive campaign to create the necessary awareness about the implications of the WTO.

(para 15.8)

173. Non-tariff barriers

(i) India should take effective steps to counter non-tariff barriers. Export Promotion Councils (EPCs) should be the primary institutional mechanism to defend the industry and export trade against such investigations.

(ii) A cadre of Indian lawyers and cost accountants who may specialise in this area of work may be created.

(iii) The Govt. may take appropriate steps to mobilise support in the international fora against different kinds of non-tariff barriers imposed by the WTO members.

(iv) The domestic textile industry should gear up to protect itself against the onslaught of low price imports. Each industry association or apex organisation should create an anti-dumping cell in its organisation, structured on the lines of European organisations like Euro cotton, Euro steel and the US organisation of CITA.

(v) The Govt. should give suitable financial assistance to these organisations and the EPCs to set up such cells.

(para 15.9)

174. **Bilateral trade agreements**

The Committee recommends that a Task Force may be appointed to study the feasibility and desirability of reopening the bilateral negotiations and to draw up a negotiating strategy.

(para 15.10)

175. **Regional trade blocks**

Formation of customs union among the SAARC members will be more effective and stimulant for Indian exports to expand in the region.

(para 15.11)

176. **100 percent EOU and EPZ units**

The scheme of 100 percent EOU's and EP Zones needs to be reviewed in order to make such schemes effective in realising the underlying objectives.

(para 15.12)

177. **Long term export strategy**

(i) To achieve the objective of gaining a position among top 5 textile exporting countries will require quantum jump in our textile exports. This type of quantum increase requires a well planned strategy and special efforts.

(ii) The export thrust has to be on value added exports. The industry including exporters will have to change their focus and take the initiative for changing product mix, developing new products or product features and developing new markets.

(iii) It is necessary to increase usage of information technology to imbibe latest application of computer integrated technology.

(iv) A synergistic approach towards exports and domestic marketing through strategic alliances and joint ventures is required.

(para 15.13)

178. **Commercial intelligence**

There is need to set up an institutional mechanism for 'commercial intelligence' to continuously scan the international business environment for

providing necessary support to the exporters in terms of emerging markets, fashion/design trends, colour preferences, latest product developments etc.

(para 15.14)

179. **Promotion of 'Made in India' brand label**

- (i) A separate “Brand Equity Fund” for textile industry may be set up.
- (ii) There are a number of technologies/designs available in India which have been identified with certain form of handicraft or art like Chanderi, Kanjivaram, Dharmavaram, etc. It is important for Govt. to identify such technologies, places and to protect the intellectual property rights by taking appropriate steps.
- (iii) It is important to strengthen the domestic brands by infusing the necessary financial support for increased branding and brand promotion efforts.
- (iv) The Textile Ministry should promote a “web based strategy” for enhancing India’s brand equity by promoting information about highly successful companies in India and detailed information about them.
- (v) A “National Market Intelligence and Fashion Product Development Centre” under the aegis of NIFT may be set up to promote higher level of activity and linkage between research, design development, manufacturing and brand promotion.
- (vi) A Task Force may be constituted to work out the modalities and action plan for setting up separate 'brand equity fund' for promoting 'Made in India' brand aggressively.

(para 15.15)

CHAPTER-16 - FINANCING ARRANGEMENTS

180. Assessment of requirement of credit

The Committee recommends that a Task Force be constituted by the Govt. comprising members from industry associations, Ministry of Textiles, RBI, IDBI, SIDBI, NABARD, Banking Deptt. (Ministry of Finance) and IBA to assess the credit requirements of the different segments of the textile industry and its availability.

(para 16.3.2)

181. To increase the reach of the banking sector it is essential to: (a) broad-base the structure of financial institutions, (b) moderate and adjust the lending norms to suit credit requirements of diverse textile units, (c) develop new delivery systems for servicing the requirements of the un-organised and decentralised units.

(para 16.4.14)

182. Working capital

- (i) There is a need for attitudinal change in the approach by the banking sector.
- (ii) The accounting norms of the lending institutions may not be regarded as sacrosanct and in a difficult situation, if the operative norms of a unit are sound, lending institutions should advance loans to the units.
- (iii) While fixing working capital limits, seasonal flexibilities must be built in, to enable mills to stock raw materials like cotton and jute during the season.
- (iv) The margin requirements need not be static as the capacity to mobilise margin money varies among the borrowers.
- (v) The geographical coverage of commercial banks must be widened so as to cover progressively textile units located in semi-urban and rural areas.
- (vi) The numerous small units in semi-urban and rural areas must organise themselves as self-help groups (SHGs) or as cooperatives or associations so that collectively they can meet the requirements of the lending institutions in respect of preparation of project proposals, provision of guarantees and collaterals etc. as well as for joint purchase and sales of raw materials and finished products on behalf of the members.
- (vii) The pre-loom and post-loom activities may be included in the refinance scheme of NABARD/SIDBI for working capital assistance.
- (viii) Handloom Weavers outside the co-operative fold and who are not even able to group themselves in cluster in the form of SHGs may be issued identity cards to enable them to approach banks for credit.
- (ix) The NABARD/SIDBI should introduce a refinance line of credit for service of joint purchase and sales of raw materials and finished products based professional associations/local self help groups not under co-operative fold and in urban areas.
- (x) The associations should unite the member units in the form of guarantee cooperatives to meet the requirements of collateral securities.

(xi) Bankers can adopt clusters of decentralised powerloom and RMG units as models for lending purposes.

(xii) The banking culture should be changed in the sense that working capital should be monitored regularly and there should be regular and closer interaction between the bankers and borrowers to sort out the relevant issues.

(paras 16.5.2 to 16.5.16)

183. **Term loan/investment capital**

(i) With the reduction in bank rate, bankers should lower their interest rate and should endeavour to ensure that 14 percent of their term financing should flow to the textile industry commensurate with the contribution of this industry to overall industrial production in the country.

(ii) Despite the experience in the past, the investment allowance may be permitted for 3-4 years to enable the units to plough back the internal generation of the funds.

(paras 16.5.17 to 16.5.18)

184. **Financing during exceptional circumstances**

Apart from normal cyclical fluctuations, industry may sometimes witness upheaval due to factors completely beyond its control. In such situations the banking sector may adopt a liberal approach with regard to the banking norms.

(para 16.5.19)

185. **Special purpose funds**

(i) A rehabilitation fund may be created to revive the potentially viable sick mills and to bring the healthy units, to meet the stringent norms of the TUFs.

(ii) A National Handloom Credit Fund may be created for the purpose of extending working capital finance to the handloom weavers through a two tier channel of NABARD/SIDBI and SHGs.

(para 16.5.20 & 16.5.21)

186. **Miscellaneous**

(i) RBI should issue necessary guidelines to commercial banks to upgrade the credit flow data on a continuous basis.

(ii) Banks and financial institutions may create 'grievance cells' at zonal levels to sort out the problems of creditors.

(paras 16.5.22 to 16.5.23)

CHAPTER-17 - FISCAL POLICY AND STRUCTURE

187. Fiscal policy and structure of textile items should be guided by the following considerations:-

- (i) To stimulate demand with rational and lower tax structure resulting in reduction of prices of fabrics and garments and making them cost competitive to face the competition in the domestic market and improve export growth in the integrated world market;
- (ii) To provide stimulus and encouragement for new investments in textile & garment sectors to upgrade the technology and quality levels;
- (iii) To improve production, productivity, quality and cost competitiveness and provide value for money to the Indian consumers and improve per capita textile consumption;
- (iv) To create a level playing field for tax structure amongst different sectors of the industry to:
 - (a) reduce motivation for tax evasion;
 - (b) encourage investment for quality upgradation and value addition;
 - (c) provide healthy competition within the textile sector and promote competitiveness of the industry.
- (v) To maintain revenue neutrality.

(para 17.3)

188. A long term fiscal policy may be formulated and only minor adjustments may be made in the annual budgets.

(para 17.4)

Excise duty

189. Two tier vat system

The long term objective of the fiscal policy should be a progressive two-tier parallel VAT (value added tax) system-one tier of central VAT, and the second tier of state VAT.

190. In the short term, rationalisation of the existing multiple rates at various stages of production and fibre-based taxation structure coupled with reduction in overall excise duty incidence and withdrawal of exemption is recommended.

(para 17.5.1)

191. Reduction in excise duty incidence

All the textile items should attract uniformly the merit rate of duty of 8 percent. The broad basing of duty structure consequent upon withdrawal of exemptions would maintain the revenue neutrality.

(para 17.5.2)

192. **Increasing the consumption of man-made fibres/yarns**

The consumption of man-made/blended textiles may be increased by reducing/rationalising the fiscal levy on such items and bringing them at par with cotton segment.

(para 17.5.3)

193. **Withdrawal of excise duty exemptions**

(i) **Hand processors and specified processes**

It is essential to withdraw the exemption for hand processors and specified 12/7 mechanical processes carried out with the aid of power. Hand processing with duty exemption may be permitted only for processing of handloom items of unique cultural value like bandhani, tie & die, ikat etc.

(ii) **SSI exemption benefit extended to spinning of cotton yarn**

SSI duty exemption for SSI cotton yarn units should be withdrawn with immediate effect.

(iii) **Hosiery and knitwear**

The excise duty exemption on knit/hosiery fabrics may be withdrawn.

(iv) **Exemptions for handloom sector**

Excise duty exemptions available to handloom segment at the fabric stage may be phased out over a period of 3 years. The hank yarn duty exemption should also be withdrawn, subsequent to the establishment of setting up of network of cone dyeing units to meet the requirement of dyed yarn of the handloom segment or co-operative/other modes of reeling of hank yarn at the weavers' end.

(para 17.5.4)

194. **Fabric processing duty**

(i) In the long run, an advalorem duty structure would be ideal; but in the short run, the duty on high value textile processing independent processors, who pay duty on stenter-chamber basis, should be levied based on average value of fabrics costing above Rs.30 per sq. mt. multiplied by the net effective tax rate ratio over that for cheaper fabrics.

(ii) The additional excise duty in lieu of sales tax (AED-ST) on fabrics may be prescribed at the uniform rate of 4 percent. In the long run, however, the AED(ST) may be transferred back to State Govts. for implementation of state level VAT.

(para 17.5.5)

195. **Readymade garments sector**

This sector may be brought under the excise net.

(para 17.5.6)

196. **Uniform excise duty structure**

Uniformity in excise duty structure may be achieved in a phased manner over a period of time. In the first phase, the fibre stage duty should be reduced to narrow down the inter-sectoral gap. In the 2nd phase, parity in excise duty structure at yarn stage and in the 3rd phase, reduction of rates and inter-sectoral parity between cotton and man-made sector should be effected.

(para 17.5.7)

197. **Local levies**

Central Govt. may take up very strongly with the state govts. for formulation of uniform structure of sales tax and other local levies on textile items.

(para 17.5.8)

198. **Textiles Committee cess**

Textiles Committee cess should flow to a dedicated fund (PDA) to be created and administered by the Ministry of Textiles.

(para 17.5.9)

199. **Additional duty on textiles & textile articles (AT&T)**

Presently, govt. has linked the collection under this head to provide 5 percent interest reimbursement under TUFS. However, at the end of the TUFS, this tax should be abolished.

(para 17.5.10)

Customs duty

200. **Man-made fibres/yarns**

Govt. should regularly monitor the indigenous prices of textile items and regulate the import duty structure in such a way as to create a 'credible threat' of imports.

(para 17.6.2)

201. **Intermediates of man-made fibres/yarns**

There is need to reduce import duty on intermediates of man-made fibres/yarns to create a credible threat of imports for the domestic manufacturers. The Department of Chemicals and Petro-chemicals may also be approached for ensuring that such intermediates are made available to the synthetic fibre/yarn producers at international prices.

(para 17.6.3)

202. **Raw materials for woollen industry**

Customs duty on raw wool and synthetic/woollen rags should be brought down to the level of 5 percent from the existing level of 15 - 25 percent.

(para 17.6.4)

203. **Speciality yarn**

Import of speciality yarn with no indigenous angle may be permitted at 'zero' rate of customs duty.

(para 17.6.5)

204. **Specific duty on import of textiles**

The Govt. may prescribe specific duty on import of textile items consistent with WTO stipulations.

(para 17.6.6)

205. **Additional duty of customs**

The cascading impact of local levies absorbed in the input cost is reported to be quite substantial which is not being neutralised under present dispensation. Appropriate action may be taken by the govt. to neutralise the impact of such levies.

(para 17.6.7)

206. **Export promotion capital goods (EPCG) scheme**

Ministry of Finance may immediately issue the notification reducing the threshold limit for textile industry to Rs.1 crore and such threshold limit may continue in future also without any change.

(para 17.6.8)

207. **Technical textiles**

(i) Excise duty: The technical textiles may attract 'merit' rate of excise duty, i.e., 8 percent.

(ii) Customs duty: The import of identified raw materials and customised machinery for technical textiles with 'nil' or insignificant indigenous angle may be permitted with zero duty.

(iii) Local levies: Central Govt. should take up strongly with the state governments for providing exemption to technical textiles from the sales tax and local levies for at least a period of 10 years.

(para 17.7)

208. **Capital goods**

(i) Excise duty: Basic excise duty on all types of textile machinery and spares and components may be reduced to zero or at the least 8 percent.

(ii) Customs duty

(a) **Concessional duty on specified machinery**

Import of high-tech machinery with 'nil' or negligible indigenous angle included in the specified list may be permitted on duty free basis and such medium-

tech machines with 'nil' or insignificant indigenous angle with concessional rate of 5 percent. The SAD may also be abolished on import of such machinery.

(b) **Other textile machineries**

The duty on other machineries may also be reduced from the existing 27.50 percent to 16.50 percent. The customs duty on parts and components for such machinery may also be scaled down suitably to maintain a 10 percent duty differential.

(c) **Input for textile machinery**

Imports of inputs for the manufacture of textile machinery may be permitted at 10 percent below the rate applicable for complete imported machinery and equipments.

(d) **Import of second hand machinery**

Import of high-tech second hand machinery, more particularly those listed in List 10 of the customs Notification no.11/97-CUS. should be permitted through automatic licensing provided they are not more than 10 years old and have at least 10 years of residual life.

(para 17.8)

209. **Jute industry**

(i) Import of new technology jute machinery and their components, both new and second hand and without an indigenous angle, should be allowed duty free.

(ii) Jute goods and diversified jute products may be exempted from sales tax.

(iii) The concessional import duty on jute goods under SAARC preferential trading engagements should be withdrawn.

(iv) Jute cess may flow to a dedicated fund (PDA) created and administered by the Ministry of Textiles.

(para 17.9)

CHAPTER-18 – ADMINISTRATIVE SET-UP

210. The Govt. may appoint one or more reputed consultancy firms well conversant with the textile industry to review the existing mandate/role of each of the Govt./semi-Govt./statutory/autonomous organisations associated with the Ministry of Textiles and recommend an appropriate, modified mandate/role for each of them.

(para 18.1)

211. The Committee has made some broad recommendations with regard to the revised role of the major organisations associated with the textile industry. However, the study as recommended above may cover all institutions including the ones for which the Committee has made recommendations.

(paras 18.2 & 18.3)

212. **Export Promotion Councils (EPCs)**

The Committee recommends that the nine EPCs operating under the Ministry of Textiles may be suitably amalgamated and consolidated into 3 or 4 EPCs, viz., an EPC each for (i) fibres and yarns; (ii) fabrics and made-ups; (iii) apparels; and (iv) handicrafts. The revised role of the EPCs could be:

- (i) Devising export strategies for increasing India's market share including promotion of 'Made in India' label.
- (ii) Collection and dissemination of commercial information to exporters on a regular basis.
- (iii) Promotion of joint ventures and foreign direct investments and negotiation of marketing / technical tie-ups with world-renowned brands.
- (iv) Educate trade/industry on the various aspects of the WTO and provide legal assistance/support/advice to trade/industry in dispute settlement cases at the WTO.

(para 18.4)

213. **Textile Research Associations (TRAs)**

- (i) TRAs have to become institutions of advanced knowledge generation and dissemination.
- (ii) A 'Technology Mission' approach to address the full scale technology development.
- (iii) Facilitate network among TRAs and between TRAs and other institutions for successful execution of the projects and their commercialisation.
- (iv) Govt. may undertake to consolidate the results of all the TRA-undertaken R&D projects under appropriate heads to help focus future needs and direction of R&D
- (v) Need for a TRA in the eastern and north eastern part of the country.

(para 18.5)

214. **Cotton Corporation of India (CCI)**

The Committee recommends that CCI may continue to perform the role as envisaged in the Textile Policy of 1985 and other promotional activities like promotional support to the production of certified seed, extension activities etc. Besides, CCI may be actively associated with the implementation of the TMC, in all the 4 mini-missions.

(para 18.6)

215. **Textiles Committee**

- (i) Continue implementation of ISO-9000 and ISO 14000 standards.
- (ii) Continue to provide testing facilities for quality and counselling to the trade and industry in the production of quality and eco friendly textiles and quality appraisal scheme.
- (iii) Continue with awareness programmes and other activities connected with consumer interests.
- (iv) Continue co-ordination activities relating to setting up / upgradation of laboratories.

(para 18.7)

216. **Office of the Textile Commissioner**

- (a) Textile Commissioner and his office have to play the crucial role of a facilitator, motivator and change agent. In matters relating to technology, quality, environment and ecology, the Textile Commissioner has to assume leadership role and ensure that the international parameters and standards are achieved.
- (b) The activities of ERMIU may be expanded in future to take care of the growing information needs of the industry and trade.
- (c) The Textile Commissioner must assume an active role -
 - (i) in the implementation of various fibre development programmes, including TMC, man-made fibre industry, technical textile fibres and wool.
 - (ii) in modernisation of the textile industry and providing active support in the creation of an eco-friendly, consumer-friendly textile industry.
 - (iii) providing assistance to the TRAs in framing the research programmes, assigning research priorities and development of new products and equipments and commercial production thereof.

- (iv) monitoring the technological progress of the different segments of the industry and formulation of policies to support the technologically weaker segments to upgrade their technology.
- (v) maintaining close liaison with financial institutions, to facilitate easy flow of funds under TUFs to the industry and monitoring the progress of the scheme.

(para 18.8)

217. **Jute industry**

- (i) A joint co-ordination Committee of the Ministry of Agriculture, Ministry of Textiles and State Govts. of jute growing states may be set up to co-ordinate jute research, cultivation and extension related issues. Similarly, a Jute Co-ordination Council may be set up to bring all the agencies engaged in various post-fibre stage jute textile activities under one umbrella.
- (ii) The role of the Jute Commissioner should be more development oriented.
- (iii) The role of JMDC and JCI should be broad based and expanded.
- (iv) The size of IJIRA should be pruned and industry contribution to and active association with research activity should increase.

(para 18.9)

218. **International trade**

- (v) A new strong, multi-disciplinary institutional mechanism should be set up in the Ministry of Textiles to formulate policy issues and specific actions emanating from WTO.
- (vi) A professionally qualified International Trade Advisor should be appointed in the Ministry of Textiles.

(para 18.10)

219. **Central Silk Board (CSB)**

CSB should be abolished and replaced by an R. & D. organisation comprising the R. & D. institutes/centres presently under the CSB, to be rechristened as CSRDO. A separate Development Commissioner (Silk) should be created to handle silk fibre development including post-technology transfer extension and silk reeling.

(para 18.11)

220. **Nodal Centre for Upgradation of Textile Education (NCUTE)**

Activities of NCUTE may be monitored on a regular basis to remove impediments in its functioning in order to achieve the desired objective in a time-bound manner.

(para 18.12)

Annexe

- Resolution no.8/7/98-TPC(MOT), dated 24th July 1998.
- List of places visited by the Committee/Chairman.
- List of Institutions visited by the Committee.
- List of meetings held by the Committee to interact with the different groups at the places visited.
- List of organisations that gave representation to the Committee.
- List of background papers circulated to the Committee.
- List of meetings held by the Committee.

THE GAZETTE OF INDIA

EXTRAORDINARY

PART – 1 SECTION : 1

PUBLISHED BY AUTHORITY

No : 159

New Delhi, Friday July 24, 1998 / SHRAVANA 2, 1920

MINISTRY OF TEXTILES

RESOLUTION

New Delhi, the 24th July, 1998

No. 8/7/98 – TPC - Government have decided to set up an Expert Committee under the Chairmanship of Shri S.R. Sathyam to inter-alia review and evaluate the impact of the existing textile policy and suggest policy measures for the industry to focus on changes resulting from over all trade policy reforms. The constitution of the Committee shall be as follows :-

- | | | | |
|----|---|---|----------|
| 1. | Shri S.R. Sathyam
Retired Secretary
Ministry of Textiles | - | Chairman |
| 2 | Chairman, Industrial Development
Bank of India, Mumbai | - | Member |
| 3 | Dr. T.V. Ratnam
Adviser, SITRA, Coimbatore | - | Member |
| 4 | Shri A.N. Jariwala | - | Member |
| 5 | Shri Sanjay S. Lalbhai
M/s. Arvind Mills Ltd.,
Naroda Road, Ahmedabad | - | Member |
| 6 | Dr. Omkar Goswami
Editor, Business India, Mumbai | - | Member |
| 7 | Dr. Rakesh Mohan
Director General, National Council
of Applied Economic Research, New Delhi | - | Member |

8	Development Commissioner (Handlooms)	-	Member
9	Shri B.D. Jethra, Adviser, Planning Commission	-	Member
10	Dr. Ashok Lahiri, Director, National Institute of Public Finance & Policy, New Delhi	-	Member
11	Shri Ajay Piramal Piramal Mills Ltd., Mumbai	-	Member
12	Textile Commissioner, Mumbai	-	Member Secretary

II. TERMS OF REFERENCE

1. To review and evaluate the impact of the existing Textile Policy and identify the changes that are necessary, particularly in terms of the new imperatives of international competition.
2. To evolve a new set of policy guidelines with a view to obtaining the best productivity from each sector and from each segment of the textile industry after taking a holistic view of the textile sector covering :-
 - (i) All products (all fibres and value added products resulting therefrom);
 - (ii) All activities (spinning, weaving, processing, finishing and packaging);
 - (iii) All sectors (organised mills, powerlooms and handlooms);
3. To suggest policy measures for the textile industry to focus on the changes resulting from overall trade policy reform and specifically the dismantling of the Multi-Fibre Agreement on Textile and Clothings (MFA) and the associated non-tariff barriers. Such policy measures would, interalia, include measures for upgradation of :

- (a) Products including facilitation for establishing branded products.
 - (b) Technology.
 - (c) Financial arrangements.
 - (d) Market development including brand promotion.
 - (e) Human resource development in the textile industry.
- 4 To examine the competitiveness of the various segments of the industry with respect to their international counter-parts and to suggest policy prescriptions to improve the competitive edge of each segment and to suggest measures for strengthening the fundamentals of each of the economic spheres of the textile industry. This would include a study of the specific role to be assigned for different fibres.
 - 5 To suggest policy measures to aid the restructuring of the textile industry with a view to attaining international competitiveness by the year 2005.
 - 6 To examine the existing industrial policy including foreign direct investment policies, as well as fiscal and trade policies with reference to the textile industry and suggest necessary changes for modernisation and growth in the industry.
 - 7 To review the existing system of control and regulation in the textile sectors and suggest changes, wherever necessary, for promoting productivity and encouraging growth in all the sectors of the textile industry.
 - 8 To evolve a comprehensive policy and strategy for developing human resources in all activities in the textile sector including production technologies, designs, marketing skills and information technology. This should also include an examination of the present scenario of the policy measures required in the area for the attainment of international competitiveness in the textile industry.
 - 9 To review the measures taken so far for tackling sickness in the textile industry and to make suggestions for improving the economic viability of the textile industry as also to identify steps which would be necessary to prevent and tackle sickness in the industry, including the need for structural adjustments through redeployment of labour and capital.

- 10 To examine the desirability of establishing dedicated financing arrangements to cater specifically to the needs of the textile industry.
- III** The Committee may, if necessary, consider any other aspects related to the above terms of reference.
- IV** The Committee will formulate its own procedure of working including engagement of consultants, if considered necessary, for any specific area of its work.
- V** The expenses on TA & DA, if any, will be borne by the respective department in respect of Government officials, whereas non-officials will be entitled to claim TA & DA as per OM No. F 6(26)-E-IV/59 dated September 5, 1960 of the Ministry of Finance (Department of Expenditure), as amended from time to time.
- VI** The Committee will submit its report within a period of six months.
- VII** The headquarters of the Committee will be at New Delhi but it may meet at any other place in India.
- VIII** Secretariat assistance will be provided by the Textile Commissioner.

N. RAMKRISHNAN Jt. Secy.

NOTE

Subsequently, following members resigned :

- (i) Dr. Ashok Lahiri
- (ii) Shri Ajay Piramal
- (iii) Dr. Omkar Goswami

LIST OF PLACES VISITED BY THE COMMITTEE / CHAIRMAN

SR.NO.	NAME OF THE PLACE	
	<u>Places visited by the Committee</u>	
1	Delhi	
2	Mumbai	
3	Bangalore	
4	Coimbatore	
5	Tirupur	
6	Calcutta	
	<u>Places visited by the Chairman</u>	
1	Ettayapuram	(T.N.)
2	Aruppukottai	- " -
3	Madurai	- " -
4	Karur	- " -
5	Chennai	- " -
6	Erode	- " -
7	Sirumugai	- " -
8	Salem	- " -
9	Hyderabad	(A.P.)
10	Pochampalli	- " -
11	Huzurabad	- " -
12	Bhubaneshwar	(Orissa)
13	Ujjain	(M.P.)
14	Indore	- " -
15	Surat	(Guj.)
16	vadodara	- " -
17	Guwahati	(Assam)
18	Sualkochi	- " -

ANNEX : 3

LIST OF INSTITUTIONS VISITED BY THE COMMITTEE

Sr.No.	Name of Institutions
1	Lakshmi Mills Ltd., Coimbatore
2	Lakshmi Machine Works Limited, Coimbatore
3	Training Institute of Lakshmi Machine Works Limited. Coimbatore.
4	Visit to Hosiery / Knitwear Club - Tirupur
5	Powerloom & Processing Unit - Surat
6	Dinesh Mills - Baroda
7	Central Silk Board, Bangalore
8	Jute Manufacturers Development Council, Calcutta

**LIST OF MEETINGS HELD BY THE COMMITTEE TO INTERACT
WITH THE DIFFERENT GROUPS AT THE PLACES VISITED**

<u>Place</u>		<u>Date</u>	
NEW DELHI	1	Additional Director, Dept. of Industries, Chandigarh, Punjab.	5/11/98
	2	Commissioner/Secretary Industries, Haryana	
	3	Commissioner/Secretary Industries, Delhi	
	4	Additional Director of Textiles , Uttar Pradesh	
	5	North India Textile Mills Association (NITMA)	
	6	North India Rotors Association, Panipat (NIRSA)	
	7	Spinning Mills Federation, Kanpur	
NEW DELHI	8	Shawl Club (India), Amritsar	06/11/98
	9	Hosiery Manufacturers Association, New Delhi.	
	10	All India Carpet Manufacturers Association, Bhadohi	
MUMBAI	11	Additional Ind. Commissioner, Govt. of Gujarat.	10/11/98
	12	Principal Secretary , Textiles, Govt. of Maharashtra	
	13	Silk & Art Silk Mills Research Association (SASMIRA)	
	14	Textile Mills Association, Ahmedabad.	
	15	Indian Cotton Mills Federation (ICMF) , New Delhi.	
	16	Mill Owners Association, (MOA), Mumbai.	
	17	Textile Association India, Mumbai.	
	18	Maharashtra Co-op. Textile Mills Federation, Mumbai.	
MUMBAI	19	Silk & Art Silk Mills Association Ltd. (SASMA), Mumbai.	11/11/98
	20	Federation of Indian Art Silk Weaving Industry (FIASWI), Mumbai.	
	21	Indian Powerloom Federation , (IPF)., Malegaon	
	22	Maharashtra State Textile Processors Association, Mumbai.	
	23	Indian Woollen Mills Federation, Mumbai.	
	24	Clothing Manufacturer's Association of India (CMAI), Mumbai.	
	25	Federation of Indian Textile Engg. Industry (FITEI), Mumbai.	
	26	Indian Spinners' Association, Mumbai.	
BANGALORE	27	Secretary , Handloom & Textiles, Tamilnadu	25/11/98
	28	Additional Director, Handlooms, Chennai.	
	29	Director, Sericulture Dev. Corporation, Tamilnadu.	

<u>Place</u>		<u>Date</u>
	31 Commissioner of Textiles, Industries & Commerce, Govt. of Karnataka , Bangalore. 32 Commissioner, Industries & Commerce, Karnataka, Bangalore. 33 Registrar , Co-operative Spinning Mills, Pondicherry 34 Secretary, The Pondicherry, Co-op.Spg. Mills, Pondicherry 35 Sericulture Dev. Corporation , Govt.of Karnataka 36 Karnataka Textile Mills Association (KTMA), Bangalore. 37 Secretary, Central Silk Board, Bangalore 38 Andhra Pradesh State Powerloom Weavers Association, Hyderabad. 39 Mysore Powerloom Silk Manufacturers Co-op. Society, Bangalore.	25/11/98
COIMBATORE	40 South India Mills Association, (SIMA), Coimbatore. 41 South India Small Spinners Association, Coimbatore. 42 Tamilnadu Powerloom Federation , Salem. 43 Powerloom Development & Export Promotion Council (PDEXCIL) 44 Rotary Club, Salem. 45 Co-optex , Chennai. 46 South India Cotton Association (SICA) 47 Apparel & Handloom Exporters Association 48 Hantex, Tiruvananthapuram 49 Tirupur Exporter's Association, Tirupur.	26/11/98 & 27/11/98
CALCUTTA	50 Secretary,Industries & Commerce , West Bengal. 51 Secretary ,Cottage & Small Scale Indus.Deptt.,Govt.of West Bengal. 52 Secretary , Textiles & Handlooms, Orissa 53 Director, Textiles, Orissa 54 Director, Handloom & Sericulture, Govt. of Bihar 55 Jute Commissioner, Calcutta 56 Eastern India Textile Mills Association 57 Orissa State Co-op.Spg.Mills Ltd,Bhubaneshwar . 58 All Orissa Powerloom Association, Bhubaneshwar. 59 Powerloom Owners Association, Nayagarh, Bhubaneshwar, Orissa. 60 West Bengal Hosiery Mfg.Association Calcutta. 61 Bengal Hosiery Mfg.Association ,Calcutta.	02/12/98

<u>Place</u>		<u>Date</u>
	62 Bharat Chamber of Commerce , Calcutta . 63 WBHPDC LTD, Calcutta. 64 Orissa State Handloom Weavers Co-op.Society, Bhubaneshwar. 65 West Bengal, State Handloom Weavers Co-operative Society Ltd,Calcutta. 66 West Bengal State Handloom Weavers' Co-operative Society Ltd., Calcutta. 67 Baruipur Powerloom Owner's Association, West Bengal. 68 Serampore Powerloom Weavers Association, Serampore, Hooghly. 69 Khordaha Thana Powerloom Owners Association , khordaha. 70 Chamber of Textile Trade & Industry , Calcutta. 71 Indian Jute Manufacturer's Association, Calcutta. 72 Jute Manufacturers Development Council, Calcutta. 73 Merchant Chamber of Commerce, Calcutta.	02/12/98
CALCUTTA	74 Joint Resident Commissioner, Govt.of Tripura, Calcutta. 75 Director , Industries, Govt. of Assam, Guwahati 76 Director, Sericulture & Weaving, Govt. of Meghalaya. 77 Secretary, Handloom & Textiles, Govt. of Assam. 78 Assam Powerloom Development Corporation, Guwahati	03/12/98
MUMBAI	79 Wool Research Association, Thane, Mumbai. 80 South India Textile Research Association, Coimbatore 81 North India Textile Research Association, Ghaziabad 82 Ahmedabad Textile Research Association, Ahmedabad 83 Indian Jute Industries Research Association, Calcutta 84 Silk & Art Silk Mills Research Association, Mumbai. 85 Man Made Textile Research Association, Surat 86 Powerloom Development & Export Promotion Council, Mumbai. 87 Indian Woollen Mills Federation, Mumbai. 88 Wool & Woollen Export Promotion Council, Mumbai. 89 Apparel Export Promotion Council, Mumbai. 90 Indian Silk Export Promotion Council, Mumbai.	11/12/98

<u>Place</u>			<u>Date</u>
	91	Cotton Textile Export Promotion Council, Mumbai,	11/12/98
	92	Synthetic & Rayon Textile Export Promotion Concil, Mumbai.	
	93	Indian Merchants Chamber, Mumbai.	
	94	Federation of Indian Export Organisation, Mumbai.	
DELHI	95	NTC, New Delhi	14/12/98
	96	Federation of Indian Chamber of Commerce & Industry, New Delhi.	
	97	Confederation of Indian Industry, New Delhi.	
	98	Association of Chamber of Commerce, New Delhi.	
MUMBAI	99	Association of Man Made Fibre Industry (AMMFI), Mumbai.	21/12/98
	100	Association of Polyester Staple Fibre Manufacturer's (APSFM), Mumbai.	
	101	All India Texturisers Association, Mumbai	
	102	Cotton Corporation of India , Mumbai .	
MUMBAI	103	Bhartiya Grahak Panchayat , Mumbai .	15/01/98
	104	Consumer Education & Research Centre, Ahmedabad	
	105	Consumer Education & Research Centre, Pune	
MUMBAI (Meeting with bankers)	106	Executive Director , Reserve Bank Of India (RBI)	16/01/99
	107	Chief General Manager, Reserve Bank of India (RBI), Mumbai.	
	108	Chief General Manager, Industrial Finance Corporation of India (IFCI) ,New Delhi.	
	109	Chief General Manager, Industrial Credit & Investment Corporation of India (ICICI),Mumbai.	
	110	Chief General Manager, Industrial Investment Bank of India.(IIBI) , Calcutta.	
	111	General Manager, Industrial Investment Bank of India.(IIBI), Calcutta.	
	112	Managing Director, Small Industries Development Bank of India.(SIDBI), Lucknow.	
	113	Chief General Manager, Small Industries Development Bank of India.(SIDBI), Lucknow	
	114	General Manager, Export & Import Bank (Exim Bank) , Mumbai	
	115	Chief General Manager, National Bank For Agricultural & Rural Development (NABARD). Mumbai.	
	116	Regional Manager, National Bank For Agriculture & Rural Development (NABARD), Mumbai.	

<u>Place</u>		<u>Date</u>
	117 Deputy General Manager, Export Credit & Guarantee Corporation (ECGC), Mumbai. 118 Managing Director, Maharashtra State Financial Corporation (MSFC), Mumbai. 119 General Manager, Punjab State Financial Corporation (PFC) Chandigarh 120 Chief General Manager, Bank of Baroda, Central Office, Mumbai. 121 General Manager, Bank of India, Mumbai. 122 General Manager, Central Bank of India, Mumbai. 123 General Manager, State Bank of India, Mumbai. 124 Deputy General Manager, State Bank of India, Mumbai. 125 General Manager, Canara Bank, Mumbai. 126 Managing Director, Maharashtra State Co-op. Bank Ltd., Mumbai. 127 Ind. Adviser, Jute Commissioner's office, Calcutta.	16/01/99
MUMBAI (Meeting with Labour unions)	128 Bharatiya Vastrodyog Karmachari Sangh. 129 Textile Labour Association. 130 Rashtriya Mill Mazdoor Sangh. 131 National Textile Workers Union (NW). 132 Centre of Indian Trade Union. 133 Textile Workers Federation of India (HMS). 134 Maharashtra Girni Kamgar Union.	16/01/99
MUMBAI Meeting On " Brand Equity Fund"	135 Shri A.K. Vasandani Vice President, Ashima Dyecot Limited 136 Shri Kishore Biyani Managing Director., Pantaloon Fashions (India) Ltd, Mumbai 137 Shri Adiya Himatsingka Executive Director, Himatsingka seide Ltd, Bangalore 138 Shri V.K. Bakshi General Manager, Raymond Ltd, Thane 139 Shri Rahul Mehta Creative Outerwear Ltd, Mumbai 140 Dr. Darlie O. Koshy Prof. & Chairman, NIFT, New Delhi. 141 Shri Rakesh Bhargava Vice President ((Export), Bombay Dyeing, Mumbai 142 Shri Anup Pillai Company Secretary, Zodiac Clothing Co. Ltd., Mumbai .	9/7/99

**SPECIAL TOURS UNDERTAKEN BY THE CHAIRMAN TO
INTERACT WITH HANDLOOM CO-OPERATIVES AND
OFFICERS OF THE HANDLOOM SEGMENT**

Tamil Nadu

- 1 **Ettayapuram Cooperative Societies Federation**
- (i) Palani Andavar WCS.
 - (ii) Krishnapuram Mahakavi Bharathi WCS.
 - (iii) Chidambaranar Weavers Co-op. Prdn. & Sales Soc.Ltd.
 - (iv) Naduvirpatti Sri Murugan WCS.
 - (v) Sengunthar WCS.
 - (vi) Arignar Anna WCS.
 - (vii) Muppudariamman WCS.
 - (viii) Thiruvalluvar WCS.
 - (ix) Bharathiar WCS.
- 2 **Aruppukottai Co-operative Societies Federation**
- (i) President of the Federation .
 - (ii) Chokkalingapuram Devankar WCS.
- 3 **Madurai Co-operative Societies Federation**
- (i) President of the Federation.
 - (ii) Krishnapuram WCS.
 - (iii) Thiruvalluvar WCS.
 - (iv) Srinivasaperumal WCS.
 - (v) Arignar Anna WCS.
 - (vi) Andipatti Powerloom WCS.
 - (vii) CITUC, Madurai.
 - (viii) INTUC, Madurai.
 - (ix) Marumalarchi Labour Front.
- 4 **Karur**
- (i) Chairman, Cooptex.
 - (ii) Pasuvai Handloom WCS.
 - (iii) Thiruvalluvar Handloom WCS.
 - (iv) The Pasupatheeswara Indl. WCS.

- (v) Amman Handloom WCS.
- (vi) Perichipalayam Thiru. Vi.Ka. WCS.
- 5 **Chennimalai**
- (i) Chennimalai WCS.
- (ii) Chennimalai Indl. WCS.
- (iii) Chennimalai Metro WCS.
- (iv) Sree Kamaraj WCS.
- (v) Chennimalai Jeeva WCS.
- (vi) Chennimalai Chenkumar WCS.
- 6 **Erode**
- (i) TNTP Mills Limited
- (ii) Erode WCS.
- (iii) Erode Powerloom WCS.
- (iv) Periyar District Handloom WCS Federation Limited.
- 7 **Sirumugai**
- (i) Kovilvazhi WCS.
- (ii) Coimbatore District Weavers Co-op. Federation.
- 8 **Salem**
- (i) Ponnampet Cotton & Pure Silk WCS.
- (ii) N.Mettur Silk WCS.
- (iii) Murugan Silk Handloom WCS.
- (iv) J.O. Kondalampatti Silk WCS.
- (v) Sowdeswari Silk WCS.
- (vi) TNPWCS Federation.
- (vii) Salem Silk Handloom WCS.
- (viii) Ammapet Handloom WCS.
- (ix) Bharathi Cotton & Pure Silk WCS.
- (x) Vice President, PDEXCIL.
- (xi) LTTC.
- (xii) Garments Exporters Association.
- (xiii) Tamil Nadu Handloom Weavers Association.
- (xiv) Federation of Tamil Nadu Primary WCS Employee's Unions .
- (xv) Salem Handloom and Powerloom Cloth Manufacturers

and exporters society.

- (xvi) Textile Engineering College, Periyannayakkanpalayam.
- (xvii) Theagaraja Polytechnic.
- (xviii) Engineering College of the Valli Textiles Group.

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Officers of the Directorate of Handlooms

- (i) Additional Director (Handlooms), Chennai.
- (ii) Deputy Director, Salem.
- (iii) Assistant Director, Tirunelveli.
- (iv) Assistant Director, Virudhanagar.
- (v) Assistant Director, Madurai.
- (vi) Assistant Director, Karur.
- (vii) Assistant Director, Erode.
- (viii) Assistant Director, Coimbatore.

Assam

- 1 Secretary (Textiles), Government of Assam.
- 2 Director (North East), Central Silk Board.
- 3 Director (Handlooms).
- 4 Deputy Director (Handlooms).
- 5 Various Handloom WCSs in the Sualkuchi Area.

Andhra Pradesh

- 1 Secretary, Industries, Commerce & Textiles Department.
- 2 Managing Director, APCO.
- 3 Managing Director, APTEX.
- 4 Additional Director,(Handlooms).
- 5 Managing Director, Priyadarshini Spinning Mills.
- 6 Andhra Pradesh 100% EOU Textiles Weaving Mills Association.
- 7 Andhra Pradesh Textiles Processing Association.
- 8 Vivek Textiles Mills.
- 9 Sundar Silk Mills.
- 10 Terry Gold India Limited .
- 11 Crown Textiles Limited.
- 12 Saritha Synthetics Limited.
- 13 Maruti Cottex Limited.
- 14 GOLDWON Textiles Limited.

- 15 Samurai Spinners Limited.
- 16 Pochampalli Handlooms WCS.
- 17 Suryavamshi Spinning Mills Limited.
- 18 INDU Spinning Industries Limited.
- 19 Suryajyothi Spinning Mills Limited.
- 20 Paturi Mareti Cottex Limited.
- 21 P.S.M. Spinning Mills Limited.
- 22 Huzurabad Handloom WCS.
- 23 Hari Yarn Trading Co.

ORISSA

- 1 Secretary (Textiles), Government of Orissa.
- 2 Director (Textiles), Govt. of Orissa.
- 3 Additional Secretary (Agriculture), Govt. of Orissa.
- 4 Joint Director(Textiles), Govt. of Orissa.
- 5 Spin Fed.
- 6 Orissa State Tasar and Silk Co-op. Society Limited.
- 7 A.B.S.Spinning Mills Limited.
- 8 Institute of Textile Technology.
- 9 Bhubaneswar WSC.
- 10 KVIC, Bhubaneswar.
- 11 Magnum Apparels (P) Limited.

**LIST OF ORGANISATIONS THAT GAVE REPRESENTATION
TO THE EXPERT COMMITTEE**

Sr. No.	Name of the Organisation
1	All India Carpet Manufacturer's Association, Bhadohi.
2	All India Co-op. Cotton Fedn. Ltd., Ahmedabad.
3	Andhra Pradesh State Powerloom Weavers Association, Andhra Pradesh.
4	Apparel and Handloom Exporters Association, Chennai.
5	Associated Chamber of Commerce & Industry, Calcutta.
6	Association of Man-Made Fibre Industry of India, Mumbai.
7	Bengal Hosiery Manufacturers Association & West Bengal Hosiery Association, Calcutta.
8	Chamber of Textile Trade & Industry, Calcutta.
9	Confederation of 100% Export Oriented Units, New Delhi.
10	Confederation of Indian Industry, New Delhi
11	East India Cotton Association, Mumbai.
12	Eastern India Textile Mills Association, Calcutta.
13	Federation of Indian Art Silk Weaving Industry, Mumbai.
14	Federation of Indian Export Organisation (Western Region), Mumbai.
15	Federation of Indian Textile Engineering Industry, Mumbai.
16	Hosiery Manufacturer's Association, Calcutta.
17	Indian Cotton Mills Federation , New Delhi.
18	Indian Jute Mills Association, Calcutta.
19	Indian Woollen Mills Federation, Mumbai.
20	Karnataka Textiles Mills' Association, Bangalore.
21	Maharashtra State Co-operative Spinning Mills Federation Ltd., Mumbai.
22	Northern India Textile Mills Association (NITMA), New Delhi.
23	Open End Spinning Mills Association, Coimbatore.
24	Rajasthan Textile Hand Processers Association, Pali, Rajasthan.
25	Shawl Club (India), Amritsar.
26	Silk and Art Silk Mills' Association Ltd., Mumbai.
27	Solapur Zilla Yantramag Dhark Sangh, Solapur.
28	South India Small Spinners Association, Coimbatore.

- 29 Tamil Nadu Handloom Weavers Association, Salem.
- 30 Tamilnadu Powerloom Federation Ltd, Komarapalayam, Salem.
- 31 Textile Association of India, Mumbai.
- 32 The Chittoor District Powerloom Weavers welfare Association, Nagri (A.P.)
- 33 Clothing Manufacturers Association of India, Mumbai.
- 34 Indian Chamber of Commerce and Industry, Coimbatore.
- 35 Indian Merchants' Chamber, Mumbai.
- 36 Madhya Pradesh Textile Mills Association.
- 37 South India Mills Association, Coimbatore.
- 38 Southern Gujarat Chamber of Commerce & Industry, Surat.
- 39 Tirupur Exporters Association, Tirupur.
- 40 Zipper Association of India, Gurgaon, (Haryana).
- 41 Apparel Export Promotion Council, New Delhi.
- 42 Handloom Export Promotion Council, Chennai.
- 43 Powerloom Development & Export Promotion Council, Mumbai.
- 44 Synthetic & Rayon Textiles Export Promotion Council.(SRTEPC), Mumbai.
- 45 The Cotton Textiles Export Promotion Council, Mumbai.
- 46 The Indian Silk Export Promotion Council, Mumbai.
- 47 Dr.T.V.K.Srivastava , Director, Man-Made Textile Research Association
- 48 Indian Jute Industries' Research Association, Calcutta.
- 49 Manmade Textile Research Association, (MANTRA), Surat
- 50 Northern India Textile Research Association, New Delhi.
- 51 Shri. D. Sarkar,SASMIRA. Mumbai.
- 52 The Bombay Textile Research Association, Mumbai.
- 53 The West Bengal State Handloom Weaver's Co-operative Society Ltd., Calcutta.
- 54 The Mysore Powerloom Silk Manufacturer's Co-Operative Society Ltd, Bangalore
- 55 Salem Handloom & Powerloom Cloth Manufacturers & Export society, Salem, Tamil Nadu.
- 56 Assam State Powerloom Co-operative Federation Limited, Guwahati.
- 57 Pochampally Handloom Weavers Co-op.Society Limited, Pochampally, Andhra Pradesh

- 58 All Orissa Powerloom Owner's Association , Bhubaneshwar.
- 59 The Kerala State Co-operative Textile Federation Ltd,
Thiruvananthapuram.
- 60 Kerala State Handloom Weavers' Co-op.Society Limited,
Thiruvananthapuram, Kerala.
- 61 All India Trade Union Congress (AITUC), Mumbai.
- 62 Tamilnadu Joint Action Council of Textile Trade Unions, Chennai.
- 63 Tamil Nadu Handloom Weavers Trade Union, Coimbatore, Tamil Nadu.
- 64 Bharatiya Mazdoor Sangh, Indore.
- 65 Maharashtra Girni Kamgar Union, Mumbai.
- 66 National Textile Workers Union, Coimbatore.
- 67 Bharatiya Vastra Udyog Karmachari Maha Sangh, New Delhi.
- 68 Textile Labour Association, Ahmedabad.
- 69 Cotton Corporation of India Ltd., Navi Mumbai.
- 70 Central Silk Board , Bangalore.
- 71 Smt.T.Y. Das, Commissioner & Secretary (Ind.), Govt. of Assam.
- 72 Shri.G.S.Kang, Secretary-cum-commissioner, Department of Industries,
Government of Bihar, Patna.
- 73 Department of Sericulture, Govt. of Tamilnadu.
- 74 Department of Industries & Commerce, Govt. of Kerala,
Thiruvananthapuram.
- 75 Director,Handlooms , Govt. of Andhra Pradesh.
- 76 Secretary Textiles, Govt. of Assam.
- 77 Shri. Ramchandran, Additional Director of Handlooms ,Govt. of Tamil
Nadu.
- 78 Textiles & Handloom Department., Govt. of Orissa, Bhubaneshwar.
- 79 Consumer Education & Research Centre, Ahmedabad.
- 80 Shri.T. V. Ramammurty, Agronomist., Chennai.
- 81 Lakshmi Automatic Loom Works Limited, Coimbatore.
- 82 Grasim Industries Ltd. (Textile Division), Gwalior.
- 83 Lakshmi Card Clothing Manufacturing Company Limited, Coimbatore.
- 84 M/s.Megha Spinner's Pvt. Ltd., Indore.
- 85 M/S.DPF Textile Limited., Coimbatore.
- 86 M/s.Surguna Mills Limited, Coimbatore.
- 87 Akhandalmani Spinners & Exporters Ltd., Cuttak (Orissa)

- 88 Reliance Industries Ltd., Mumbai. (Shri.C.S.Gokhale, Senior Executive Vice President).
- 89 Arvind mills Ltd, Ahmedabad.
- 90 Zenith Fibres Limited, Alkapuri, Baroda.
- 91 Vastra Udyog Bunkar Seva Samiti, Buniadganj, Gaya, (Bihar)
- 92 Sarvajanik College of Engineering & Technology, Surat, (Gujarat State).
- 93 Shri. V. Palaniswamy, Salem, Tamil Nadu.
- 94 Maral overseas Ltd.
- 95 The Lakshmi Mills Co. Ltd, Coimbatore.

**LIST OF BACKGROUND PAPERS CIRCULATED
TO THE EXPERT COMMITTEE**

- 1 Statement on Textile Policy, June-1985.
- 2 Government resolution of the constitution of an Expert Committee under the chairmanship of Shri Harbans Singh, Secretary, Ministry of Textiles Dated : 12th October, 1985.
- 3 Government resolution dated 12th March, 1985 modifying the constitution of the Expert committee.
- 4 Questionnaire issued by the Expert Committee of 1984 on Textile Industry.
- 5 Report of the Abid Hussain Committee, 10th January, 1990.
- 6 Report of the Expert Committee on the Textile Industry (April'1985 / June'1985)
- 7 List of items of textile sector-reserved for small scale sector (Dec.1996)
- 8 Note on Technology Mission on Cotton Development
- 9 Note on Technology Upgradation Fund Scheme
- 10 Paper on 9th Plan for textile & jute industries.
- 11 A background note on sericulture
- 12 Note on existing Textile Policy relating to woollen sector.
- 13 Note on Textile Worker's Rehabilitation Fund Scheme (TWRFS)
- 14 Note on organised sector.
- 15 Note on WTO, and post 2004 scenario
- 16 Paper on Govt. Policy towards handloom sector.
- 17 Action taken note on Textile Policy, 1985.
- 18 A copy of the HRD plan prepared by the Deptt. Of Electronics.
- 19 Note on Nodal Centre for Upgradation of Textile Education .
- 20 Note on the study on "evaluation of man-power and infrastructural facilities requirement of CSB in post NSP period" .
- 21 Report on the study of "evaluation of textiles research associations" prepared by National Institute of Science, Technology and Development Studies (NISTADS).
- 22 Report on "assessment on export potential for Indian textiles " by ORG-MARG.
- 23 Report on "consumer study on textiles" by ORG-MARG.
- 24 Report on "Retail Trade Study on Textiles" by ORG-MARG.

- 25 Note on Bilateral Negotiation, Brand Equity Fund and Compensatory Entitlement and Subsidies in Conformity with WTO.
- 26 Note on existing Policy relating to Powerloom Sector.
- 27 Note on Cotton Textiles.
- 28 Note on Modernisation of Processing Sector
- 29 Study Report on Modernisation of Power Looms by National Productivity Council, New Delhi.
- 30 Report of the Study Group on the Power Loom Industry of Gujarat, August-1997.
- 31 List of existing control orders/notifications.
- 32 A note on the growth pattern of the Textile Industry during the last five decades.
- 33 Note forwarded by Shri Sanjay Lalbhai to the members of the Committee on the following issues.
 - (i) World trade in textiles & clothing, countries with highest growth.
 - (ii) Regionalism and multilateralism in global trade blocks, preferential trade agreements, outward processing trade (OPT)
 - (iii) Garment, Knitwear.
 - (iv) Textile issues
 - (v) Cotton issues
 - (vi) Controls on textile industry
- 34 Note on India's State Owned Enterprises- Problems, Prospects and Reform Issue - by Dr. Omkar Goswami, August' 1996.
- 35 Report of the High Powered Committee(Ms.Mira Seth Committee)on Handlooms - December, 1996
- 36 The paper on man-made fibre Textile industry-Growth feature and contribution to Indian Textile Industry:- by Shri. A.N. Jariwala
- 37 Letter from Dr. T.V.Ratnam of 21st August' 1998 on the points contributing to the difficulties faced by the textile Industry.
- 38 Note on SSI reservation policy by DC (SSI),Dept. of SS, Rural & Agro Industries, New Delhi.
- 39 Note on sickness and growth of India's textile industry- analysis and policy option by Dr. Omkar Goswami.
- 40 Report of the CII Committee on Textiles.

- 41 A Report by SITRA on "growth of OE spinning mills in India and their impact on exports".
- 42 A Paper on capital cost of an indigenous yarn dyeing plant of 1.5 tons capacity per day - by Shri A.N. Jariwala .
- 43 South India Textile Research Association, Coimbatore publications on: (i) supply of dyed cone yarn to handlooms, (ii) growth of Spg. Mills in India & their impact on exports , (iii) women employment in textile industry & (iv) operational criteria for financial assistance to spg. Mills).
- 44 Extract of the meeting of the Sub-Committee (of the Department -related Parliamentary Standing Committee on Commerce) on Textile held on 31st Aug. 1998.
- 45 Abstract of Textile Policy of Tamil Nadu 1998.
- 46 The Study report on Indian Textile Policy for the 21st century (A Special Emphasis on the Cellulosic Fibre Group) by R.Venkatesan (NCAER) New Delhi.& Dr. (Mrs.) Vijaya Katti.(IIFT) New Delhi
- 47 The Summary of representations received from various textile industry associations / Govt. departments to the Expert Committee.
- 48 Silk review 1997, A survey of international trends, in production and trade (Fifth Edition).
- 49 The 30th report on demand for grant of the department related parliamentary standing committee on commerce.
- 50 The 34th report on demand for grant of the department related parliamentary standing committee on commerce.
- 51 The 37th report on demand for grant of the department related parliamentary standing committee on commerce.
- 52 The 40th report on demand for grant of the department related parliamentary standing committee on commerce.

LIST OF MEETINGS HELD BY THE EXPERT COMMITTEE

SR.NO	DATE	PLACE
1	14/08/98	NEW DELHI
2	02/09/98	NEW DELHI
3	24/09/98	NEW DELHI
4	12/10/98	NEW DELHI
5	02/02/99	NEW DELHI
6	22/04/99	NEW DELHI
7	17/05/99	NEW DELHI
8	21/05/99	MUMBAI
9	27/05/99	NEW DELHI
10	03/06/99	NEW DELHI
11	15/06/99	NEW DELHI
12	25/06/99	NEW DELHI
13	30/06/99	NEW DELHI
14	12/07/99	NEW DELHI
15	21/07/99	NEW DELHI
16	30/07/99	MUMBAI

Note

In addition to the above, informal meetings of the Committee were held after interactive sessions at Mumbai on 11th & 16th of Nov. 98.