

# **Textiles Policy 2009-14**

## **Speech of**

### **Rana Farooq Saeed Khan Minister for Textiles Industry**

#### **Ladies and Gentlemen:**

1. It is a matter of great privilege for me that the Ministry of Textiles has transformed the vision of Shaheed Benazir Bhutto into reality by formulating the first ever textiles policy of Pakistan under the guidance of President Asif Ali Zardari and Prime Minister Syed Yousuf Raza Gilani. This policy was approved today by the Federal Cabinet. It is also a matter of great honor for the People's Government that it has succeeded in given this policy which aims to develop this sector as an integrated chain. I am grateful to the Finance Minister for his invaluable support and advice in the formulation of this policy. The efforts and devotion of the officials of the Ministry of Textiles are also duly acknowledged. We have held extensive consultations with all the stakeholders, including industrialists, exporters, investors, State Bank of Pakistan and Ministries of Finance, Industries, Commerce, Agriculture, Planning and Investment, and their inputs are fully reflected in policy.

#### **Ladies and gentlemen,**

2. You are all aware of the importance of the textiles sector. Let me just say that from the inception of Pakistan, textiles have been the mainstay of our economy and exports. This sector is providing livelihood to more than 10 million farming families. It also accounts for 40% of the industrial employment. Despite the recent downturn in the global demand, the textiles and garments exports accounted for more than 50 per cent of our exports during the last financial year (2008-09). We have a world standing in this sector. We are the 4<sup>th</sup> largest producer of cotton and 3<sup>rd</sup> largest user of cotton. Yet we are 12<sup>th</sup> in terms of international trade, which means much of our advantage is lost in low value added semi-manufactured exports.

3. A variety of reasons explain the poor state of our textiles sector. Machinery and technology has not kept pace with world standards, infrastructure has been lacking, especially power, gas and clean water, available skills are deficient, high degree of fragmentation mars efficiencies, uneven growth of value-chain undermines balanced development of the sector, external restrictions such as quota and restricted access provided limited opportunities and absence of a well defined policy framework created uncertainties and promoted haphazard development of the sector.

4. The textiles policy, while addressing the above failings, has been prepared with the over-riding objective to realize the true potential of this sector. Presently, we are converting one bale of cotton into \$1000, whereas our competitors are converting it to

up to \$4,000. In the five year from 2009-14, the first textiles policy targets that this rate of conversion should be doubled from \$1000 to \$2000. This will require increasing the level of exports to \$25 billion by the end of the policy period.

5. Let me briefly touch upon the major thrust of the textiles policy 2009-14.

### **Key Initiatives under Textiles Policy 2009-14**

#### **Cross-cutting Issues**

6. I will first explain those initiatives that affect the entire value-chain.

7. A **Textiles Investment Support Fund (TISF)** will be established for incentivizing investments in specific areas including modernization of machinery and technology, removing infrastructural bottlenecks, enhancing skills, better marketing and use of information and communication technology (ICT). Through this fund following initiatives will be undertaken:

#### **Technology Up-gradation Fund (TUF):**

8. To facilitate new investments and upgradation of technology Government will contribute part of the investment financing or part of the investment cost through the TUF. Under this scheme, for capital intensive projects, government will pick-up 50% of interest cost of new investment in plant and machinery with a maximum of 5%. For small investments, government will contribute up to 20% of capital cost as a grant. For this purpose, Government has kept a budget of Rs.1.6 billion in the current financial year for this scheme. This will increase to Rs. 17 billion by 2014.

#### **Infrastructure Development:**

9. Based on the experience from textiles city and garments cities models, Government plans to set up more such industrial estates to ensure availability of all industrial amenities at reasonable cost.

10. Clusters will be developed where small investors can set up their facilities. The clusters will be provided with laboratories, product development centres, research centres, common sheds etc.

11. With a view to bridging a major gap in compliance support will be provided for setting up effluent treatment plants for the existing industry.

12. Schemes for common warehousing, storage and marketing facilities will also be launched to ensure timely and cost effective availability of inputs.

13. An amount of Rs. 1 billion is being allocated this year for infrastructure development in the areas just mentioned and all measures will be initiated on public-private partnership model.

#### **Skills Development:**

14. A comprehensive training plan will be developed to upgrade the overall pool of skills in the textiles value chain in close consultation with the industry and will be implemented during the next five years.

15. Facilities will be provided for audits to enhance productivity and efficient processing.

16. Government will also support acquisition of foreign expertise in enhancing local productivity and supervisory skills and for this purpose Government has exempted foreign experts from income tax.

17. Government will allocate Rs. 1 billion during the current year for skill development initiatives.

#### **Standardization:**

18. A legal framework will be developed to specify standards and testing requirements, prescribe disclosure requirements and other matters relating to the practices and methods relevant to the sector. This has become necessary in view of compliance standards imposed by major importing countries.

#### **Zero Rating of Exports:**

19. Government recognizes the principle that exports should not be taxed. Efforts will be made to identify all direct and indirect levies that add to the cost of doing business without appropriate compensation so that remedial measures can be adopted.

#### **Rationalization of Tariff Structure**

20. The principle of cascading will be implemented while ensuring adequate protection to the local industry and removing anomalies.

#### **Removing Regulatory Bottlenecks:**

21. An extensive exercise will be undertaken covering all sub-sectors, to identify rules, regulations, procedures, levies and other regulatory constraints that hamper the

development of the sector. Based on this exercise, appropriate measures will be adopted to simplify or remove such irritants.

#### **Market Access:**

22. Government will be expending concerted efforts to secure due access for Pakistan in some of the key destinations of our exports. Preferential access as well as FTAs in such markets will be the focus of such efforts.

#### **Marketing Support:**

23. Government will provide necessary support for branding, grading, labeling and such other activities that would add value to the textiles chain.

#### **Export House Scheme:**

24. To initiate a process of building big **export houses**, Government is planning to treat local sales of yarn and fabrics to large exporter as deemed exports. For this purpose, small producers will get 1% drawback on levies and unadjusted taxes on sales to the export houses. An amount of Rs. 2 billion has been budgeted for the current year for this scheme.

#### **Marketing Insurance Scheme:**

25. Government will introduce an insurance scheme to protect our exporters against unforeseen losses, which may arise due to failure of the buyer, bank or problems faced by the buyer country. A working group will be set up to develop a feasible scheme for the consideration of the government. This scheme will help remove uncertainties currently faced by the exporters, especially in a global markets hit by a massive financial crisis.

#### **Information and Communication Technology:**

26. Government will also support efforts aimed at enhancing efficiency through the use of information and communication technology in such fields as development of web-sites and e-commerce platforms.

#### **Sub-sector Initiatives**

27. The policy will also focus on certain sub-sector issues from fibre to garments including ginning, spinning, weaving, knitting, processing, fashion designs, handloom and handicrafts, carpets and technical textiles etc.

28. Specific schemes will be launched, mostly on public-private partnership basis, to upgrade and improve these sectors.

### **Fibres:**

29. The persistent problem of contamination and trash content will be addressed through enforcement of the standards laid down in the Cotton Control Act and Cotton Standardization Ordinance.
30. A comprehensive training and capacity building program will be developed to establish a system in the private sector for grading and classifying cotton.
31. Incentives will be provided to ensure that proper premiums are paid for increased production of contamination free graded cotton.
32. Measures will be introduced for production of long staple cotton for value added products and to meet domestic demand for high quality fabrics, including introduction of BT cotton on priority basis. Simultaneously, measures will be introduced for cultivation of organic cotton in new areas to increase value and production.
33. The policy will also aim at providing a paradigm shift and concentrate on other high value added fibres, especially manmade fibres, to enrich the export mix. Necessary incentives will be provided to encourage investment in additional capacity in the MMF industries at competitive prices. NTC will determine required protection for such industries.
34. Measures will also be taken to develop other vegetable fibres (jute, flax etc.), wool and sericulture for supporting diversification within the natural fibres.

### **Ginning:**

35. A comprehensive scheme will be prepared and implemented for conversion of ginning industry into an efficient 'service sector' to benefit the growers
36. A ginning institute will also be established at Multan to undertake research in improved ginning methods. Similar initiatives will be taken in other cotton growing areas including Vehari.
37. Government will be provided financial and technical assistance to those who would be willing to use more efficient technology.

### **Filament Yarn:**

38. There is a need to improve efficiency, competitiveness and economies of scale in the filament yarn industry. Government will also ensure skills development and research through Synthetic Fiber Development and Application Centre (SFDAC) to facilitate the manufacturing of finer filaments for value addition. To make industry further viable mergers and acquisitions will be facilitated along with consolidation. NTC will determine the required protection needed for the healthy growth of this industry.

### **Spinning:**

39. Investments in rotor technology and specialized attachments like compact spinning, lycra etc. will be encouraged along with ring spinning to attain economies of scale. To overcome the problems of power shortage, measures would be taken to incentivize power generation by the mills.

### **Weaving and Knitting:**

40. Assistance will be provided for increasing capacities, up-gradation and de-fragmentation. Cost-sharing and technical assistance will be provided to encourage investment in shuttle less looms, knitting and power looms sector up-gradation. Common working sheds and clusters will be developed to ensure availability of utilities and to encourage consolidation of non-mill sector.

### **Non-woven:**

41. The non-woven sector is one of the emerging sub-sectors having considerable uses in value-added products. To encourage this sector, training modules will be developed to impart knowledge and skills.

### **Processing:**

42. Policy will support new investments in processing industry, especially in the processing of narrow-width fabric and knit dyeing. Up-gradation of existing machinery and technology will also be supported.

### **Home Textiles:**

43. Home Textiles is the first stage of high value-added products. Of late, Pakistan has made significant advances in this area and its products are ranked amongst the best. However, the values realized are still low compared to those available to other brand names. Here the efforts will have to focus on fashion and design and branding.

### **Garments:**

44. Garments sub-sector is the ultimate value-spinner for the textiles chain. The sub-sector faces a number of challenges that hamper utilization of its fullest potential.

45. The policy will address the challenges to facilitate promotion of this important sub-sector. In particular, government will endeavor to make this sub-sector the manufacturing hub for highest value added products including availability of trained manpower, promotion of fashion designs and support in development and marketing of brand names. Entrepreneurs will be encouraged to take maximum advantage of abundant labor and for this purpose sourcing and marketing training will be provided

along with the establishment of product development centres. To ensure requisite protection to the domestic industry, steps will be taken to eliminate illegal imports of the value added products, especially fabrics and garments.

### **Fashion and Design:**

46. To promote value added industry, there is a critical need to develop the fashion and design industry. This will include increased number of fashion institutes, faculty development, industry linkages, special programs for local brands and designers recognition, affiliation with international fashion institutes, dissemination of information on new fashion trends, product development centers, introduction and availability of new fibres and their processing etc. on public-private partnership basis.

### **Technical Textiles:**

47. Technical textile is an emerging area of high value addition where given our strength in heavy clothing we can claim a significant share of the world market. Government will develop a proper strategy for the promotion of technical textile in the country. For this purpose an exclusive centre of excellence.

### **Handloom and Handicrafts:**

48. Training and facilitation will be provided to strengthen traditional craftsmanship for production set-up, sourcing raw materials and marketing.

49. Steps will be taken to identify clusters for the traditional textiles within each sub-sector.

50. Arrangements will also be made to link up these clusters with fashion schools so that new designs and modern trends are assimilated in the traditional crafts.

### **Carpets:**

51. Government will facilitate consolidation and adoption of new technology in dyeing, finishing, and testing and product development in carpet industry. To enhance production and exports, assistance will be provided for anti-child labor certification to ensure wider acceptability of Pakistani carpets, availability of fine raw materials, and establishment of research and development, testing and product development centre.

### **Indigenization:**

52. Textiles sector has grown to be the single largest manufacturing sector of Pakistan. However, support industries like textile machinery manufacturing, textile dyes and chemicals and accessories industry has not developed proportionally. Most of the demand is met through imports. There is an urgent need to promote development of

industries that would ensure indigenous supply of such important technology and raw materials at home at competitive prices.

53. Promotion of joint ventures with leading international brands will be a key objective of the policy. Government will provide appropriate incentives to encourage such initiatives.

54. Intensive training and awareness campaigns will be initiated to disseminate information on comparative benefits of upgrading machinery and using domestic resources.

55. Viability studies for production of textiles dyes, chemicals and accessories will also be initiated. Based on these studies measures will be introduced for encouraging establishment of industries considered economically viable.

#### **Women Employment Support Program:**

56. We recognize that contribution of women is equally important for achieving our economic objectives. As such, providing opportunities for women has been an essential element of our socioeconomic policies. This objective has been translated into one of the initiatives being taken in the textiles policy. To encourage women participation in the industry, government will pick two regulatory costs to employers, namely social security and EOBI. The cost of this measure is estimated at Rs.2 billion for the current year.

#### **Support for disabled and handicapped:**

57. Value added textiles sector also has the capability to give employment to disabled and handicapped. To further Government's policy in this area, it is proposed that EOBI and social security contributions of such persons will be also be picked up by the Government.

#### **Immediate Measures**

##### **Ladies and Gentleman;**

58. The policy proposes a long-term comprehensive approach for sustained growth of the sector. However, the industry is facing serious challenges and its continued survival will call for immediate action in certain critical areas. Accordingly, the following measures are being proposed to be financed from the textile investment support fund initially:

#### **Export Refinance at lower Rates:**

59. The export refinance will be available at 5%. The cost of Rs.2.5 will be borne in the budget.

### **Relief on Existing Long Term Loans:**

60. To mitigate the heavy burden of financing cost on existing units, the long term loans will be converted on the same pricing as applicable to LTTF scheme, together with a grace period of one year on both existing and converted facilities, without the facility of refinancing. This would entail a support of Rs.5 billion.

### **Restructuring and Reorganization of the Textile Sector:**

61. To deal with deeper problems of problem loans to textiles sector, a two pronged strategy will be adopted. Those textiles units which are suffering from the general market slump but are otherwise technically viable will be helped through transitional support – in the form of loan restructuring, interest rate relief, relaxation of prudential regulations, additional financing, investment tax credit etc. Others that lack technical viability would be encouraged to merge with sounder units through the vehicle of Resolution Trust Corporation (RTC), whose establishment is currently in hand at the Ministry of Finance. Government will support the process through the issuance of warrants to those acquiring the units, which will be valuable once the restructured units are brought on the stream by the new owners. This process will be helpful throughout the industrial sector not limited to textiles alone.

### **Drawback of local taxes:**

62. There is a multitude of costs imposed on exporters that raise the cost of production and render our exports uncompetitive. Additionally, outages of power and gas, cross subsidization in prices of utilities and frequent closure of industry on account of law and order add further burden to our industry. Exporters are also losing business or merely holding on to the existing businesses because the buyers have stopped visiting Pakistan. For all these, and many more, factors it is very difficult for our exporters to be able to compete with nations which face no such problems.

63. It is proposed to compensate our value-added textiles exports for a period of two years through provision of drawback to offset the costs imposed on them directly and indirectly by a variety of government agencies and disruptions caused by law and order problems. However, this support will be linked partially to performance. For this purpose following drawback scheme is proposed:

▪ Processed Fabric	1% of the FOB value of exports
▪ Home textiles	2% of the FOB value of exports
▪ Garments	3% of the FOB value of exports

64. In addition, those who will achieve an increase of 15% in exports relative to last year will be given 1% additional draw-back.

65. The scheme will cost Rs.17 billion during the current fiscal year (2009-10) and Rs.27 billion for the next fiscal year (2010-11).

### **Refund of past R&D Claims:**

66. To settle the past claims under R&D scheme of 2007-08, Government is allocating Rs. 5.4 billion.

### **Monetization of PTA:**

67. To promote utilization of manmade fiber and diversify the export mix, monetization of customs duty of PTA is being continued to offset additional cost for the users for the current year. This would entail an expenditure of Rs.4.5 billion approximately during current financial year (2009-10). The issue of this duty will be finally decided by the National Tariff Commission during the year.

### **Ladies and Gentleman;**

68. The Textiles Policy represents a new beginning for the textiles sector. Through this policy, the government has not only set out a road map for the development of this sector but has provided the necessary support without which rapid progress of this sector is not possible. It is now the responsibility of the private sector leadership sector, exporters, labors and others connected with this sector to transform the vision of the policy into reality. The exports target of \$25 billion is ambitious but not beyond our potential. If we have to depend on our own resources and would like our debt burden to lessen, then it is only the textiles sector that offers the requisite opportunity to strengthen our economy and support it to stand on its own feet.

69. I appeal to the national spirit of all those associated with the textile sector to rise to the occasion and expend their best efforts to achieve the goals of the textiles policy. This alone will pave the way for Pakistan to earn its rightful economic place in the comity of nation, which was the dream that our beloved leader Shaheed Benazir Bhutto had nurtured.

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