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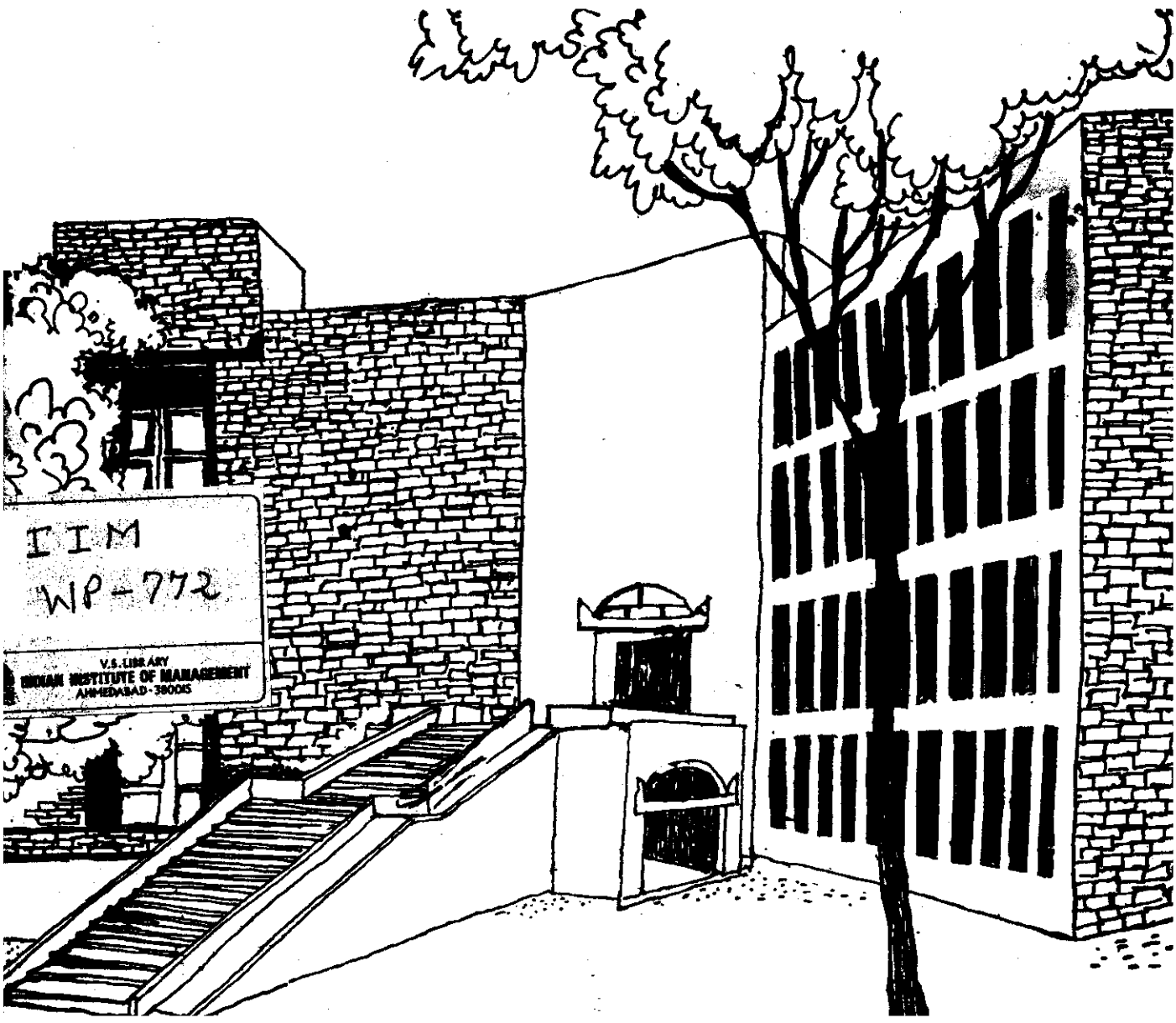

SICKNESS IN TEXTILE INDUSTRY: CAUSES AND REMEDIES

By

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SICKNESS IN TEXTILE INDUSTRY : CAUSES AND REMEDIES

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SICKNESS IN TEXTILE INDUSTRY : CAUSES AND REMEDIES

Textiles is the oldest industry in the country and employs directly and indirectly a large number of people, is linked to a major agricultural crop constitutes nearly 25% of the export earning and caters to one of the basid needs of the population. The cost of sickness in this industry therefore is considerable in both economic and human terms. A substantial amount of funds is also involved. The dimensions of sickness can be understood from the following table:

Table : 1

	Spinning Mills				Composite Mills			
	No.	Spindles installed 000	No.of Workers on roll 000		No.	Spindles installed 000	Looms installed 000	No.of workers on 000
Spinning Mills	702	12,980	349	Composite Mills	282	12,590	210	857
Closed Spinning Mills	81	1,350	52	Closed Composite Mills	52	2,008	33.2	109
% of Total	12	10	15	% of Total	18	16		13

Four points are worth noting about the nature of sickness in this industry:

a. It is neither temporary nor isolated:

The Textile Policy statement of June, 1985 itself recognised this: "The present crisis in the industry is neither cyclical nor temporary. There appears to be a deeper structural weakness. Therefore, the government has formulated a new policy for restructuring the textile industry". Even after June 1985, neither the character nor the extent of sickness has changed.

b. It is largely afflicting the organised sector:

While about 17% of looms in the organised sector have closed down (many more are afflicted by sickness), the loomage in the decentralised sector has nearly doubled in the last five years.

c. Within the organised sector composite mills are worse off:

As the decentralised power looms sector is burgeoning the demand for yarn is increasing. If all the powerlooms work at full capacity, there will be an acute yarn shortage. The following table of index number of prices of raw cotton, cotton yarn and cotton cloth shows that yarn prices have outpaced raw cotton prices while cotton cloth prices have lagged behind. In other words, the spinning mills have been able to realise better and more economic prices. The fact that more and more spinning mills are coming up and the seventh plan spindle capacity target has been achieved years ahead show that this sector is in a reasonably good shape.

Table : 2

Index numbers of wholesale prices of raw cotton, cotton cloth (mills) and cotton yarn

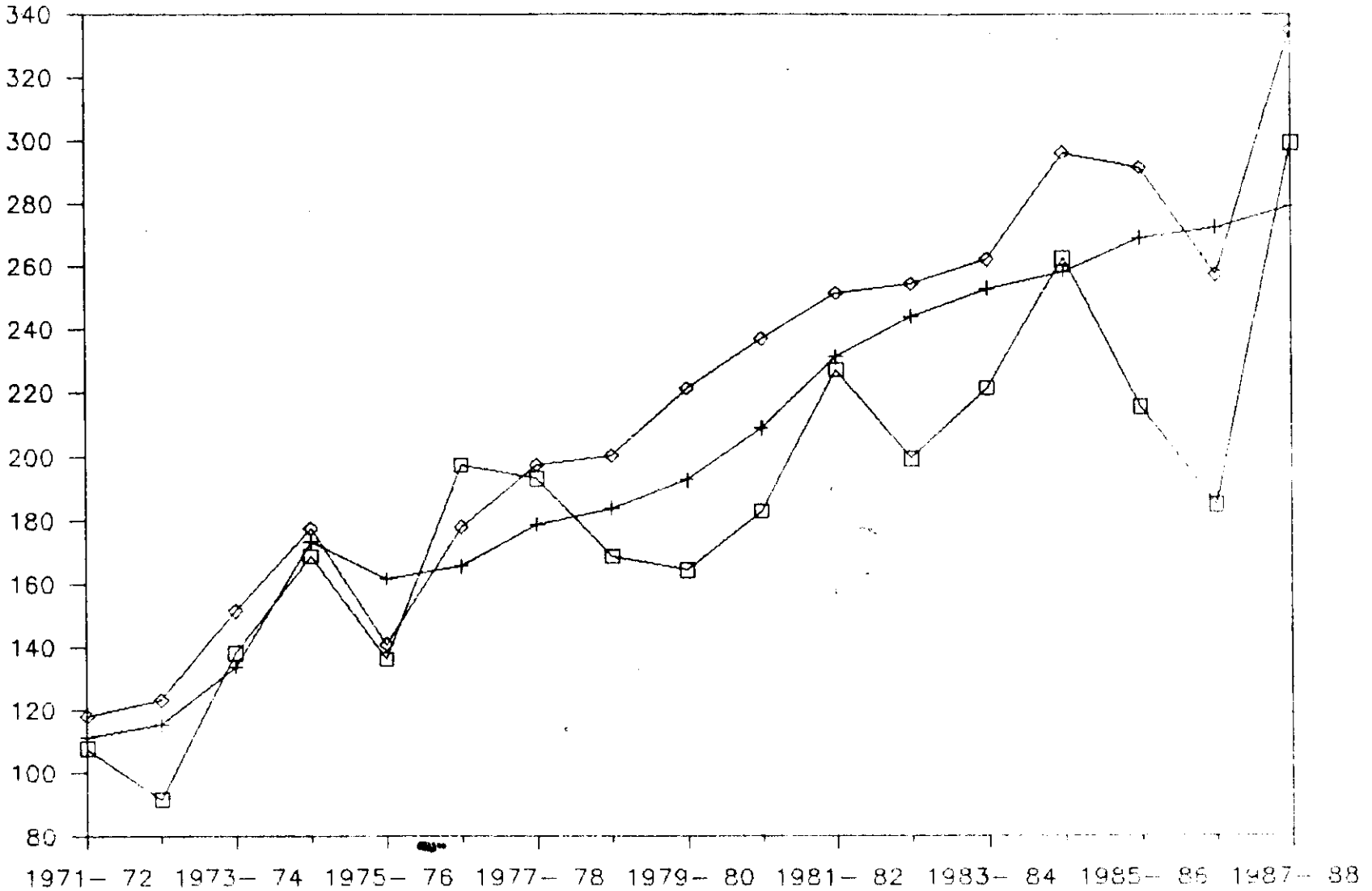
Base 1970-71 = 100

Period Average of Months/ Average of Weeks ended Saturday	Index Number of Wholesale prices		
	Raw Cotton	Cotton Cloth (Mill)	Yarn
1971 - 72	107.8	111.2	118.1
1972 - 73	91.6	115.4	123.2
1973 - 74	138.3	133.8	151.6
1974 - 75	168.8	173.2	177.5
1975 - 76	136.4	161.7	141.1
1976 - 77	197.5	165.7	178.0
1977 - 78	193.0	178.6	197.3
1978 - 79	168.0	183.8	200.4
1979 - 80	164.4	192.6	221.6
1980 - 81	182.9	208.9	237.2
1981 - 82	227.3	231.3	251.4
1982 - 83	199.4	244.1	254.2
1983 - 84	221.6	252.8	262.6
1984 - 85	262.6	258.2	296.1
1985 - 86	215.5	269.0	291.2
1986 - 87	184.7	272.4	25[illegible].0
1987 - 88	299.0	278.8	334.8
Percentage rise between 1971 - 72 and 1987 - 88	177.4%	150.7%	183.5%

Source : ICMF, Bombay

INDEX NUMBER OF WHOLESALE PRICES

DERIVED FROM TABLE 2



d. It is more pervasive in the "older textile centres":

Out of the total 52 closed composite mills, 25 are closed in Gujarat and nine in Maharashtra. As far as spinning mills are concerned, out of the 81 closed mills, 33 are in Tamil Nadu.

Table : 3

Concentration of Closed Mills in Gujarat, Maharashtra & Tamil Nadu as of 31.3.198

State/City	No.of Mills Closed	No. of Employees affected ('000)	%
1. Gujarat of which	28	55	100
a. Ahmedabad	21	42	76
b. Rest of Gujarat	7	13	24
2. Maharashtra of which	9	27	100
a. Bombay City	6	16	59
b. Rest of Maharashtra	3	11	41
3. Tamil Nadu of which	33	15	100
a. Coimbatore	16	8	53
b. Rest of Tamil Nadu	17	7	47

Source : Data on closed mills : Note prepared by I.C.M.F.

All these factors show that the nature of the problem is basically environmental, structural and locational.

A general classification of factors responsible for sickness can be described as under:

Environmental factors	-	Aggregate demand	
	-	Macro level policies, etc	
	-	Natural calamities or resource shifts	
Industry specific	-	Raw Material	Related
	-	Technology	
	-	Product	
	-	Regional cost factors	
Unit specific	-	Financial	
	-	Management	
	-	Industrial relation	

In the case of textiles, the following set of factors appear to be responsible.

A. Environmental	:	1. Long history of restrictive policies 2. High incidence of indirect taxes 3. High and fluctuating cost of raw materials 4. Incessant rise in input costs 5. Stagnant demand 6. Massive support to State sector units - unequal competition
B. Structural	:	1. Competition of Powerlooms 2. High labour complement 3. Exit barriers
C. Locational	:	Large differences in locational costs
D. Managerial	:	Static perceptions

We shall discuss each one of these in greater detail in the paragraphs that follow:

I. Environmental:

1. Long history of restrictive policies:

   a. **Freeze on capacity:**

   In the post-war period, right until the new Textile Policy of 1985, a freeze on looms was imposed on the composite mills. The total number of looms installed in 1939 of about 2,00,000 has remained static ever since then. Even when demand was good and there was a shortage of cloth, loom expansion was not allowed. This policy was stretched to such an extent that even in replacement of looms, the total width was not allowed to be increased till 1978. The measure was supposed to protect and encourage the decentralised sector.

b. Restrictions on automation:

Restrictions were also imposed on installation of automatic looms. This was allowed only against export obligations. It was only in 1977 that this restriction was relaxed purely to protect employment. It is a strange paradox that the very government which imposed such restrictions is now castigating the industry for not having modernised when it had the wherewithal to do so. The impact of this policy can be seen in the following table:

Table : 4

A. CENSUS OF MACHINERY 1979 (Textile Bulletin)

Machinery of less than 20 years

Spinning ring frame			60%
Weaving looms ord.	15%	()	
Weaving looms - auto	73%	()	28%

B. COMPARISON OF TECHNOLOGICAL STRENGTHS WITH SELECT COMPETITORS

Country	O E Rotor	Automatic looms shuttle (1979)	Shuttleless (1979)	% of Auto looms to total installed looms - 1979
India	300	44,847	316	21.9
Japan	237,000	108,343	12,164	39.4
U.S.A.	216,000	188,416	35,332	100.0
U.K.	41,000	19,653	7,590	77.5
Hong Kong	70,000	29,230	850	100.0
Taiwan	51,400	40,403	6,140	82.0
Pakistan	16,000	26,891	450	82.0
South Korea	17,900	73,576	1,500	100.0

Source : ICMF, Bombay

c. Artificial Compartmentalisation:

Even knowledgeable people often ask the question, "Why is the textile industry doing so badly? Look at Reliance, Orkay, Garden. Look at all the prospering units in Surat, Bombay. Is not poor performance a management failure?". They do not realise that the government had divided the textile industry in neat compartments. S-23 of the IDR Act had five categories as under:

"23 Textiles (including those dyed, printed or otherwise processed):

1. Made wholly or in part of cotton, including cotton yarn, hosiery and rope;
2. Made wholly or in part of jute, including jute, twine and rope;
3. Made wholly or in part of wool, including wool tops, woollen yarn, hosiery, carpets and druggets;
4. Made wholly or in part of silk, including silk yarn and hosiery; and
5. Made wholly or in part of synthetic, artificial (man-made) fibres including yarn and hosiery of such fibres".

No one was allowed to move from one to the other. The so-called star performers belonged to the artsilk sector i.e. 23(5). As the consumer preference was strongly shifting towards synthetics, these units were in a highly favourable position with severe entry barriers for new comers. What it meant was that continuous filament yarn could be used by this section and not by the erstwhile textile units. It was only through a quirk of language and the fertile imagination of some textile technologist that filament yarn came to be tolerated in respect of its use in weft.

d. Restrictions on export of yarn:

Yarn being a "commodity" item, it can be sold basically on cost competitiveness given a minimum threshold of quality. With weaving modernisation closed for the mills they had concentrated on spinning modernisation as can be seen the table 4-part (A) above. Yarn of acceptable

quality could therefore, be produced. We had been able to export yarn in substantial quantities in earlier years. But the government with the purported objective of protecting handlooms put quota restrictions on export of yarn. While Pakistan expanded its spinning capacity and penetrated the yarn export market, we deliberately chose to shut ourselves out although we were equally well placed, if not better placed to capture this market. As a result while Pakistan's exports went up to 150m kg we were doing a measly 6m. kg in 1985. We could have expanded our spinning capacity and earned valuable foreign exchange and captured markets. This is shown by the subsequent years' performance when in 1987, we did about 80 m. kg. Even this was done in a halting manner. Current year's export quota is 40 m kg excluding exports against advance licensing scheme. Could there be a more glaring example of giving up opportunities and serving them on a silver platter to our competitors?

e. Restrictions on utilisation of processing capacities:

Compared to spinning and weaving processing machines have high production. All fabrics do not undergo all the processes. As consumer tastes change different processing requirements come up. As a result, in any process house all machines are not fully loaded at all times and idle capacities are generated in different sections at different times. One way to achieve cost economy is to use such capacities for outside job processing or by free exchange of capacities between different users. However, until the new Textile Policy of 1985, the government had placed severe restrictions on mills using their capacities for outside job processing and realising cost economics through fuller utilisation.

f. Sector protection - fiscal and non-fiscal:

Right until the 1985 Textile Policy, powerlooms and independent power processing were given favourable fiscal treatment as against the composite mill sector. Excise duties were lower for powerloom cloth processed by indepedent power processors. There is evidence to show (as we shall see

later) that even these duties were not fully paid. As for the handloom sector, there is no excise duty at the yarn or fabric stage. Instead there is a subsidy.

Moreover, powerlooms were allowed to grow unfettered. There was little monitoring as regards fibre usage. Being small and scattered there was no unionisation. Wages and overheads were low and they enjoyed the advantage of LT tariff and lenient power restrictions compared to mills.

In short till 1985, the inherent advantages of powerlooms were further reinforced by regulatory and fiscal favours.

2. High incidence of indirect taxes:

Indirect taxes i.e. excise, state taxes and local taxes all put together have gone up considerably in the period 1956-57 to 1987.

Table : 5

Growth of Excise Duty Burden on Cotton and Man-Made Textiles

Year	Basic, Auxiliary, Special additional duty (on textile articles) and Handloom Cess wherever applicable		Additional duty in lieu of Salestax on Cotton and Man-made Fabrics.	Total	Production of	
	On all Man-made Fibres and yarn	On all Fabrics both of Cotton and Man-made Fibres.			Yarn by Mills in India (In Million Kgs.)	Cloth by Mills, Handlooms and Power looms.(In Million Metres).
	(Amount in Crores of Rupees)					
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1955-56	-	30.36	-	30.36	778@	6,715@
1960-61	2.95	47.99	20.13	71.07	808@	7,179@

1961-62	10.56	50.42	18.90	79.88	884@	7,645@
1962-63	18.09	59.49	19.54	97.12	888@	7,574@
1963-64	27.83	59.16	20.15	107.14	922@	7,950@
1964-65	45.04	57.43	20.22	122.69	999@	8,555@
1965-66	45.64	52.33	20.07	118.04	980@	8,513@
1966-67	53.38	59.06	18.90	131.34	947@	8,189@
1967-68	77.23	54.97	19.08	151.28	947@	8,158@
1968-69	98.91	63.29	19.54	181.74	1,021@	8,889@
1969-70	116.17	61.33	20.14	197.64	1,021@	8,707@
1970-71	121.69	73.35	22.80	217.84	1,048@	8,931@
1971-72	125.36	76.19	42.41	243.96	980@	8,577@
1972-73	153.89	76.64	35.29	265.82	1,060@	9,140@
1973-74	169.02	92.61	40.05	301.68	1,091@	8,908@
1974-75	196.69	108.28	44.86	349.83	1,092@	9,344@
1975-76	363.02	87.51	62.32	512.85	1,083@	9,247@
1976-77	390.27	86.32	79.86	556.45	1,147@	9,443@
1977-78	427.65	106.86	70.82	605.33	1,149	9,513
1978-79	492.69	108.39	119.97	721.05	1,272	10,708
1979-80	570.05	118.03	104.65	792.73	1,217	10,380
1980-81	651.30	136.15	131.54	918.99	1,296	10,988
1981-82	676.41	144.75	157.03	978.19	1,249	10,981
1982-83	683.50	137.45	161.62	982.57	1,217	10,614
1983-84	1,054.86	154.42	241.94	1,451.22	1,321	11,758
1984-85	1,201.20	122.00	247.10	1,570.30	1,382*	11,901*
1985-86	**1,237.30**	**124.75**	**328.79**	**1,690.84**	1,454*	12,393*
1986-87	1,414.16	185.37	460.36	2,059.89	1,526*	12,790*
1987-88 (Revised Budget)	1,689.82	216.79	453.63	2,360.24	1,555	12,992
1988-89 (Budget)	1,915.62	246.25	549.01	2,710.88	-	-

@ Calendar Year * Provisional

If excise duty on every input consumed by the industry from pin to plant, sales tax on fibres, filament yarn, garments, stores and spares, colours and chemicals, fuel and power, packing materials on a value inclusive of excise duty (which is a tax on tax), electricity duty, education cess, employment guarantee cess levied

by the State Government and octroi and property taxes levied by the Municipalities are taken into account, the intolerability of tax incidence becomes most conspicuous. According to our assessment, the total indirect incidence on textiles works out to around Rs.4,000 crores per annum as against Rs.50 crores in 1955-56. (Source : Report of the Sub-Group of the Review Committee on Progress of Implementation of Textile Policy)

Table : 6

SHARE OF INDIRECT TAXES (EXCISE, STATE & LOCAL)

		INCIDENCE		
		1956-57 (Rs.in crores)	1987 (Rs.in crores)	Growth Rate %
1.	Total indirect tax paid	55	3750	15
2.	Estimated Sales of Textiles (Ex-mill fabrics)	600	13000	11
3.	Indirect taxes % of sales	9.2	29	-

NOTE:

1. Data on total taxes obtained from the speech delivered by Shri Sudhir Thackersey, Chairman of Millowners' Association, Bombay on April 19, 1988.
2. Data on estimated sales of 1956 - 57 compiled as follows:

Turnover as per RBI study of 214 Mill Cos.	Rs.390 Crores
RBI sample coverage of 80% organised Industry turnover $390 \times \frac{100}{80}$	Rs.485 Crores
Organised Sector production 75% of total textile production :. decentralised sector production value pro-rata $485 \times \frac{25}{75}$	Rs.162 Crores
Decentralised Sector prices = 70% of Organised Sector. :. value of production of decentralised sector. 162 x .7	Rs.113 Crores
Total textile industry sales = 485 + 113	Rs.598 Crores
	Say Rs.600 Crores

For an item of basic consumption, a tax burden of about 23% is unconscionably high. When one considers that all indirect taxes are paid only on 3/4th production as handloom is totally exempt from tax, it really works out to about 31% (23 x 4/3) indirect taxes. It would appear that the consumer has to pay much more price by way of taxes than by way of real increase in the prices or underlying costs. This has reduced the potential demand for fabrics and adversely affected the economic working of the industry.

3. High and fluctuating cost of raw materials:

This industry is still predominantly based on agricultural raw material - cotton. Cotton prices tend to fluctuate a great deal depending on the size of the crop. In other countries the governments have taken steps to contain the wide fluctuations in cotton prices through price stabilisation policies. However, this has not happened in our country as can be seen from the table below:

Table : 7

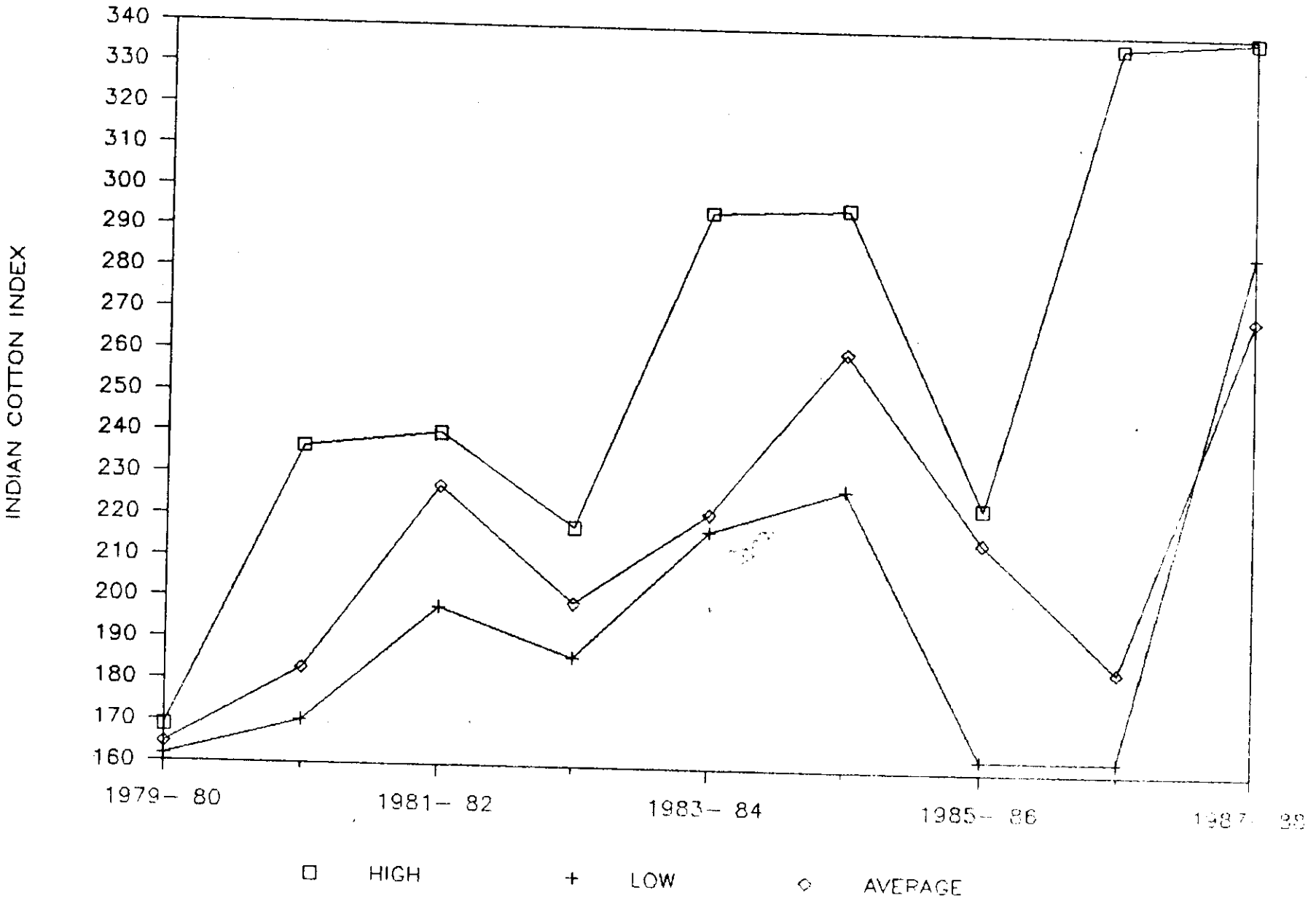
	Indian Cotton Index				Indian Cotton	
	High	Low	Average	Range	% over average	Change over previous year
1979-80	168.7	161.6	164.4	7.1	4.3	-
1980-81	236.7	170.3	182.9	66.4	36.3	+11.25
1981-82	240.3	198.2	227.3	42.1	18.5	+24.27
1982-83	217.8	186.3	199.4	31.5	15.8	-12.28
1983-84	294.8	217.3	221.6	77.5	35.0	+11.13
1984-85	296.0	227.9	261.0	68.1	26.1	+17.77
1985-86	223.8	163.0	215.5	60.8	28.2	-17.44
1986-87	336.8	162.9	184.7	173.9	94.1	-14.30
1987-88	339.0	285.5	270.0	53.5	19.8	+46.18

Rise in Prices

1987-88

over

1979-80 +64.2%


INDIAN COTTON INDEX
340
330
320
310
300
290
280
270
260
250
240
230
220
210
200
190
180
170
160
1979– 80
1981– 82
1983– 84
1985– 86
HIGH
LOW
AVERAGE

As can be seen from this table, the price fluctuations both between seasons as well as within one season are very large. Within a season, the fluctuations range from 15 to 90%. In most seasons, it would appear to be around 20-25% which is very substantial. When one looks at fluctuations between seasons, these are of the order of 15 to 20%. The last two years, of course, have seen extremely wide fluctuations both within the season as well as 1987-88 over 1986-87. With such wide fluctuating raw material prices, the fortunes of the industry also swing from year to year. In a manufacturing cycle, generally, the amplitude of price fluctuations decreases as one moves from the raw material to the intermediate and further towards the end product stage. As a result, in the years in which cotton prices slide down, the industry is hurt badly. This is the primary reason why in the year 1987, the industry fared so poorly.

On the synthetic side, the duty structure of the raw materials filament yarn and polyester fibre has been the main cause for their high prices. Though the duty on these fibres were brought down in 1985 and then more recently, after a gap of about three years, in the 1988 budget, prices continue to be far higher than the international prioces as can be seen from the following table:

Table : 8

DUTY STRUCTURE OF FILAMENT YARN AND POLYESTER FIBRE AS OF MARCH 1988

Elements		75/76 Denier POY		1.5 Denier Polyester Staple Fibre
International Price per Kg.	US $	1.75	US $	1.40
Re.Equivalent at rate of Rs.13.25 i.e. US Dollars	Rs.	23.18	Rs.	18.35
Handling/Clearing charges		2.50		1
Ad valorem Duty Rs. 47.52			33.39	
Anti-dumping duty -			7.00	
Countervaling duty Rs. 53.75			15.00	
Sub total duties	Rs.	101.27		55.39
Total cost to user		126.95		74.94
Local prices		128.00		61.50
Local prices/ International Prices (Line 6/Line 2)		5.5		3.3

Ad valorem duty in case of filament yarn is charged at the rate of 225% and in case of polyester fibre it is at the rate of 175% .

As can be seen from this table, even after reductions, the total prices are about 3 - 5.5 times the international prices. This has resulted in keeping the Indian synthetic fabric prices high and thereby dampening the demand for such fabrics on the one hand, and encouraging smuggling on the other.

4. Incessant rise in input costs:

Textiles is a capital-cum-labour intensive industry. Depending on the product-mix, the turnover ratio (turnover divided by capital employed) in new integrated textile plants would be of the order of 1 or at the most 2. Energy use is also quite high. A metre of fabric uses about 1.1 to 1.5 units of power and about 750 gm to 1 kg of coal or equivalent fuel. Labour use is about 20 to 25 hours/100 mtr. of fabric and wages and salaries cost is about 15% to 25% of the output price. With such a cost structure interest rates, capital structure, energy and wage rates have a substantial bearing on the overall cost of fabrics. Regional variations in these rates also lead to substantial differences in the cost of production of units depending on their location.

Besides these factors, the textile industry uses colours, chemicals and other textile stores in substantial quantities which form about 10 to 18% of the cost of production.

Over the years, because of general inflationary pressures and the proclivity of State and Central governments to levy high taxes on some of these inputs, the overall cost increase in textiles is heavy and incessant.

Textile products have been unable to bear this burden. Productivity increase and cost reduction efforts have been unable to cope with this pressure. In a situation of excess capacity, the same could not be passed on to the consumer. In any case, such cost rise has led to consumer resistance and stagnant demand.

The relentless increase in these cost inputs and the deteriorating capacity to pass them on and realise economic prices are reflected in the following two tables:

Table : 9

Chart showing the index numbers of wholesale prices of raw cotton, cotton cloth (mills), power, fuel, light and lubricants, basic industrial chemicals, dyestuffs and other chemicals, textile jute machinery and spares from 1971-72 to 1987-88 (Base 1970-71 = 100).

Period (Average of Months/ Average of Weeks ended Saturday)	Index Number of Wholesale Prices					
	Raw Cotton	Cotton Cloth (Mill)	Power, Fuel, Light and Lubri-cants	Basic Indus-trial Chemi-cals	Dye-stuffs and Other chemi-cals	Textile, Jute Machinery and spares
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1971-72	107.8	111.2	105.9	106.9	99.8	109.6
1972-73	91.6	115.4	110.1	117.7	102.8	126.7
1973-74	136.3	133.8	130.6	127.4	117.0	143.1
1974-75	168.8	173.2	198.3	193.9	169.8	185.8
1975-76	136.4	161.7	219.2	200.1	172.7	201.1
1976-77	197.5	165.7	230.8	190.0	176.2	205.6
1977-78	193.0	178.6	234.3	192.2	185.8	215.4
1978-79	168.6	183.8	244.7	211.4	194.2	234.2
1979-80	164.4	192.6	283.1	269.2	226.8	284.0
1980-81	182.9	208.9	354.3	342.4	253.9	328.1
1981-82	227.3	231.3	427.5	363.2	267.0	373.6
1982-83	199.4	244.1	459.7	377.0	275.7	385.4
1983-84	221.6	252.8	494.8	403.0	285.0	409.4
1984-85	262.5	258.2	518.4	421.9	299.9	424.3
1985-86	215.5	269.0	578.9	479.6	329.0	462.1
1986-87	184.7	272.4	619.0	483.3	342.8	493.6
1987-88	299.0	278.8	641.5	489.3	362.4	508.1
Percentage rise between (1971-72 and 1987-88)	177.4%	150.7%	505.8%	357.7%	263.1%	363.6%

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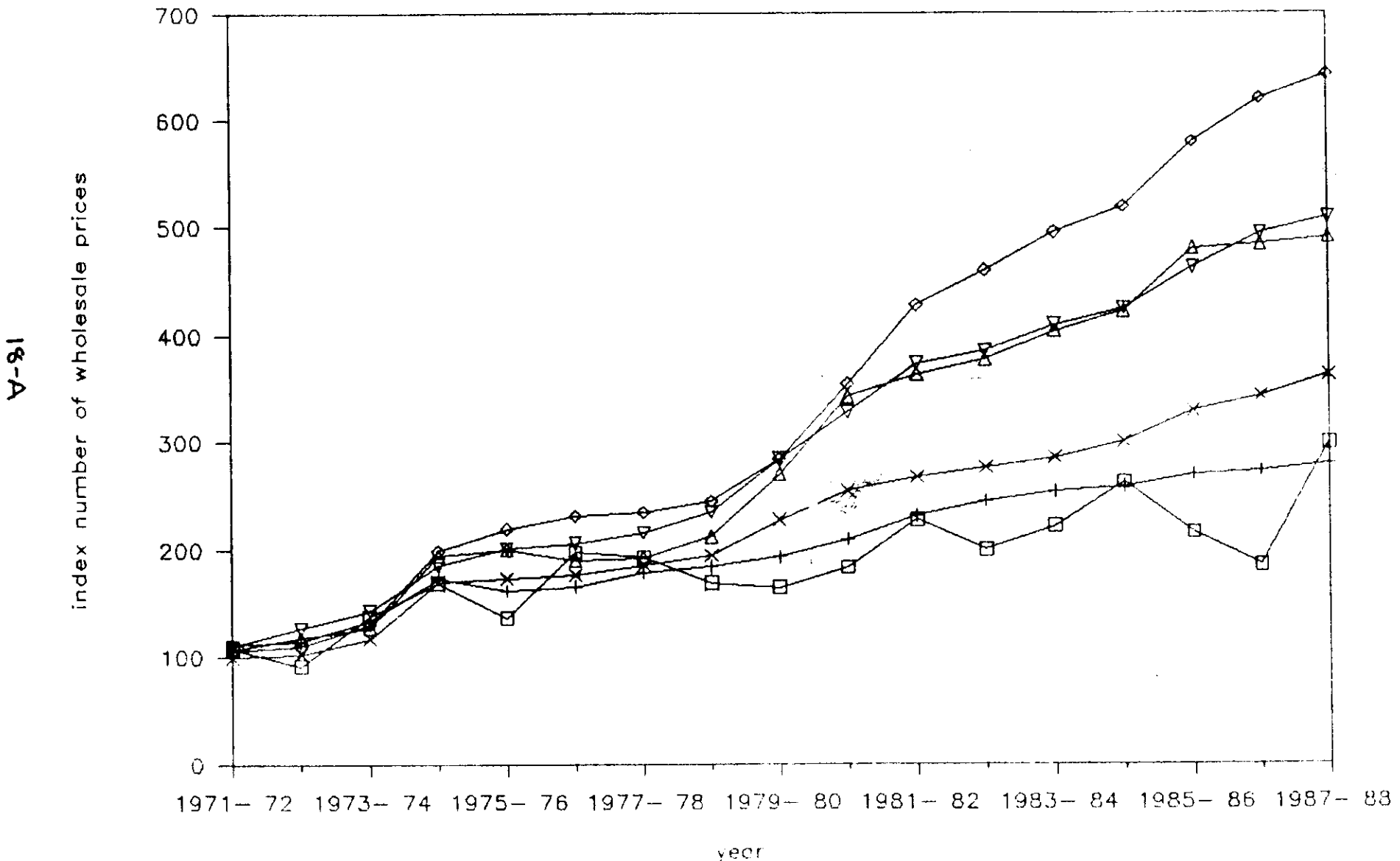

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Table : 10

Element of cost	Percentage Share in Cost	Percentage Increase in prices	Resultant Increase in the cost of Production
(1)	(2)	(3)	(4)
Cotton	40	177.4	70.96
Wages	23	482.0	110.86
Power, Fuel	10	505.8	50.58
Dyes, Chemicals Stores & Spares	15	328.1	49.22
Overheads, including interest, depreciation and water	12	150.0	18.00
Total	100		299.62

5. Stagnant demand:

Textile demand has stagnated for the last 40 years. Per capita textile consumption has remained at the pre-Second World War level. No doubt incomes have gone up and so has consumer expenditure on textiles. People are buying higher quality textiles which cost more. There is a marked shift towards synthetics. But per capita meterage has remained static as synthetics are very expensive in our country because of duty, the excessive burden of indirect taxes (as seen earlier) and the incessant rise in input costs. All these have dampened the demand for textiles and it has become a classic case of a low-growth, financially poor industry.

6. **Massive support to State sector units - unequal competition:**

There is a large excess capacity in the industry. There are about 200,000 looms in the composite sector and about 11 lakh looms in the powerloom sector. The total production capacity of these looms would be of the order of 30,000 million metres. As against this, the present production is of the order of 13,000 million metres. Normally such excess capacity would have led to an equilibirium situation through weeding out of the least efficient units, or short working of some installed capacity as is happening with many powerloom units. However, first there is a virtual ban on closing down of units and some units which eventually close down through sheer attrition are again pressed into production by absorbing them into the state sector. Thus, there is a virtual exit barrier either by full or partial closure.

The State sector units like the NTC as well as the units of the various State Textile Corporations are being supported by the State through direct and indirect subsidies. The direct subsidies take the form of funding the losses and providing interest subsidy. The indirect subsidies take the form of providing them with duty free polyester fibre and near duty-free polyester filament yarn for schemes like "Sulabh" and "Saubhagya" cloth. Further, they have been given subsidy for production of controlled cloth. The amount of support under these heads is quite staggering, as can be seen from the table given below:

Table : 11

Financial support to NTC (including its subsidiaries) and British India Corporation and Elgin Mills as shown in the revenue disbursements to commerce (Textile Ministries in the Central Government budget documents)

(Rs. in crores)

Year	Non-Plan Loans to NTC,B.I.C. and Elgin Mills	Interest subsidy to NTC and Binny Ltd.	Total
1983-84	93.00	1.12	94.12
1984-85	227.12	173.93	401.05
1985-86	154.51	58.44	212.95
1986-87	164.64	82.87	247.51
1987-88	197.02	112.35	309.37
1988-89	179.46	127.35	306.81
Total for six years	1015.75	556.06	1571.81

	Rs.CR/P.A.
Central Government support 1988-89	306.81
Control cloth subsidy	30.00
Duty free PSF	?
PFY at about 20% of normal duty	?
Approximate	400.00
State support	100 - 150 CR.
(Regional Corporations e.g. GSTC e.g. GSTC alone Rs.35-40 crores)	
Total per annum support	Rs.500 - 550 CR.

Source : ICMF, Bombay

For the year 1988-89, the support works out to Rs.500-550 crores. As more detailed data is not available, this estimate, if at all is a conservative one. There are about 150 textile units in the State sector. Some of these are small while a few are of an average size. The support of the order of about Rs.3-4 crores per unit is one of the main factors why these units are able to sell their products at prices which do not cover even normative costs. Such a situation brings down the market prices of all the textile products to uneconomic levels. As a result, other private sector units also are unable to sell their products at economic prices. This can be seen from the table given below:

Table : 12

N.T.C./Private Sector price comparison

			NTC	PVT Sector Good Mill	Difference %
Cotton					
30/36	88/56	Deep dyed	7.92	8.50	7
30/36	88/56	Printed	8.17	8.89	9
30/36	96/56	Printed	8.95	9.65	8
Blended					
68% Polyester		Deep col.(lump)Poplin	14.03	16.50	18
		BLD.(lump) Poplin	13.11	16.00	22
		BLD.(cut-pack)	16.00	19.00	19
		Dyed (cut-pack)	16.50	19.50	18

In other words NTC prices are about 7-8% lower for cotton varieties and about 18-20% in blends.

Despite the fact that private sector mills realise somewhat better price than the State sector units, as the prices of the State sector units are far below the average costs, the private sector prices remain uneconomic. Over a period of time, because of the competitive factors, the prices of the private sector units are pulled down even from these levels. Thus, this unequal competition coupled with excess capacity succeeds only in spreading sickness rather than stemming it.

II. Structural

1. Competition of powerlooms:

The powerloom units have certain inherent advantages in terms of cost. As the technology used in the composite sector as well as the powerlooms is the same and as there are no economies of scale, the powerlooms have competitive cost advantage. This can be seen from the following tables:

Table : 13

Share of production - various sectors

(in million mts)

	Mills	%	Power loom	%	Hand loom	%	Total	%
1984-85	3432	29	5445	45	3137	26	12014	100
1985-86	3376	27	5886	47	3236	26	12498	100
1986-87	3317	26	6222	48	3449	27	12988	100
1987-88	3028	23	6457	50	3507	27	12992	100

24-A

Share of Production —Various sectors

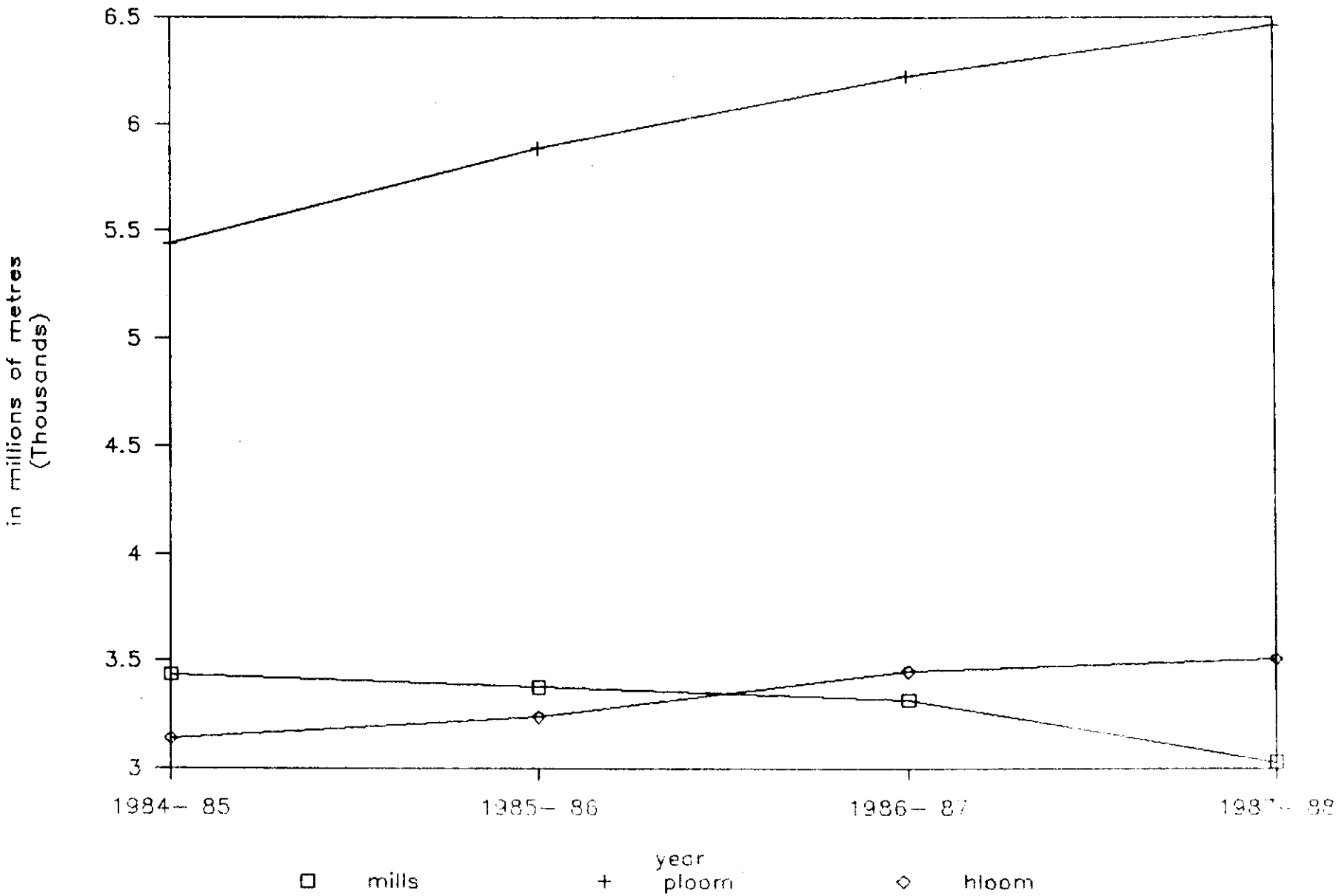


Table : 14

Power Loom Competition

The combination of power loom weaving and power processing will be more cost effective than composite mills to the tune of about 10% even if the excise duties were equalised.

Sectoral cost comparison for weaving and processing of fabrics cost in P/M (Medium count and construction : About Rs.7.50/M Ex-factory price)

Cost Element	Sector		Decentralised		Organised	
	Handlooms Hand processing		Power weaving power processing		Mill weaving and processing	
Weaving Total	174		143		170	
Preparatory		-		20		40
Loomshed		-		78		61
Overheads		-		45*		69
Processing Total	157		201		255	
Labour		22		9		31
Power * Fuel		10		46		47
Colour + Chemicals		94		94		94
Overheads		10		15		30
Excise		21		37		53
Value Loss	16		24		36	
Total Cost	347		368		461	
Net Advantage over mill costs:	114	24.7%	93	(20.1%)		--
with Different Excise with same Excise duty as Mill	82	(17.8%)	77	(16.7%)		--

* Extra Yarn Cost

Source : Rehabilitation of the Textile Industry 26th Technological Conference-ATIRA Paper presented at 20th Joint Technological Conference. Rehabilitation of the Textile Industry, Ranganath et al.

The major cost difference between the mills and the powerlooms is in respect of wages. As can be seen, the index of wages per metre for powerlooms is around 60% of the mill wages. This is after allowing for some small difference in the productivity in the two sectors. The Research Associations carried out a more detailed cost comparison between the two sectors in 1984-85. At that time, there was also a difference in excise duty between the powerloom sector and the mill sector. Even disregarding this difference, they concluded:

> "The combination of powerloom weaving and power processing will be more cost effective than composite mills to the tune of about 10% even if the excise duties were equalised".

Besides this cost advantage, powerlooms have an intangible edge in terms of its flexibility of production in response to market swings in demand. The powerlooms operate on flexible production and other schedules. In other words, in good times they have three shifts and in bad times, they cut back production and stop the third shift. Sometimes, they stop the looms altogether in certain periods. This flexibility in adjusting production imparts an important competitive advantage. It strengthens the bargaining capacity of powerlooms vis-a-vis their suppliers, customers and also labour.

After the 1985 policy, duty has been levied equally on both powerloom and mill-made fabrics. Grey fabrics do not carry any duty and power processed fabrics carry the same duty. However, powerloom fabrics which are hand processed do not carry any duty and this appears to be the evasion route for powerloom fabrics conferring "clandestine" advantage on powerlooms. This can be seen from the following table:

Table : 15

Production and Excise Duty Payment on Mill made & Power Loom Cloth

1987 - 1988

	Mills	Power Loom	Total
Cotton Cloth:			
- Production - crores in mtrs.	223.4	373.4	596.8
- Dutiable Production - crores in mtrs.	218.0	299.0	517.0
- Duty paid - crores in Rs.	106	12	118
- Duty paid-np./mtr.	49	4	24
Blended/MMF Cloth:			
- Production - crores in mtrs.	79.3	312.3	391.6
- Duty paid - crores in Rs.	79.0	300.0	379.0
- Duty paid - np./mtr.	100	96	97
Total:			
- Production - crores in mtrs.	302.7	685.7	988.4
- Duty paid - crores in Rs.	185	312	497

Note:

1. Source - ICMF (Secondary)
2. In the production figure of Blended/MMF, power loom figures have been increased by 40 crore meters as all filament fabric production appears to have been overlooked in T.C.'s figures, as per ICMF.

Even allowing for a higher percentage of powerloom fabrics going into hand processing channel and that powerloom fabrics would be of a lower price, the duty difference of a factor of about 12 is a conclusive pointer to a big leakage.

2. High labour complement:

In the organised sector due to early unionisation, there were strong organised unions like RMMS in Bombay and TLA in Ahmedabad. These unions had considerable political clout in the post-war period. This led to labour laws which provide an extensive cover of job security. The unions though peaceful have become highly protective of the current employment.They have fully used the legal cover for this purpose. As a result, over the years, not only the process of modernisation, which inevitably leads to some rationalisation, has been slowed down but workloads have remained low and reallocation of workloads, leading to some redundancy, have became extremely difficult. Thus the industry has continuously borne a larger workforce than necessary. This is reflected in the lower labour productivity for the same level of technology in our mills. All this did not hurt till the time wages were low but as they began to rise the cost disability became acute. Internationally, we were losing our competitiveness. A major advantage of cheap labour was greatly frittered away through poor labour productivity.

In this regard the post-strike (1982-83) situation in Bombay is highly significant. At one stroke, Bombay mills could reduce 60,000 workers without any reduction in activity. A tremendous improvement in labour productivity sans cost of rationalisation. However, the situation in Ahmedbad mills still remains uncorrected and resistance to rationalisation is unabating as its cost is mounting. For example, rationalisation leading to six looms per weaver was carried out in Bombay in November,1985. In Ahmedabad, despite protracted negotiations to introduce six looms per weaver, the issue is yet to be settled.

Another instance of how the attitude of labour unions in the older centres like Ahmedabad lead to high cost of production can be seen from the following table:

Table : 16

Capacity utilisation and labour attitudes

Annual Hours	Spinning Mills new centres	Ahmedabad Mills	Korea
8760 hrs	8400	6930	8440
100%	95.9%	79.1%	96.5%

i.e. The utilisation is lower by about 17%

While in most centres, mills work for about 350 days in a year on a 24-hour basis, in Ahmedabad the 7-day scheme has not been introduced as yet. The working hours also are 22.5% day. As the capital intensity of the textile industry is increasing, capital cost form a substatial percentage of cost of production as interest and depreciation have become larger. It is therefore necessary that capital is utilised to the maximum possible extent to remain cost competitive with other centres. However, because of the attitude of the unions, it has not yet been made possible in Ahmedabad. As a result, the capital cost per unit of production in Ahmedabad and Gujarat has remained higher by about 12-15%.

Yet another instance of unions not realising the need of the hour is their insistence on filling up even natural vacancies, arising out of retirement, resignation or death of workers, by the seniormost badli workers.

3. Exit barriers:

In a situation of excess floating capacity, unless exit routes are available, efforts to keep all the units going would only lead to spreading sickness from one segment to another as we saw earlier in the case of State sector units. It is therefore necessary, as recognised by the Textile policy, that partial or full closure of uneconomic units or activities

should be allowed so that the rest of the industry remains viable. However, this has not been possible. The classic case is that of partial closure, whereby the closing of uneconomic activity in a small segment of the unit (a composite mill) e.g. plain loomshed, the rest of the activities can be made viable and jobs saved. Even this has not been possible because of the attitude of labour and the present labour legislation. The scope of the Rehabilitation Fund established by the Central government also does not cover such cases. It had been pointed out by certain observers and industrial experts that there are many cases of State sector units where losses are much more than the wages paid to the workers. It has been shown that the government would be better off even if it goes to the extreme situation of paying wages while the operations are closed down. This only shows the extent of uneconomic working of some of the sick units. However, what is required is the political will and a scheme to bring about such job rationalisations with minimum hardship to labour.

III. Locational:

Large differences in locational costs:

As seen earlier, the "older" textile centres appear to be suffering more than the "newer" ones. One important factor responsible for this phenomenon is that these were centres where industrialisation took place first and a tendency for agglomeration was the natural outcome. This situation led to two consequences:

(i) it led to early unionisation as can be seen in Bombay and Ahmedabad and (ii) it also led to a tax structure in these States which focussed mainly on the textile industry in its revenue collection efforts since it was much easier to collect revenue from such large clusters of organised industry. Similarly, the labour laws wereoriented towards this clustered industry. As a result, these States suffer from high locational costs compared to the new textile centres which have been established only in the last couple of decades and where a tendency towards agglomeration is still not highly visible.

In any case, the industrial structure of the country has become more wide based now and it is unlikely therefore, that the kind of agglomeration of the textile industry seen in the older centres would be witnessed in the newer centres. In fact, all the cost disadvantages of the older centres can be seen from the following set of tables. The data in these tables has been collected from seven States and they have been converted through a common base of one mill of 25,000 spindles and 500 looms on the basis that had this been located in these States , what would have been the difference in the cost compared to its present location which is in Gujarat.

Table : 17

Magnitude of cost diadvantage of composite mills in Ahmedabad

(in lakhs of Rs)

Element of Cost	Annual Saving in Cost if unit were located in:					
	Tamil Nadu	Mahara-shtra	Madhya Prades	Harya-na	Punjab	Kerala
Power	46.68	22.08	50.52	35.04	54.48	80.40
Sales/Purchase Tax	-0.09	0.48	2.76	0.48	1.08	-
Octroi/Excise Entry Tax	3.24	2.88	7.92	0.24	15.12	3.24
Wages	-0.57	-15.12	34.68	157.68	133.44	13.32
Total	49.26	10.32	95.88	193.44	204.12	96.69

Table : 18

Saving in power accuring to a composite mill with installed capacity of 500 looms and 25000 spindles in different textile centres. Period based on H.T. power rate prevailing in April - June 1987

Elements of Cost	Annual Saving in Cost if unit were located in:					
	Tamil Nadu	Mahara-shtra	Madhya Prades	Harya-na	Punjab	Kerala
Total cost of Electricity per unit(Kwh) in Gujarat Rs./KWH	1.18	1.18	1.18	1.18	1.18	1.18
In the State Rs./KWH	0.82	1.10	0.79	0.91	0.76	0.56
Saving Rs./KWH	0.36	0.17	0.39	0.27	0.42	0.62
Annual Consumption of units (Kwh) by composite Mill (in lacs)	129.72	129.72	129.72	129.72	129.72	129 .72
Total Saving Rs.in lacs	46.68	22.08	50.52	35.04	54.48	80.40

RATES OF SALES TAX AND OCTROI PREVELANT IN DIFFERENT STATES THAT HAVE BEEN USED IN COMPUTATION SHOWN IN TABLE

	Tamilnadu	Maharashtra	Madhya Pradesh	Haryana	Punjab	Gujarat	K e r e
Rate of S.T./Purchase Tax(On purchase/Sales Value) %							
Cotton	ST 3.00 Addl. S.T. 1.00 *Point of Last purchase	4% CST & ST	3.25% CST 4% CST	4% CST 4% purchase tax	4% ST 4%CST	4% ST+AST 5%Adv.St 20% AST on ST	4%CST
Cellulosic Fibre	ST 4.00 SC on ST 0.10 Add. ST 1.50	2.5% CST	2.50% CST	---	1.6 %CST	5%+20%AST on ST	4% CST
Non-Cellulosic Fibrs	--	2% CST	2% CST	1.6%CST	1.6% CST	5%+20% AST on ST	----
Cotton Yarn	ST 3.00 Add.ST 1.00	2% ST	2%ST	2%ST 4% CST	2% ST 10%SC on ST 2%CST + C form or 4% CST + 10%SC	3%+20%ST+ AST	---
Blended yarn hanks	ST 4.00 SC on ST 0.10 Add. ST 1.50	2%CST 6% ST	3% CST	--	2% ST 10% SC on ST 2%CST, 10% SC on CST	5% + 20% ST + AST	--
Filament Yarn	--	2% CST 6% ST	--		4% CST	5% + 20% ST + AST	--
Coal/ Coke	--	--	4% CST		4% CST	4% ST	--
OCTROI/ENTRY TAX RATE							
Cotton Yarn	No Octroi Entry Tax at T.N.	1%	Entry Tax 0.25%(on ad.valorom basis	Rs.2.33 for 100 kg.	Octroi 150/Ton	1% Adv.	--
Polyester Fil. Yarn	-do-	1%	--	--	150/Ton	2.25%	----
Blended yarn	-do-	1%	0.50%	--	150/Ton	2.25%	--
Staple fibre	-do-	2%	0.50%	--	150/Ton	2.25%	
Polyester Rayon Fib.	-do-	2%	0.25%	--	150/Ton	1%	--
Cotton	-do-	2%	0.50%	--	200/Ton	4%	--
Colour & Dyes	-do-	2%	0.50%	--	200/Ton	3.5%	--
Chemicals	-do-	2%	3.50%	--	125/Ton	3.5 %	--
[illegible]	-do-						

Table : 20

Saving in wages accruing to a composite mill with installed capacity of 500 looms and 25000 spindles in the different textile centres. Wages rates as prevelant in the period April to June 1987.

Components of Wages	Annual Saving in Cost if unit were located in: Tamil Nadu	Mahara shtra	Madhya Prades	Harya-na	Punjab	Kerala
Wage structure in Gujarat Av, Basic(Rs. per month)	568.0					
Ave.D.A.(Rs. per month)	710.0					
Other(Rs.per month)	-					
Other benefits % of total	35.0%					
Total wages(Rs. per month)	1725.3	1725.3	1725.3	1725.3	1725.3	1725.3
In the State Average Basic (Rs.per month)	870.0	346.0	323.4	550.0	560.0	341.2
Average D.A.(Rs. per month)	383.0	823.0	734.3	-	-	904.8
Other (Rs.per month)	-	175.0	-	-	-	-
Other benefits % of total	38.0%	36.0%	41.0%	20.0%	47.0%	31.25%
Total wages in the State (Rs. per month	1729.1	1827.8	1491.3	660.0	823.2	1635.4
Saving (Rs. per month)	-3.84	-102.5	234.0	1065.3	902.1	90.0
No.of workers employed	1234	1234	1234	1234	1234	1234
Annual total savings (Rs. in lacs)	-0.57	-15.12	34.68	157.68	133.44	13.32

The first table above brings out the overall impact of the four various major factors in different locations. These are power, sales-tax, octroi and wages. As can be seen the difference can be as large as about Rs.2 crores per year for a unit located in Punjab compared to the same unit located in Ahmedabad - Gujarat. Differences of this magnitude can render such units totally uncompetitive. This is one reason why units in the older locations have come to greater grief.

Earlier entrepreneurship and technical skills also were concentrated in these centres which provided the counter-balancing advantage. However, with the spread of entrepreneurship and technical skills and with improvement in transport and communications leading to diffused market access the advantages of agglomeration have gradually disappeared. This has happened historically in other industrialised countries and is happening here now.

IV. Managerial factors:

Static perceptions

It must also be noted that the management of the textile industry has largely suffered from static perceptions. In other words, it was widely assumed by managements that the industry would be in a static state and the changes taking place would be temporary or cyclical. These perceptions related to material i.e. cotton prices, technology, products as well as markets. When raw material prices rose, it was expected that they would come back to their original levels. Technology was perceived through a mind frame of marginal changes e.g. from looms running at 200 RPM against looms running at 180 RPM or from 4 roller drafting system to top arm drafting system. The rate at which new products were brought out also was very low. Market demand was perceived as remaining the same both in terms of quantity as well as in terms of the type of products required. The distribution structure was also assumed to be static. It is also possible to explain such perceptions to several environmental factors. Because of the freeze on expansion and related slow growth of the decentralised sector in the first two decades after independence, the industry enjoyed a seller's market. Further, because of the foreign exchange problem as well as the concern about protecting employment, new technology was not allowed. Synthetic raw material was discouraged and cotton was considered to be the only raw material appropriate for our country. Both these factors also contributed to the static perceptions of the industry. As a result, the industry became more inward-looking and quite insensitive to global market opportunities. In fact, this happened to a number of old established industries in the country. It is in the early '80s that the damage done by the closed economy model to our industries was realised and the government started gradually opening up the system and emphasising the need for modernisation. In the textile industry, such static perceptions led to slow response to market changes. While it can be said that in a large measure the overall atmosphere of an inward-looking closed economy led to such perceptions and attitudes, the management must share blame for complacency.

All these factors led to textiles being a low profit industry which could not generate funds to meet the increasing requirements of working capital and renewal of fixed assets when the time came for its replenishment. This can be seen from the following tables compiled by the research associations based on the study of several composite textile mills over a period of 1962-1981 and then averaged out for one mill.

Table : 21

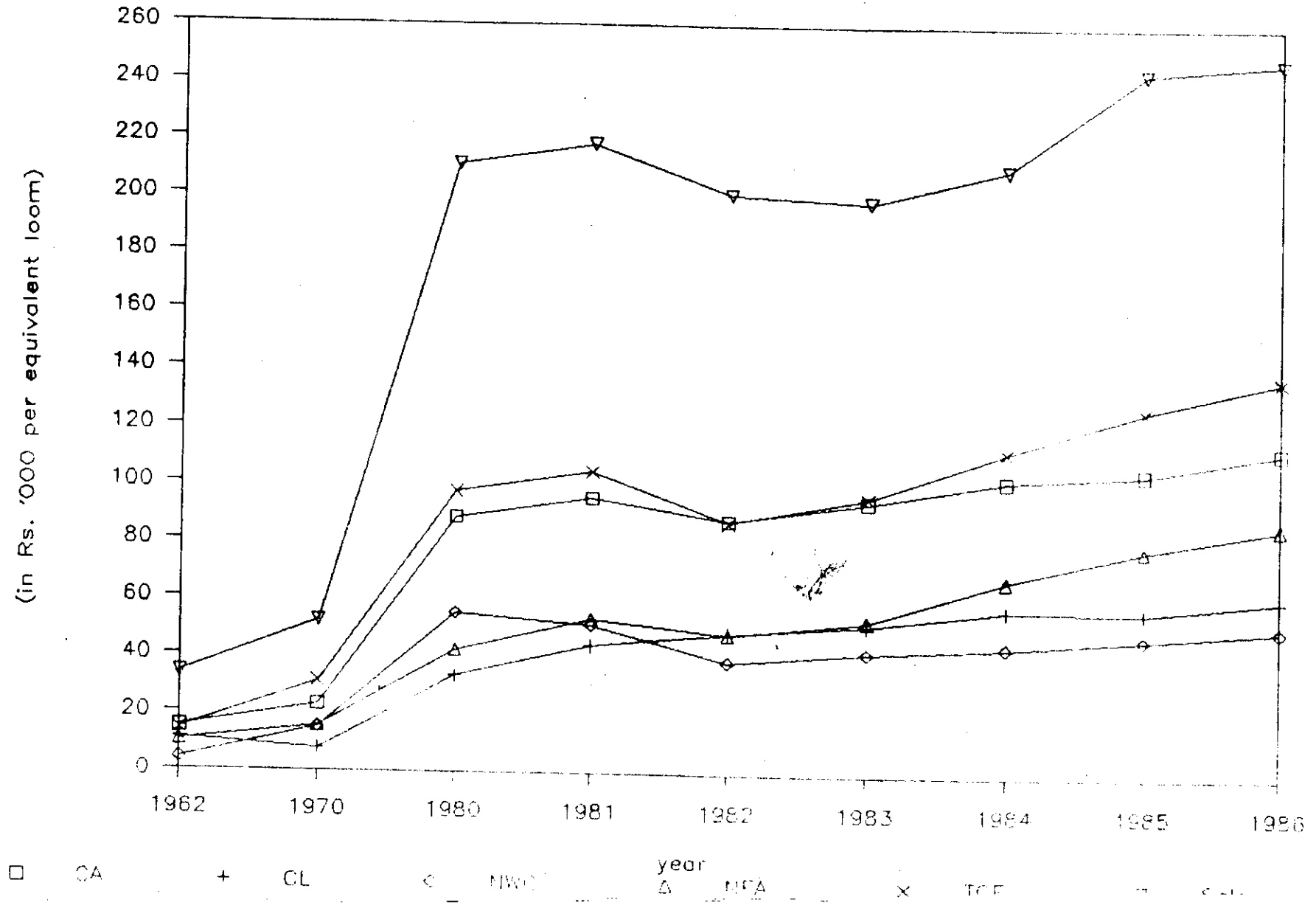
Impact on the finances of Textile Mills (In Rs.'000 per equivalent loom)

	1962	1970	1980	1981	1982	1983	1984	1985	1986
Current Assets	15.01	23.11	88.41	95.34	87.89	94.61	102.18	105.05	112.92
Less: Current Liabili.	10.96	7.72	33.31	44.14	48.89	51.98	57.40	57.12	61.84
Net working capi.	4.05	15.39	55.10	51.20	39.00	42.63	44.78	47.93	51.08
Net Fixed Assets	10.19	15.65	42.18	53.36	48.34	53.54	67.73	78.79	86.70
Total Capital Employed	14.24	31.04	97.28	104.56	87.34	96.17	112.51	126.72	137.78
Sales	33.79	52.14	210.80	218.10	200.85	198.45	209.94	243.94	247.71
PBTDI	4.27	5.03	16.58	9.14	9.01	5.13	-1.63	9.25	7.96
PBTDI % (as % of Sales)	12.63	9.64	7.86	4.19	4.48	2.58	-0.77	3.79	3.21
- do - (as % of Capital employed)	29.99	16.20	17.04	8.74	10.31	5.33	-1.44	7.29	5.77

Turn over ratio	2.37	1.68	2.17	2.08	2.30	2.06	-1.87	1.92	1.80
Borrowings									
- Bank									
- Long term	2.21	19.18	60.22	72.63	90.42	95.86	115.72	118.45	133.20
Total									
Index									
Interest paid	0.45	1.76	10.44	11.81	10.74	10.74	12.56	12.35	13.51
Index	(100)	(391)	(2320)	(2624)	(2387)	(2387)	(2791)	(2744)	(3002)

DERIVED FROM TABLE 21

Impact on the finances of Textile Mills



A study of the above table brings out the following:

a. textiles is a low profit industryand profitability has been declining over this period

b. the working capital requirements are increasing as the general level of prices goes up and the terms of trade vis-a-vis the distrubution trade becomes adverse,

c. Consequently, all modernisation has had to be financed out of borrowed capital and therefore borrowings have been going up throughout this period. In fact, long term loans have gone up by 32 times leading to a 26-fold increase in the interest burden during this period. The debt equity ratio has been deteriorating. It is often argued that textile mills have not modernised enough. What these figures show is that the textile industry did not have enough internal generation to carry out modernisation. Whatever was possible with the generation of resources, it has stretched itself to do its best. In the process, by 1980s, its financial structure became rather weak. It had been gradually deteriorating and by '80s it would appear to be somewhat shaky.

Coming to the more recent impact, we could take the cost squeeze in the year 1987 compared to 1986. This is brought out in the following table.

Table : 22

Cost Squeeze on Mills - 1987

(Figures in first two lines i whole sale price index)

	Cotton	Power & fuel	Wages*	Textile Stores & m/c	Dyestuff	Mill-made cloth
1986-87	184.6	619	701	497	342	272.5
1987-88	300.0	641	771	506	362	278.3
% Increase	62.5%	3.5%	10%	2%	5.87%	2%
% of production cost	40%	12%	23%	5%	10%	-
Increase in cost of production of cloth	25%	4.2%	2.3%	.1%	.6%	32.2%

Against an increase in production cost of 32.2% disregarding other overhead increases cloth prices rose by only 2%

* Wages - Index of consumer prices for industrial worker for Bombay is used here.

Cotton prices played havoc in 1987. All other costs also went up. The indust had to contend with a cost rise of 32% while price increase could cushion i only to a very marginal extent. Mills which tried to change their product mi and to some extent for synthetic raw material using mills, the impact woul have been somewhat lower. At the same time, synthetic blended fabric price fell by about 5% against the rise shown in the cotton textile fabrics. In othe words, the year 1987 worsened the finances of the composite sector.

Implementation of Textile Policy:

Many of these problems were analysed and recognised by the Expert Committe which was formed to go into the problems of the textile industry and formulat a new policy. They developed a comprehensive set of recommendations an observed in the final paragraph:

> "It is of paramount importance that our recommendation on the report shoul be treated as an integrated set and should be adopted and implemented as a package. Otherwise, more distortions may occur and the desired result o integrated and harmonious growth would not be achieved".

The Textile Policy initiated in 1985 accepted various recommendations of the Expert Committee. The main points are as under:

Table : 23

Textile Policy - 1985

1. Expert Committee	-	Identification of problems and comprhensive set of recommendations as a package to restructure the industry.
2. Textile Policy	-	Acceptance of Expert Committee recommendations. Main points :-
	-	Dismantling the sectoral approach to the industry retaining special role only for non-power technology.

- Multi-fibre orientation and fibre flexibility

- Adequate raw material at reasonable and stable prices
- Progressive reduction in prohibitive levels of duties on synthetic raw material

- Removal of entry and exit barriers

- Emphasis on modernisation and technology and machinery imports at international prices

- To make Indian textiles more competetive in the world market.

It would thus appear that the textile policy was formulated to take care of the deep structural and environmental problems of the industry. The policy came up with certain basic environmental changes. It is a document which marked a watershed in the country's textile policy. Moreover, the contraints and restrictive policies of the earlier years were given a goodbye e.g. full fibre flexibility was restored, the policy equated composite mills and power-looms and power processing sectors; the policy stated that the prices of synthetic raw materials will be progressively brought down, and so on. The whole edifice of the restrictive policies which created a suffocating atmosphere over the previous four decades was dismantled.

However, when it comes to the implementation of this policy, there is a lot to be desired and the removal of many of the impediments in the full realisation of the potential of this industry are either unimplemented or being implemented in a halting manner. For example, the duties were reduced in August, 1985. After that the government waited for nearly 2½ years to announce duty reduction. Cotton prices have been fluctuating very heavily as we saw earlier. A role was assigned to CCI to stabilise these price fluctuations but nothing has been done as yet.

Exports

The industry was to be made internationally more competitive. There is a vast potential for exports. This can be seen from the tables given below:

Table : 24

Balance of Trade in Cotton and Synthetic Manufactuers
(Express in Fibre Equivalent)

'000 tonnes

Region	Cotton	1984 Man-made	Total
Developed Countries	1811	461	2272
Developing Countries	-2208	-933	-2941
India	-205.2	-6.2	-211.4
Republic of Korea	-186.2	448.3	-634.5
Hong Kong	-116.8	-20.9	-137.7
Pakistan	-355.1	-5.9	-361.0
China (still rapidly increasing)(Incl.Tiwan)	-835.9	-818.6	-1654.5

- Means exports exceeds imports.

Source : World Apparel Fibre Consumption February 1987.
Food & Agricultural Organisation, Rome.

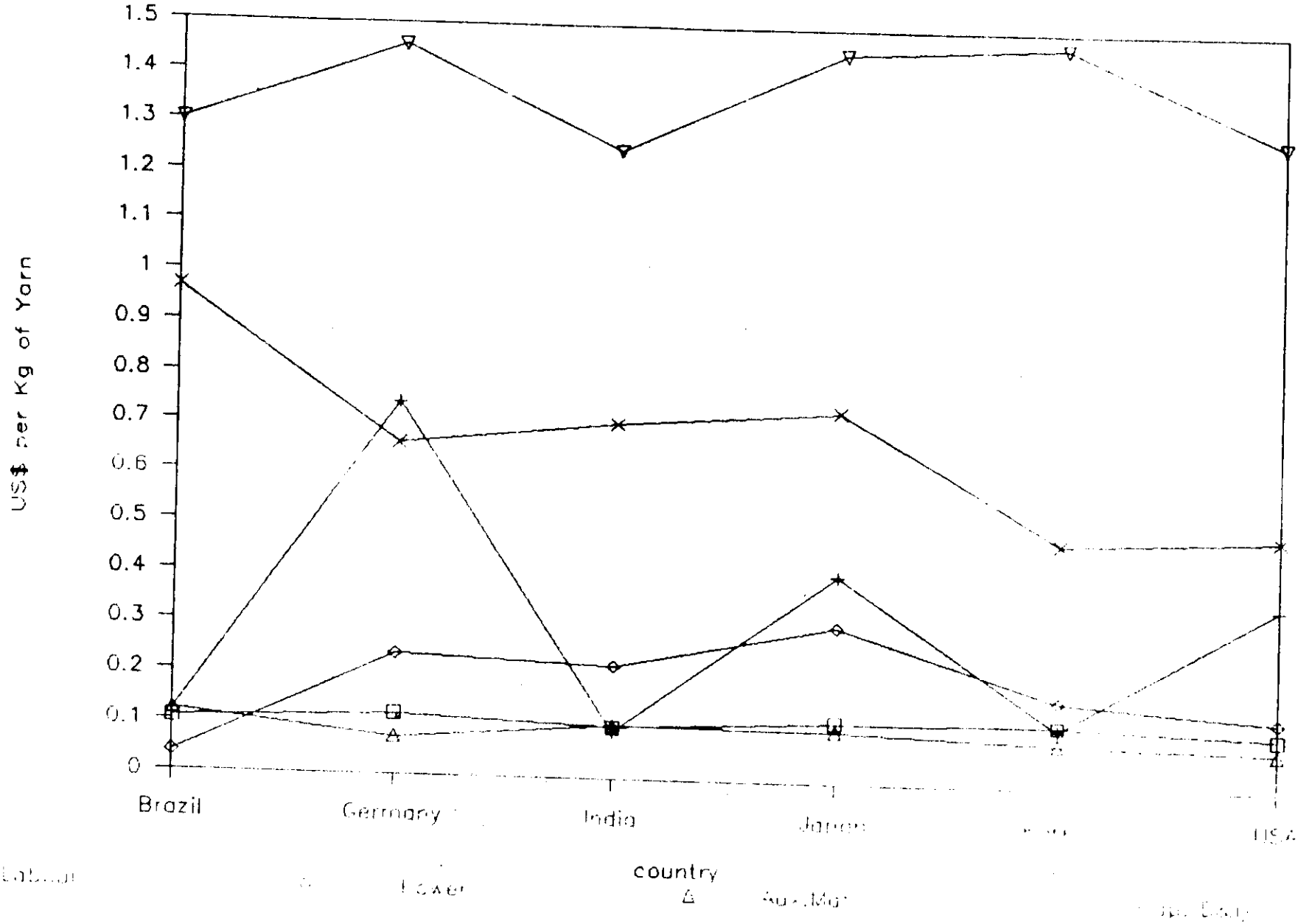
Table : 25

Total Yarn Costs 1987

Cost Element	Brazil	Germany	India	Japan	Korea	USA
US$ per kg of yarn						
Waste	0.1058	0.1199	0.1015	0.1195	0.1214	0.1039
	4%	4%	4%	4%	5%	4%
Labour	0.1194	0.7414	0.0935	0.4079	0.1145	0.3591
	5%	23%	4%	13%	5%	15%
Power	0.0383	0.2387	0.2219	0.3080	0.1690	0.1357
	1%	7%	9%	10%	7%	6%
Auxiliary Material	0.1216	0.0745	0.1040	0.1030	0.0861	0.0752
	5%	2%	4%	3%	3%	3%
Capital(Depre-ciation & interest)	0.9679	0.6601	0.7059	0.7383	0.4806	0.4955
	36%	20%	29%	24%	20%	20%
Raw Material (Cotton)	1.3000	1.4550	1.2500	1.4500	1.4700	1.2800
	49%	44%	50%	46%	60%	52%
Total yarn Costs	2.6530	3.2896	2.4768	3.1267	2.4416	2.4494
	100%	100%	100%	100%	100%	100%
(Index:Germany# 100)	(81)	(100)	(75)	(95)	(74)	(74)

Source : 1987 International Production Cost Comparison - Spinning/Weaving

Total Yarn Costs 1987



USA

Table : 26

Total Fabric Costs 1987

Cost Element	Brazil	Germany	India	Japan	Korea	USA
US$ per yard of fabric						
Waste	0.020	0.022	0.019	0.022	0.023	0.019
	2%	2%	2%	2%	3%	2%
Labour	0.055	0.351	0.044	0.206	0.049	0.190
	7%	30%	6%	20%	7%	24%
Power	0.017	0.100	0.090	0.120	0.068	0.056
	2%	8%	11%	11%	9%	7%
Auxilliary Material	0.058	0.068	0.070	0.067	0.067	0.056
	7%	6%	9%	6%	9%	7%
Capital (Depreciation&Interest)	0.443	0.363	0.329	0.371	0.245	0.240
	53%	31%	42%	35%	34%	30%
Raw Material (Cotton)	0.242	0.271	0.232	0.270	0.273	0.238
	29%	23%	30%	26%	38%	30%
Total Fabric Costs	0.835	1.175	0.784	1.056	0.725	0.799
	100%	100%	100%	100%	100%	100%
(Index:Germany =100)	(71)	(100)	(67)	(90)	(62)	(68)

Note : As the cost calculations are based on a specific type of loom and fabric, nc inference can be made regarding the competitiveness of the entire weaving industry in the countries concerned.

Source : 1987 International Production Cost Comparison - Spinning/Weaving

Table : 27

W E R N E R Labour Cost Comparison - Spring 1987 in US-Dollars

Rank 1987	Country	Spring 1987	Ratio 1987	Winter 85/86	Ratio 85/86	Spring 1984	Ratio 1984
01	Swtizerland	15.70	170	10.84	125	8.65	101
02	Holland	13.75	149	9.76	113	9.80	114
03	Sweden	13.69	148	9.61	111	7.91	92
04	Belgium	13.66	148	10.08	116	8.84	103
05	Denmark	13.46	146	10.07	116	7.97	93
06	West Germany	12.98	141	8.88	103	7.54	88
07	Norway	12.87	139	11.06	128	9.66	112
08	Italy	12.67	137	8.22	95	6.35	74
09	Austria	12.59	136	8.71	101	6.76	79
10	Japan	11.99	130	8.20	95	6.28	73
11	Finland	10.70	116	8.06	93	6.05	70
12	France	9.99	108	7.44	86	6.07	71
13	Canada	9.85	107	8.50	98	8.50	99
14	USA	9.24	100	8.66	100	8.60	100
14	Australia	7.83	85	7.03	81	7.85	91
16	United Kingdom	7.09	77	5.90	68	5.46	64
17	Ireland	6.70	72	5.31	61	4.20	49
18	Spain	4.78	52	3.54	41	3.87	45
19	Syria	4.29	46	3.41	39	3.12	36
20	Greece	4.00	43	3.14	36	4.30	50
21	Tunisia	2.56	28	2.38	27	1.21	14
22	Venezuela	2.35	25	2.51	29	3.27	38
23	Taiwan	2.09	23	1.60	18	1.64	19
24	Brazil (SAO Paulo)	2.07	22	1.67	19	1.63	19
25	Uruguay	1.97	21	1.20	14	NA	NA
26	Hongkong	1.93	21	1.81	21	1.65	19

27	Brazil (South)	1.90	21	1.43	16	1.00	12
28	Portugal	1.83	20	1.27	15	1.28	15
29	S.Korea	1.77	19	1.57	18	1.89	22
30	Colombia	1.66	18	1.65	19	2.81	33
31	Argentinia	1.60	17	1.79	21	2.23	26
32	Peru	1.40	15	0.74	9	NA	NA
33	Turkey	1.28	14	1.05	12	1.19	14
34	Egypt	1.19	13	0.79	9	0.90	10
35	Brazil (North)	0.90	10	1.19	14	0.93	11
36	Mexico	0.83	9	1.82	21	2.62	30
37	South Africa	0.82	9	0.91	10	1.64	19
38	Morocco	0.74	8	0.59	7	NA	NA
39	India	0.65	7	0.61	7	0.71	8
40	Kenya	0.62	7	0.58	7	0.53	6
41	Thailand	0.58	6	0.53	6	0.56	7
42	Philippines	0.57	6	NA	NA	NA	NA
43	Nigeria	0.48	5	1.56	18	2.13	25
44	Pakistan	0.37	4	0.31	4	0.49	6
45	Sri Lanka	0.31	3	0.29	3	0.28	3
46	Ethopia	0.29	3	0.27	3	0.27	3
47	P.R.China	0.23	2	0.20	2	0.26	3
48	Indonesia	0.20	2	0.23	3	0.23	3

Rank 1 = Highest; Rank 48 = Lowest wages

Ratio : Based on USA = 100

When we look at our export performance with that of Korea, tiny Hongkong or Pakistan, it is dismal. (Table 24). As far as competitive factors are concerned, the major handicaps are high power and capital costs. Although our wage rates are much lower than those in advanced countries it is significantly higher than our major competitors viz. Pakistan and China. For reasons seen earlier our labour productivity is lower. The report of the recent ICMF delegation also brings out that the power and capital costs are lower in Pakistan. Thus in major non-quota countries like Japan, we are outpriced by Pakistan. It would appear, quite paradoxically, that in quota countries quotas are not a hindrance but a help for our exports, as countries like Pakistan and China oprate under quotas. Had there been no quotas, we probably would have lost ground against them. This prevents the competitive edge that we should have over not only the advanced countries but even other new exporting countries.

Exit barrier:

One other major recommendation and policy plank which has remained on paper is the one relating to removal of exit barriers. A Rehabilitation Fund has been created but no effective action has been taken to close fully or partially units or activities which have become unviable. Excess capacity persists as there are no entry barriers now. Domestic demand is stagnating. Exports have begun to look up. Export policies are more realistic now. But we are also up against trade barriers. The industry is being brought out into an open air atmosphere from a "black hole". The bird has been uncaged and it has to learn to fly again. The industry has started on that learning curve. Before it can gather speed, it will necessarily go through some faltering steps.

In this context, if we persist in supporting unviable capacity, it would only lead to spreading of sickness and weakening the entire structure of the industry.

Two other policy points also have to be implemented. One relates to making modern machinery available at or near international prices and other is progressive reduction in the price of intermediate products for synthetic raw material.

What needs to be done now?

An action programme follows from the above diagnosis:

1. The 1985 policy has been an outstanding document. It marks a watershed in industrial policy making. It goes to the root of the structural problem. But as was feared by the Expert Committee, the implementation has faltered. It is piecemeal. It is halting.

   What is required is full and quick implementation of the policy with respect to:

   a. Exit barrier
   b. Duty reduction on synthetic raw material and intermediates
   c. Boost to exports by making industry internationally competitive
   d. Stabilisation of raw material prices.

   Some of these have been discussed in detail earlier.

2. Exports:

   For boosting exports, the following actions are required:

   1. Improving international competitiveness:

   Our power and capital costs are high.

   a. The scheme of making diesel available at international prices for units exporting more than 25% of their production is in the right direction. But this needs to be modified so as to encourage other units through suitable graduated scale e.g. cut-off rate of 10% may be accepted and for 10-15%, 70% of requirement may be given, for 15 to 20% - 80% and for 20 to 25% - 90% may be allowed and for 25% and more, 100% as in the present scheme.
   b. Our capital costs are high because of import and excise duties. Like in Pakistan, these duties have to be reduced to 0-5%. This should apply to imported as well as domestic machinery accessories or components. Our rate of interest for modernisation will also have to be brought down to about 7-8% as in Pakistan. Packing credit is available in Pakistan at 6%. The same should be brought down here.

c. Blended yarn and fabric is a major product area for export. We are not competitive here because our wastages allowance fixed at 21% is insufficient to cover both wastage and rejects. Many times international constructions and widths are not workable in the local market and therefore rejects realise far lower prices than normal rejects of local variations. Therefore, there is need to compensate the same through a higher replenishment allowance.

2. Exports also suffer because many units are reluctant to take the risk of committing long deliveries of about 8 to 12 months for exports e.g. USSR. The risk is mainly from fluctuating cotton prices. Packing credit is available only for six months. Even here the banks stipulate the conditions of three months roll over. Besides, it is quite expensive for mills to physically carry stock. Therefore, a hedge contract is necessary. So, mills get a second long-term cover for raw materials at low cost.

3. Inland transport costs are substantial in our country because of the size and the high cost of fuel. Earlier to neutralise this factor, a scheme of distance premium was being operated. The same needs to be immediately reintroduced to compensate mills which are located at a distance from the major exporting ports.

4 State and local governments in the old textile centres will have to take a realistic view and neutralise the cost disadvantages of the units in such States if they want these units to be operational. Milk cows are running dry. They will have to confer backward area status to these units and provide succour, so that the capital erosion suffered by these units over the years, because of high State and local imposts, can be somewhat restored enabling quick rehabilitation of the units.

5. The State governments in the older textile centres will have to recognise that these units suffer from locational disavantages and being old they have layout and other problems. The only counterbalancing asset they have is

the land on which they stand. The government should therefore, allow them to sell whatever free land they have and utilise the funds for strengthening either their working capital base or for accelerateing modernisation. Such free restructuring of assets will impart vitality to the units without creating a drain on public funds. On their part, managements will have to accept reasonable conditions of monitoring of realisations and use of such funds by financial institutions.

6. Labour will have to accept that restructuring will involve some job reshuffling. Some units or activities will close down. Other units will then become viable. They will become even vibrant in the future leading to more jobs. Any attempt to protect all present jobs in their present form will be self-defeating. Jobs can ultimately be protected and expanded only by the revival and robustness of the industry. The solution lies in devising a scheme by which workers affected by partial closures are helped. One such possible scheme is described in the annexure A. Scientifically determined work loads, wages linked to productivity and capacity to pay, flexibility in employment through multifold job training and improving utilisation through relay recess working and a 7-day week will have to be accepted. Any delay in our procrastination of such an action will only increase job losses.

7. Managements will have to act to take advantage of the new environment which is emerging. Access to new raw materials and technology has greatly improved. Hurdles in the way of planning fuller capacity utilisation and choice of products for one's target market have been mostly removed. Exports are encouraged. Exchange rates are becoming more helpful. The industry has been brought out from the cosy cocoon in to the world arena. We have to adapt quickly, assess international trends and plan ahead. Our market place now is not India, it is the whole world. The challenge is to create new products through newer raw materials and technology and relate them to the market.

Rehabilitation of sick units:

To sum up, most of the problems afflicting the composite textile sector are environmental, locational and structural. The policy document of 1985 has all the necessary elements for revival of the industry. They have to be faithfully and expeditously implemented. In the meantime, a short term plan for rehabilitating sick but viable units has to be followed.

The unit should have a good plant. Well balanced properly maintained, less than 20-25 years old machinery are some factors which should be kept in mind for judging the plant. Technical performance in the immediate past of normal working should be at least at an average industry level. This can be easily judged by comparing it with industry norms for comparable level of technology employed. The product portfolio should be good. Quality level, market relevance and trade image are important. The competitive edge of established products should be judged. Management team and work culture should have professional orientation. This can be juidged by background, work styles and systems of the people in the organisation. In difficult times management commitment is very crucial. This can be judged by the background and history of the management. Current indications of involvement also have to be monitored. Often Promoter's contribution is insisted upon to ensure such involvement. This is helpful wherever feasible but it should not be the sole indicator.

> While it is difficult to recommend that no promoter's contribution need be insisted upon, Banks and financial institutions should take a more sympathetic view in cases where promoters although satisfying prescribed criteria in regard to the quality of management do not have the means to raise the necessary contribution and grant them longer periods for bringing in their contribution.
>
> (Source : Expert Committee Report)

The nature of support required to be given will generally take the form of financial accommodation e.g. loan deferment or rescheduling, new softer term loan, deferment of interest or statutory dues, financial restructuring and some cost relief for a limited period.

Annexure "A"

A scheme for partial closure

The workers who are compulsorily retired under the scheme should be properly compensated. The elements of such compensation scheme are as under:

a. It should be in the form of a monthly payment over a period ranging from 5-8 years, depending on age, year of service etc.

b. There should be a capital sum which should yield monthly payments based on annuity principle.

c. The initial capital payment should be contributed by:
   a. Central Government
   b. State Government
   c. The unit which implements the scheme of partial colsure

d. Such an annuity should yield a net return of 11%

e. Monthly payment should be about 50% of take-home wages of the first half of 1987 i.e. about Rs.600 per month.

f. Such payment must be made to each worker irrespective of his period of service.

Illustration:-

For a payment of Rs.600/- per month for five years at an interest rate of 11% per annum, initially the sum required is about Rs.28,000/-. The sources of these funds would be as under:

Central Government Rehabilitation Fund	Rs.20,000/- *
State Government	Rs. 4,000/-
Industry	Rs. 4,000/-
Total	Rs.28,000/-

* is the spresent value of the promised payment of 75% of the salary in the first year. 50% in the second year and 25% in the third year under the Rehabilitation Fund Scheme.

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