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PRESS RELEASE

Garment exports to fall 24% short of $ 11.6 billion target: AEPC

New Delhi, Nov 27 – An apex body of garment exporters today called for a hike in duty drawback rates, research and development assistance of 6 per cent and income tax exemption for five years to offset the huge losses piling up due to current global economic slowdown.

The Apparel Export Promotion Council (AEPC) also demanded interest-free loans for investment in machinery with zero-duty import of capital goods scheme, lower fringe benefit tax as applicable to the information technology sector and a stable exchange rate.

AEPC chairman Rakesh Vaid said exports of readymade garments in the current fiscal year (2008-09) are likely to fall 24 per cent short of the 11.62 billion dollar target and may total up to 8.78 billion dollars.

In 07-08, India exported garments worth 9.69 billion dollars, over nine per cent than in the previous year. But the current financial meltdown in the United States and Europe is impacting the Indian industry heavily with lakhs of workers being laid off their jobs.

"The expected performance is thus expected to be only 76 per cent (8.78 billion dollars) against the target of 11.62 billion dollars set for the year 08-09," said Mr Vaid. "It will be just 91 per cent of the actual achievement in 07-08."

There has been about 25 per cent drop in the winter business during April to September this year as compared to the corresponding period of 07-08, he said. “Many importers have cancelled orders or postponed their delivery schedules. The market sentiment is very weak."

According to industry estimates, nearly 700,000 workers in the clothing and textile sector have lost their jobs in the past five months. By March 2009, another 500,000 could lose their work due to falling sales overseas. The sector generally employs about 33 million people directly and another 55 million indirectly. Of these, 7 million are involved in readymade garment manufacturing -- 3.9 million for exports and the rest for domestic market.

Mr Vaid said while other countries are changing fiscal and monetary policies and giving aid packages to generate new employment opportunities, the Indian government has not reacted so far. "If no steps are taken now, then March 2009 will be too late and there could be a huge unemployment problem in the sector."

In April 2008, apparel exports jumped to 878.32 million dollars (Rs 3,515 crore), up 26.82 per cent in dollar terms (20.42 per cent in rupee terms) from 692.53 million dollars (Rs 2,919 crore) in the same period last year.

The upswing fluctuated in next three months. In August this year, however, exports dropped marginally to 783 million dollars, down 0.63 per cent from 788 million dollars in August 2007. But September saw a sharp decline of 6.59 per cent with garments worth 651 million dollars being exported compared to 697 million dollars in September 2007.

Due to rupee depreciating against US dollar, the results were positive in rupee terms with apparels worth Rs 2,980 crore being exported in September (up 5.97 per cent from Rs 2,812 crore last year) and Rs 3,360 crore in August, up 4.41 per cent from Rs 3,218 crore last year).

During April to September 2008, readymade garments worth 4.87 billion dollars were exported from India, up 7.04 per cent from 4.56 billion dollars in the corresponding period of previous year. In rupee terms, the figures work out to Rs 20,760 crore, up 11.47 per cent from Rs 18,631 crore during April to September 2007.

"Many buyers like Steeve and Barry's alongwith Mervyns have filed for bankruptcy and more are expected," said Mr Vaid. Pacific Sunwear has closed 150 stores while Lane Bryant, Fashion Bug and Catherines are closing 150 outlets which are under-performing. Foot Locker is winding up 140 stores and Ann Taylor is closing 117 outlets.

Many others like Eddie Bauer, Cache, Talbots, J Jill, Gap Inc, Foot Locker, Goodbye Levitz, Home Depot, Macy's, Pep Boys, J C Penney, Lowe and Office Depot are scaling down operations as well due to falling sales.

The falling rupee has not helped either, said Mr Vaid. A large number of exporters had hedged their exposure and though the rupee is hovering between 49 and 50 against the dollar now, the actual realisation is between Rs 41 and 42. "The export contracts for which foreign remittances are being received now were signed in May or June. In the absence of an alarm system for conversion rate, exporters could not anticipate the exact exchange rate," he said.

Overseas buyers are now renegotiating contracts due to depreciating rupee. So freight-on-board (FoB) values are falling, said Mr Vaid.

On the other hand, neighbouring countries like China and Pakistan are helping their industries with export incentives. On August 1, China's ministry of finance and the state administration of taxation increased export tax rebate on some textiles and apparels from 11 to 13 per cent. The move was expected to fetch additional profit of 2.6 billion dollars to the industry.

The rebates were raised to 14 per cent on November 1 and will be further hiked to 17 per cent on January 1, 2009, said Mr Vaid. A total of 3,486 products involving labour-intensive and value-added items will benefit from the move. Chinese export-oriented companies, especially small and medium-sized firms, have seen their earnings decrease sharply due to falling overseas demand, rising yuan as well as surging raw material and labour costs.

Pakistan has reintroduced research and development assistance at six per cent for garments to boost exports. The move will ease operating pressure on companies and enhance their competitiveness.

In India, however, the government cut duty drawback rates from September 1. The rate for cotton apparel declined from 11 per cent to 8.8 per cent, for blended apparel from 11.2 per cent to 9.8 per cent and for synthetic apparel from 11.5 per cent to 10.5 per cent.

In other words, the rates have been reduced by 20 per cent in case of cotton garments, 12.5 per cent in case of blended garments and 8.7 per cent in case of man-made fibre garments.

Nearly 78 per cent of garments exported from India are cotton-based. The AEPC chairman called for 14.65 per cent duty drawback rate for readymade garments from September 1. Almost 80 per cent of inputs required for the Indian apparel industry are sourced domestically compared to 50 per cent in China.

"The behaviour of rupee-dollar exchange rates has been erratic and brought an element of uncertainty," said Mr Vaid. "A stable rate is necessary for international trade."

The AEPC represents over 8,000 small, medium and large exporters in India. Apparel exports contribute four per cent to the gross domestic product (GDP) and 16 per cent to the country's total exports. India ranks as the fifth largest exporter of readymade garments globally.

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