

**Smt Nirmala Sitharaman,
Hon'ble Minister of Finance**

Ministry of Finance
North Block
New Delhi

Respected Madam,

The Clothing Manufacturers Association of India (CMAI), one of the Largest and Oldest Association representing the interests of the Domestic Garment Industry, expresses its deep sense of disappointment and anguish at the recent Announcements from the GST Council indicating that with a view to address the issue of Inverted Duty Structure in the Textile Industry, it has been decided to change the GST Rates applicable on Fabrics and Garments with effect from 1st January 2022. Although no formal Communication has been received, Reports indicate that the Current Applicable Rate of 5% on all Fabrics and Garments up to the Price of Rs.1,000, will be increased to 12%.

The stated Objective of such a change is the anomaly of an Inverted Duty Structure faced by a Small Section of the Industry. It is indeed disturbing, that merely to correct an anomaly faced by One segment of the Industry, which constitutes not more than 15% of the total Industry, the Government is considering increasing the Prices of nearly 80% of the final Products to the Consumers (Garments over Rs.1,000 were in any case at 12% GST)..

CMAI urges the Government and the GST Council to reconsider this Proposal based on these crucial Issues:

IMPACT ON INDUSTRY

1. The Domestic Garment Industry is still struggling to revive post the Covid Pandemic. Monthly Surveys conducted by RAI – Retailers Association of India – indicates most of the Apparel Retail Stores are still at 60 – 65% of pre-covid levels (Retail, which is the lifeline of Apparel Manufacturing, was one of the first Sectors to shut down and one of the last to Re-open). There would be a direct correlation between these levels and the health of the Manufacturing Sector. Most indicators point to end 2022 as the earliest that the Industry can hope to achieve its pre-covid levels. Any increase of Taxes at this juncture would be disastrous for the Industry at this juncture.
2. One of the most serious impediments for the Growth in the Domestic Garment Industry is the traditionally long Credit extended to Buyers, and the consequent high requirement of Working Capital. The Covid Pandemic has seen these Credit Periods extended even more, where desperate Manufacturers are compelled to extend higher Credits in order to obtain some Business and Survive.

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THE CLOTHING MANUFACTURERS ASSOCIATION OF INDIA

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Increasing of GST Rates from 5% to 12% will create greater stress on the already extended Working Capital requirements of the Industry, especially of the MSME Sector (which accounts for over 90% of the Industry).

It will be important to note here that Banks which had extended Additional Credit to MSMEs under the Government backed Emergency Credit Line Scheme (which was a crucial Support to the MSMEs last year to help them Survive), have started recalling their Loans. Given the limited Recovery of the Markets even today, this is causing Severe Hardship to the MSME Sector.

3. Surveys conducted by CMAI during 2020 and 2021 indicate that the Covid-19 Pandemic has already seen 18-20% of Garment Units across the Country Shutting or Scaling down their Operations. The Garment Industry, being the highest Employer in the Country after Agriculture, is already seeing a drop of not less than 20% Employment in the Sector. Any additional burden on the Industry will see a definite Impact on the Economic viability of this Industry.
4. Admittedly, there exists the problem of Inverted Duty Structure in a small segment of the total Textile Value Chain – not exceeding 15% of the total Industry. What is being done will Impact 85% of the Industry to ease the Problem faced by 15% of the Industry.

We strongly believe that the move to Increase GST Rates would be a case of the Remedy being worse than the Disease.

IMPACT ON EMPLOYMENT

The Garment Industry in India Employs close to 11 Million Workers, of which 8 Million are engaged in the Domestic Sector and 4 Million in the Export Sector. It is estimated that almost an equivalent Number of people are indirectly Employed by the Industry – in Embroidery Units, Washing Laundries, Packaging Industry, Mathadi Work Force, etc. even if we estimate an 18% Shrinkage in Workforce, the Industry is likely to see a Job loss of 1.44 Million Jobs. An increase of Taxes by as much as 7% will lead to a much Higher Level of Job losses – possibly in Excess of 2 Million.

IMPACT ON INFLATION & CONSUMPTION

1. As a result of the massive Price Increase of Raw Materials such as Yarn, Fabric, Fuel, Packaging Materials, Transportation, etc., the Industry is already seeing a 15-20% Price Increase in the final Price of the Product. The Consumer is already reeling with Job losses, Wage Cuts, and Social and Personal traumas. Adding another 7% to the Prices will lead to a very Severe Drop in Consumption, or a Shift to Cheaper, Lower quality Goods.

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The combined goal of any Government and Industry would be to Improve the Quality of Consumption in Society – Increasing Prices beyond the reach of the Common Man goes against this basic Principle.

2. Indian Garment Industry is still largely a Cotton based Industry. Cotton Garments, including Traditional Wear Categories such as Dhotis, Sarees, etc. form the bulk of Clothing used by the Poorer Sections of the Society. This Section is already struggling to come out of the Severe Economic, Social, and Personal trauma caused by the Pandemic. Any Additional Burden on this Section of the Population will result in Consumer Negativity which will not be Beneficial to anybody.
3. In any Country where there are differential Rates of GST, Essential Commodities, especially those Consumed by the Poorer Section of Society, would be levied at the Lowest Slab. We will be Removing an Essential Commodity Item from the Lowest Slab to a higher slab – which would be Unprecedented.

IMPACT ON COMPLIANCE & REVENUE COLLECTION

1. It is a known fact that a very Large Segment of the Garment Industry was in the Unorganised or Informal Sector before GST. This Sector has gradually evolved to the Formal Sector over the last few Years, primarily due to the Low and Reasonable Rate of GST. This has not only improved the Tax Collection of the Government but also brought these Players in the formal system for all other Taxes.
2. A case in point is the experience of the Tamil Nadu Government. The Total Collection of VAT from the Entire Textile Industry before the GST Regime, when VAT was 5%, was a little over Rs.300 Crores. Post GST, with the State GST Rate at 2.5%, the Collection shot up to Rs.3000 Crores.
3. Raising the Taxes will again Increase the temptation of such fringe Players to revert back to the Informal Sector. This will not only Impact the Government Revenue Collection under GST, but also Impact its other Taxation Streams.

SUGGESTED SOLUTION

We believe that a far more Beneficial and Reasonable Solution, which will not only Resolve the Inverted Duty Structure anomaly but also give a fillip to the Industry is to make the Entire Value Chain subject to a 5% Rate.

We are currently undertaking a detailed Economic Study through India's most Respected Agencies, which indicates that the drop in Revenue for the Government if the Entire Chain were to be Taxed at 5% will be negligible, and in fact could even result in a Higher Revenue Collection with greater Compliance and Consumption Impetus.

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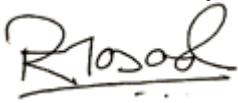
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We also urge the Government to Consider the Cost to the Government as well as the Industry to create the 2 Million Jobs which could be lost due to this Increase in GST Rates, as opposed to the marginal drop in Revenue, if any.

In light of the above, CMAI strongly urges the Central and State Governments and GST Council to review their Decision and find alternate solutions to address the Inverted Duty Structure problem. In the absence of such a solution, CMAI urges the Authorities to maintain the Current Status quo.

With Respectful Regards,

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Masand', with a horizontal line underneath.

Rajesh Masand
President

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