LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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INDIA & BANGLADESH INITIATE 1ST VESSEL MOVEMENT ON NEW WATERWAY ROUTE

In a significant step towards bolstering trade and connectivity between India and Bangladesh, the first trial movement of vessels on Indo Bangladesh Protocol (IBP) Route no. 5 & 6 was successfully conducted today. The historic event was marked by the flagging off of the vessels by Shantanu Thakur, minister of state for ports, shipping, and waterways, from Maia Inland Customs Port in West Bengal, India.
This initiative aligns with prime minister Narendra Modi's Act East Policy, aiming to strengthen India's ties with its eastern neighbours. The new waterway route, stretching from Maia Port in India to Sultanganj Port in Bangladesh, promises to significantly enhance the efficiency of trade between the two nations. By utilising this route, the distance for cargo transport to Dhubri via Aricha is reduced by approximately 930 kilometres compared to the traditional Dhulian-Maia-Kolkata-IBP-Dhubri route. Consequently, it is anticipated that 2.6 million tonnes per annum (MTPA) of export cargo will transition from road to waterways, marking a substantial shift in the transportation modalities between the two countries, the ministry of ports, shipping, and waterways said in a press release.

The riverine passage connecting the Port of Call Maia in India and the Port of Call Sultanganj in Bangladesh spans 16 kilometres, with 4.5 kilometres of waterways in India and the remaining 11.5 kilometres in Bangladesh. This short but strategic route is expected to open new avenues for economic collaboration and ease the movement of goods across the border.

The launch event saw the participation of transport and state transport ministers from the West Bengal government, the member of parliament from the Jangipur Lok Sabha constituency, members of the state legislature from Raghunathganj and Lalgola legislative constituencies, and other dignitaries, highlighting the importance of this development for both India and Bangladesh.

“Under the visionary leadership of prime minister Narendra Modi and able direction of Union minister of ports, shipping and waterways Sarbananda Sonowal, India has embarked on a transformative journey focusing on a comprehensive multi-pronged plan to harness the power of its inland waterways sector. The trial movement from Maia to Sultanganj through IBP route no. 5 & 6 will add new dimensions to the wwaterwaysbasedtransportation between India and Bangladesh as it is the shortest waterway route between the two countries," said *Shantanu Thakur*.

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Indian Govt Mulls Postponement Of Section 43B(H) Amid Industry Demands

The Indian government may postpone Section 43B(h) of the Income Tax Act 2013, amended for timely payment for micro and small enterprises, after demands for the same were raised by trade and industry organisations from across the country. Union finance minister Nirmala Sitharaman recently assured representatives of several trade and industry organisations that the new payment rule will be postponed.

The delegation that met last week was led by C R Patil, member of parliament from Navsari (Gujarat), and comprised office bearers of the Confederation of All India Traders (CAIT), Federation of Surat Textile Traders Association (FOSTTA), and a few other trade bodies.

Following the meeting with the finance minister, trade and industry organisations, primarily from Ahmedabad and Surat in Gujarat, promptly disseminated the assurance and message from the government to their members and the media. The Textile Association of Ahmedabad & Surat (TAAS) issued a press statement after the meeting last week to inform that the new provision may be postponed for one year, as assured by the finance minister.

However, TAAS clarified that the government has yet to issue an announcement in this matter. Therefore, traders and businessmen should make trade decisions cautiously.

Trading activities have been hindered to some extent since January 2024 due to the implementation of the new payment rule. The provision came into effect in the current fiscal 2023-24, which ends on March 31, 2024. Trading activities have slowed down across the country as buyers will not be able to make payments within the stipulated period under the provision within the current fiscal. Trade and industry organisations have also demanded to implement the rule in a phased manner so that traders can follow the new provision without disrupting their business.

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Red Sea Disruption Could Affect Indian Textile Sector More: Ind-Ra

An unrelenting disruption in the Red Sea could significantly affect India's foreign trade, according to India Ratings and Research (Ind-Ra), which recently noted that the working capital cycle of companies is likely to aggravate by 15-20 days, and the impact could be stronger for sectors like agriculture and textiles.
The impact is likely to raise the share of freight and forwarding (F&F) cost in the total cost by 25-30 per cent for companies involved in international trade, it said in a note.

Pressures on cash flow, although moderate for large entities, will further increase borrowings for several sectors, including chemicals and textiles, which have seen a year-on-year (YoY) rise in net leverage in the first half of fiscal 2023-24 (FY24).

“The challenge is significant for the entities having low value addition therefore thin margins. Although large entities have adequate elbow room to accommodate such incremental cost, delays and disruptions in supply chains will be key factors to watch for. For medium-sized entities, the challenge is two-fold, both cost and supply and consequently working capital cycle. These entities have not benefitted much from the softening of commodity prices, as free cash flow has remained sluggish for most of them”, said *Soumyajit Niyogi, director, core analytical group, Ind-Ra*.

The initial reaction can be seen in freight rates rising by 150 per cent in the past 45 days.

The Red Sea route constituted 40 per cent of the total oil imports and 24 per cent of the total exports during April to October 2023.

Between 20 to 25 per cent of India's foreign trade logistics is through the Suez Canal, and key sectors like crude oil, chemicals and textiles are being affected, noted Ind-Ra.

Indian exports are facing higher shipping costs due to rerouting, leading to reduced export volumes, affecting small and medium enterprises (SMEs) dealing with a high volume of low-value products.

Higher shipping costs due to the rerouting erode profit margins, making Indian exports less competitive. A sustained crisis could start impacting liquidity and credit condition of borrowers, it said.

The credit profile of SMEs involved in foreign trade might face additional liquidity pressure owing to an elongation of the working capital cycle.

An elongation of the working capital cycle along with lower cash flow generation may increase the reliance on external sources of funding at higher rates, thus putting pressure on their financial risk profiles.

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Govt to adhere to fiscal consolidation roadmap; inflation, bond yields, borrowing costs to trend lower: RBI Governor

The Reserve Bank of India (RBI) Governor Shaktikanta Das (RBI) on Monday (February 12) said he is confident of the central government sticking to its fiscal glide path of bringing the deficit below or to 4.5% levels by the end of the financial year 2025-26.
On how credible the government's fiscal consolidation plan is, Das stated categorically, "The market was expecting 5.2%, 5.3 %but it is 5.1%. So therefore I think there is every reason to believe the government will adhere to the path of fiscal consolidation, whether 30, 40, 50 we would not like to comment on that."
Speaking to reporters after the central bank's customary post-budget board meeting with the Finance Minister in New Delhi, the Governor said he also expects the cut in FY25 government borrowing to help stabilise and moderate inflation.

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PLI scheme's progress slows in key sectors, affecting manufacturing goals

Investment in important sectors identified to spur domestic manufacturing under the flagship Production-Linked Incentive (PLI) scheme of the Centre is slowing just a year after

their launch.
Investment growth is “significantly slow” in textiles, information technology hardware, and speciality steel this financial year, according to a review report by an inter-ministerial panel which does periodical stocktaking of the scheme.

The government was hoping to see investment worth Rs 49,682 crore in FY24. Of this, 61.8 per cent or over Rs 30,695 crore has been made in all the 14 sectors during the first nine months this financial year.

Apart from the above-mentioned three sectors, progress has been slow in the case of medical devices, automobile and auto components, ACC batteries, and white goods.

According to an assessment made in a review meeting, PLI schemes for mobile phones, bulk drugs, pharmaceuticals, telecom, drones, and food processing are doing well and are on track to achieve or exceed investment, production/sales as well as employment targets envisaged by the government.

“The progress of PLI Schemes of IT Hardware, Textile Products and Specialty Steel is significantly slow in terms of investments (in FY24),” according to the minutes of the meeting reviewed by Business Standard.

The panel comprises key stakeholders of the PLI schemes, the respective ministries/departments, NITI Aayog, and Department for Promotion of Industry and Internal Trade (DPIIT).

Even as the investment exceeded the government’s estimate in the previous financial year, progress was not uniform across all schemes.

Up to FY23, under all PLI schemes, Rs 75,917 crore was invested against a target of Rs 60,345 crore, resulting in production/sales of Rs 5.96 trillion and 367,000 direct jobs against targets of Rs 5.78 trillion of production/sales and 254,000 jobs, respectively.

“Under PLI Schemes for bulk drugs and medical devices, while the target of investment has been met, actual production/sale has been below target. Under the PLI Scheme for automobile and auto components, production/sales target was achieved but the target of investment was not achieved,” according to the minutes.

There have been “shortfalls” in progress under PLI schemes for textile products, IT hardware, and speciality steel with regard to targets of investment.

On a cumulative basis, the scheme has resulted in investment worth Rs 1.03 trillion till now and has led to exports surpassing Rs 3.20 trillion since its implementation.

The investment has led to production worth Rs 8.61 trillion and direct and indirect employment of over 678,000, according to the DPIIT data.

The Rs 1.97 trillion worth PLI scheme aims to make India a manufacturing powerhouse, improve the cost competitiveness of locally produced goods, create employment opportunities, curb cheap imports, and boost exports.

The scheme has been launched for 14 sectors including mobiles, drones, telecom, textiles, automobiles, white goods, and pharmaceutical drugs. While these 14 schemes were rolled out between 2020-21 and 2021-22, incentive disbursement to companies participating in the scheme started last financial year.

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FMCG, apparel firms see red over new MSME payment rule

Read more at: FMCG, apparel firms see red over new MSME payment rule - Industry News | The Financial Express

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Govt to bring in 14 QCOs amid FTA push

Read more at: More goods to come under quality control orders in Make-in-India step | Mint (livemint.com)

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Bangladesh Apparel Exporters Cry Hoarse Over Incentive Cut Move

Bangladesh readymade garment industry is currently fraught with apprehension, stemming from the recent government decision to withdraw cash incentives for key garment items and reduce subsidies for others.

These changes, which took effect on January 1, 2024, have sent shockwaves through the industry, as stakeholders get ready to deal with the implications of reduced support with Bangladesh standing on the verge of transitioning from a least developed country (LDC) in a couple odd years.

The government decided to withdraw cash incentives for five garments items which account for a sizeable chunk of the industry's total exports while cash incentives for other apparel items have been reduced by half, dropping from 1 per cent to 0.5 per cent.

The government also cut subsidies for other export items.Apparels accounting for nearly 84 per cent of Bangladesh's total exports, garment exporters receive the highest cash incentives consequently.

However, due to this decision, there would be effectively no cash assistance for virtually 56 per cent of the apparel exports, informed industry insiders to Fibre2Fashion.

They explained that the product rate is determined by reducing the subsidy amount when fulfilling orders from the overseas buyers.

As a result, garment manufacturers will count considerable losses owing to the sudden announcement of withdrawing the assistance without prior intimation.

"The decision is pretty much unanticipated and abrupt, I personally feel," claimed *Mohammad Mehroz Jalil, the deputy managing director of MBM Group, speaking to Fibre2Fashion,* adding, "Considering that we are in the month of February and there's still some time left for the next budget to be presented, which is usually when anything new related to incentives and other fiscal measures are introduced, the announcement caught us off guard."

What surprised Jalil more is the fact that many the people's representatives elected this time around in the general elections are related to the apparel sector.

They understand well the industry's relevance for Bangladesh's economy and are expected to advocate for its interests. The garment industry—contributing more than 84 per cent of total exports, 28 per cent to the GDP and employing approximately four million people—serves as the lifeline to Bangladesh's economic growth and stability, making it imperative to consider the implications of policy changes carefully.

"It is sort of a double whammy; first there was the wage hike and now we have the export subsidy cut…Given the challenging business landscape we are operating in currently, this is going to have ramifications for sure," expressed Jalil.

MBM Group is an HR-driven organisation steeped in its core values of CSR, innovation in products, processes and sustainability, which has helped it to forge long-term partnerships with a wide range of brands and retailers from across geographical locations, including names like Levi's; H&M; G-Star RAW; American Eagle Outfitters; Lee; Wrangler; JCPenney; Kohl's; OVS; O'Neill; Pepe Jeans; Gas, and many more.

On January 30, 2024, the Bangladesh Bank issued a circular to commercial bank CEOs, outlining the government's decision in anticipation of Bangladesh's exit from the LDC category.

The government aims to stimulate export trade by providing incentives or cash aid to 43 sectors in fiscal 2023-24. However, in compliance with World Trade Organization (WTO) regulations, export-dependent subsidies will be phased out as Bangladesh transitions from LDC status, posing challenges for export sectors post-2026.

To prepare for this transition, the government has initiated a gradual reduction in cash assistance rates for various sectors since January 1, 2024. During this period, 43 products will continue to receive incentives or cash aid, ranging from 0.50 per cent to 15 per cent.

Earlier, exporters received a maximum support of 20 per cent.

Notably, agricultural produce, processed agricultural produce, diversified jute, potatoes, and halal meat will receive a maximum of 15 per cent support for export.

Additionally, a 3 per cent subsidy will replace duty bonds and duty drawbacks for the export-oriented domestic textile sector, while small and medium industries in the export-oriented readymade garment sector will receive 4 per cent support. Furthermore, 3 per cent assistance will be given for new products and markets in the textile sector, specifically targeting exporters in the eurozone.

Moreover, the textile sector will receive an additional 1 per cent special assistance, totalling 4 per cent, along with special cash incentive of 15 per cent for readymade garments, 7 per cent for jute final products, 5 per cent for jute, and 12 per cent for leather goods exports.

These measures aim to facilitate a smooth transition for Bangladesh's export sectors as the country prepares to leave the league of least developed countries. However, stakeholders must adapt to the gradually diminishing support and prepare for potential challenges post the LDC graduation in 2026.

"Choosing to cut/reduce subsidies suddenly will not help anyone," underlines *Md Fazlul Hoque, managing director of Plummy Fashions Ltd, speaking with Fibre2Fashion*, reflecting a widespread belief among industry players who feel the decision is a bit premature, and might have been taken to safeguard the overall fiscal health as Bangladesh continues to battle currency fluctuations and dwindling foreign reserves.

Spread over six acres of lush green and landscaped gardens at Narayanganj, 20 kilometres south of Dhaka, Plummy Fashions Ltd, is purportedly the highest-ranked knit apparel unit globally, which successfully caters to a wide range of global clientele.

Elaborating further, Fazlul maintained garment manufacturers receive incentives post-shipment, which typically takes 10 months to a year to materialise. As such, he noted, the government could have utilised the fund to address the immediate fiscal pressures, expressing scepticism about the decision's rationale while also emphasising the importance of consulting the stakeholders beforehand.

His sentiments were echoed by many others in the industry, who apprehend a ripple effect across the sector in the days to come, affecting potentially everyone, more so the textile millers.

Their primary concern centred around the fate of approximately 200 export-oriented spinning mills that supply fabrics for local garment production. There is a palpable anxiety that these mills could face existential crisis in the absence of sufficient fiscal support.

This will not augur well for the garment industry and its overall stability.

In response, businesses petitioned the finance minister to postpone the proposed measures until Bangladesh reached the middle-income status. They highlighted the urgency of reinstating earlier cash incentives and even recommended to increase their scope further, to address the industry's myriad challenges.

They are for immediate action to safeguard the industry's competitiveness.

Under mounting pressure, from the trade bodies and business leaders included, the finance minister affirmed his government's willingness to revisit the decision.

It helped to reinstate some confidence amongst the apparel makers.

"We can only hope the government listens to our plea, keeping the larger interest in perspective," stressed Mehroz Jalil, highlighting the importance of reassessing the incentive rollback decision and the industry's resolve to overcome the challenges, to end on a positive note.

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Most Global Cotton Benchmarks Surge In January

Over the past month, cotton prices have seen a significant uptick across various international benchmarks. The NY/ICE March contract, reflecting a longer-term trading range, has witnessed a notable climb from the lower end to the higher end. Starting at 80 cents/lb, the March contract now stands at 88 cents/lb, Cotton Incorporated said in a report.

Similarly, the A Index has surged from 90 to 96 cents/lb. The China Cotton Index (CC 3128B) climbed from 105 to 107 cents/lb in international terms, while domestically, values remained steady, trading between 16,600 and 17,000 RMB/ton. The stability of the RMB against the dollar, hovering around 7.18 RMB/USD, has contributed to the resilience of Chinese cotton prices, Cotton Incorporated said in its Monthly Economic Letter - Cotton Market Fundamentals & Price Outlook - February 2024.

Contrary to some expectations, Indian spot prices for Shankar-6 quality cotton have remained unchanged, maintaining a level around 85 cents/lb. Domestically, values fluctuated between ₹55,000 and ₹55,900 per candy, with the INR holding steady near ₹83 per USD.

Meanwhile, Pakistani spot prices have witnessed a notable surge, jumping from 79 to 89 cents/lb. In domestic terms, values have risen from 19,000 to 20,500 PKR/maund, while the Pakistani rupee has maintained its position close to 280 PKR/USD.

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IMF, World Bank warn Gaza war, Red Sea attacks imperil global economy

Read more at: Red Sea attacks: IMF, World Bank warn Gaza war, Red Sea attacks imperil global economy - The Economic Times

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Agriculture expert suggests early cultivation of cotton alleviating financial strains

Cotton is one of the most important fiber and cash crop of India and plays a dominant role in the industrial and agricultural economy of the country. Agriculture experts have advised farmers to ensure early cultivation of cotton crops to get bumper production.

Rizwan Amir Khan, Assistant Director of Agriculture (Extension), claims that cotton is a valuable cash crop whose high market value helps to alleviate growers' financial strains while also stabilizing the country's economy.

He said that early cotton crop cultivation will result in a big crop because there were less pest attacks this season.

Accordingly, the use of Black soil to cultivate cotton crops can be a good choice for the cultivators.

Black soils are very fine grained and dark, contain a high proportion of calcium and magnesium carbonates and highly argillaceous.

For producing growth, early cultivation of cotton plants need to continue in terms of amount and quality of the crop.

Growers should therefore opt to cultivate cotton crops in the fields where sugarcane, canola, raya, and mustered crops were harvested between February 15 and March 15.

Also, the farmers should also use approved varieties of cotton including FH-333, CKC-6, CKC-3 and Hataf-3 as these varieties have sufficient resistance against seasonal diseases and pest attack.

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US Cotton Trust Protocol represents 23% of US cotton acreage

The US Cotton Trust Protocol's 2023 annual report revealed that its grower membership tripled in 2020, with 975 growers representing nearly a quarter (23%) of all US cotton acreage.

The US Cotton Trust Protocol, a benchmark for cotton produced sustainably, documented ongoing advancements in each of the six land use metrics: energy consumption, greenhouse gas emissions, soil carbon, conservation of soil, and water efficiency.

According to the Trust Protocol’s 2023 annual report, since 2015 baseline figures the organization has seen 79% reduction in soil loss, with yields 12% greater than the national average.

Besides, 83% of growers reporting a positive soil carbon index, enhanced 14% of water use efficiency.

Accordingly, green-house gas emissions cut by more than a fifth (21%), and 27% reduction in energy use.

The Trust Protocol’s Annual Report also includes key metrics on progress in regenerative agriculture using Field to Market methodology.

The regenerative practices reported include cover cropping; minimal or no-tillage methods; promoting biodiversity; rotational farming; precision agriculture techniques; Integrated Pest Management; and using inputs tailored to specific landscape conditions.

Additionally, the US Cotton Trust Protocol explained that the tripling of enrolled growers brings significant implications for data interpretation which means more participating growers contribute to a larger data set which impacts the statistical significance of the findings.

It also noted that the diversity of practices with a large and broader group of growers means there is a greater representation of farming practices, regions, conditions, which in turn helps improve data interpretation and allows for benchmarking.

Commenting on the results, U.S. Cotton Trust Protocol’s Executive Director Daren Abney said, “I’m greatly encouraged by the continued progress, and not least by the exponential growth in enrolled planted cotton acres. Accurate data collection sets the stage for appropriate decisions for brands and retailers, where they can claim how much water has been saved or how many greenhouse gas emissions have been reduced. Today’s data demonstrates how Protocol growers continue to improve in their environmental performance, year on year. We do not have a final destination: our journey is one of continuous improvement in the pursuit of excellence.”

The U.S. Cotton Trust Protocol is a voluntary, farm level science-based sustainability program that is setting a new standard for delivering value to all stakeholders across the entire supply chain from farms to finished products. It is the only system that provides quantifiable, verifiable goals and measurement and drives continuous improvement in six key sustainability metrics – land use, soil carbon, water management, soil loss, greenhouse gas emissions, and energy efficiency.

It is also the world’s first sustainable cotton fiber program to offer article-level supply chain transparency to all members. The Trust Protocol is overseen by a multi-stakeholder Board of Directors comprised of representatives from brands and retailers, civil society, and independent sustainability experts as well as the cotton-growing industry, including growers, ginners, merchants, wholesalers and cooperatives, mills, and cottonseed handlers.

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