Debate No. 29

Answers to Private Notice Questions - 29 July 2003

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EPZ INDUSTRIES - CLOSING DOWN & JOB LOSSES

The Leader of the Opposition (Dr. N. Ramgoolam) *(By Private Notice)* asked the Minister of Industry and International Trade whether, in regard to the EPZ, he will state -

number of job losses through contraction of existing enterprises and factory closures from September 2000 to date;

ether the sector will further contract in 2003;

forecast regarding the number of enterprises likely to close down or downsize during the next 2 years and the estimated job losses, and

measures taken by Government have not reversed the existing trend.

Mr Cuttaree: Mr Speaker, Sir, with your permission, I shall make a combined reply to this question and to PQ B/541 from hon. Duval, which relate to the same subject matter.

With regard to part (a) of the PNQ, the information sought in relation to job losses is as follows -

ugh contraction: 15,254 workers

ough closures: 9,000 workers

However during the same period, the number of new enterprises set up is 42, involving 3,201 new jobs while existing firms created 15,822 jobs through expansion.

As regards part (b), the question of whether this sector will further contract depends to a large extent on what is happening on the international field.

Concerning part (c), companies, which intend to cease operations, are required by law to notify authorities. As to date two enterprises namely Summit Textiles and Leisure Garments have notified that they will reduce their labour force by 4,454 , which includes 1,131 expatriates.

As for part (d) of the PNQ, which was already put by the Leader of the Opposition in his PNQ of the 27 May 2003, the Minister then stressed that the different policy measures would pay dividends in the medium to long term. The industry was going through a painful restructuring process and measures should have been taken a long time back, to allow the sector to adapt to a changing world environment.

In fact, this Government has, as soon as it took office, given special attention to the EPZ Sector and has since then reinforced the existing incentives and support measures, which I shall elaborate further.

Mr Speaker, Sir, I wish to clarify that the meeting referred to in PQNo. B/541 of hon. Duval, was not a tripartite meeting, but a joint Government/private sector meeting convened to follow up on the measures announced in the 2003/04 Budget Speech. At that meeting, we reviewed the situation in the EPZ sector in the context of challenges both at the local and international levels and highlighted the wide array of incentives, concessions, facilities and other support measures granted to the textile and clothing sector over the years. These have been considerably improved and extended by the present Government, since we assumed office through -

introduction of special line of credit of Rs500 m to finance the modernisation of EPZ companies;

set up of a one-billion rupees National Equity Fund;

creation of a special package of incentives to promote the setting up of spinning mills;

rescheduling of the initial wastewater rates for the EPZ and non-domestic sector agreed under the sector policy tariffs structure;

introduction of various support programmes targeted mainly at re-engineering operations, raising productivity and addressing skills shortages.

Mr Speaker, Sir, as the House is aware, in the 2003/04 Budget Speech, the loan ceiling under the DBM Textile Modernisation Loan Scheme has been raised from Rs5 m to Rs20 m per enterprise and the interest rate reduced from 10% to 8% per annum. A Working Capital Finance Scheme has been introduced by the DBM to finance the working capital requirements of export-oriented manufacturing enterprises, particularly those operating in the EPZ sector. Under the Scheme, companies can benefit from a revolving loan, with a ceiling of Rs5 m, repayable over a period of up to four years, with interest at a concessionary rate of 10% per annum. Moreover, the carry forward or transfer of unrelieved accumulated losses in cases of take-over of an ailing company, especially in the EPZ, will be allowed under certain conditions, such as safeguard of employment.

At the joint Government/private sector meeting, the Joint Economic Council (JEC) proposed the setting up of an "Emergency Team" and a "Policy Intervention Team" to help accelerate the restructuring of textile and clothing companies. They argued that the situation in the textile industry calls for a corporate overhaul which can only be engineered by Government because of the inability of the corporate sector to trigger the process on its own. Further, the sector is not homogeneous while the problems, which are of a multi-dimensional nature, differ from company to company. The idea was welcomed by Government and the discussions were subsequently held with the JEC to detail out the proposal, in particular, the composition of the two teams, their terms of reference and the modus operandi as well as the interface they will have with other public and private sector bodies.

Mr Speaker, Sir, I am pleased to inform the House that the Emergency Team, which is known as the "Textile Emergency Support Team" (TEST), has already been set up and held its first meeting on 18 July 2003. TEST is a joint public-private sector team. It comprises two representatives of the private sector and one representative each of the Ministry of Finance, the Ministry of Industry and International Trade, the Export Processing Zones Development Authority (EPZDA) and the National Productivity and Competitiveness Council (NPCC). Other members from both the public and private sectors will be co-opted, as and when necessary. TEST is under the joint chairmanship of the Ministry of Finance and the JEC.

The functions of TEST are to -

as a driving force for the restructuring of textile and clothing companies;

ertake, with the assistance of experts, a corporate diagnosis of individual companies, using performance benchmarks, to identify their strengths and weaknesses in areas such as management, organisation, production, finance and marketing;

st companies in developing business restructuring plans aimed at increasing their efficiency and international competitiveness;

ract with relevant support institutions/ministries, including the National Equity Fund (NEF) and the Development Bank of Mauritius (DBM), to address specific problems faced by companies, and

ort to the Policy Intervention Committee on Textile issues requiring policy decisions.

TEST, Mr Speaker, Sir, is serviced by the EPZDA, but would have its own full-time team of experts, who might include textile engineers, financial analysts, merchant bankers and management consultants. The team would decide on the appropriate range and type of expertise it would require to fulfil its mission. Resources from public sector institutions such as EPZDA and NPCC would be tapped in priority and, where necessary, expertise from outside the public sector or from overseas would be recruited. In this respect, the possibility of securing technical assistance from international agencies and institutions, namely UNCTAD, WTO and the European Union, will be explored.

A textile and clothing company desiring to obtain funding from the NEF and under the DBM Textile Modernisation Scheme would, as a general rule, be required to undergo a corporate diagnosis by TEST. On their part, NEF and DBM would focus on financial assessment of the company, but would subject their financial participation/assistance to the company implementing the restructuring programme recommended by TEST. Appropriate Memoranda of Understanding would be concluded between TEST on the one hand and the NEF and DBM on the other hand to formalise these arrangements. Private financial institutions, including commercial banks, would also be invited to participate in the restructuring efforts of textile and clothing companies.

Mr Speaker, Sir, as a first step, TEST would organise meetings and workshops to sensitise operators on the urgency of corporate restructuring, explain its role and the assistance it could provide. I am informed that a meeting of TEST with all the stakeholders of the garment and textile industry will be held on 31 July 2003 at La Cannelle, Domaine les Pailles. The target audience would be the Chief Executive Officers and Managing Directors of textile and garment enterprises, service companies and financial institutions.

TEST would report to a Policy Intervention Committee on Textile (PICT), comprising relevant Ministers and representatives of the private sector. PICT would examine and intervene on policy issues identified by TEST in the course of its work. The Chairpersons of TEST would form part of the PICT to facilitate information exchange between the two bodies. The Deputy Prime Minister and Minister of Finance will personally chair the Committee.

Mr Speaker, Sir, TEST and PICT would be monitoring closely the situation of textile and clothing sector. The House may rest assured that the necessary measures/policies would be introduced to address the problems and constraints faced by the sector as soon as they are identified through the new mechanism that Government has recently put in place.

Mr Speaker, Sir, in addition to the above, following the announcement made in the last budget speech relating to the advantages of industrial clusters, a committee under the chairmanship of the Deputy Prime Minister and Minister of Finance is already working on an incentive package to promote development of clusters.

Mr Speaker Sir, I referred earlier to the various challenges in the international trading environment.

The Industry worldwide, Mr Speaker, Sir, is being under constant pressure from low cost producers and changes in market conditions. Indeed with the dismantling of the multi-fibre agreement in 2005, even countries like Mexico, Sri Lanka, Indonesia and Bangladesh are facing severe disruption of their industries. In this context, Mr Neil Kearney, Secretary General of the Brussels-based International Textile, Garment and Leather Garment Worker's Federation stated that countries such as Bangladesh, Indonesia and Sri Lanka may be waving good bye to sectors that provide a vast number of industrial jobs and that Bangladesh alone faces the loss perhaps of one million jobs and Indonesia a similar number.

Mr Speaker, Sir, in the Budget Speech, the Deputy Prime Minister and Minister of Finance stated that the future of the sector depends as much on what takes place in Geneva, Bruxelles and Washington as on what we do here. Through our privileged contacts and relationships in these capitals, we have had the opportunity to express concern on the impact and repercussions resulting from the gradual phasing out of the MFA, the recent proposal of Ambassador Girard as well the US and EU proposals for accelerated tariff liberalisation. Already the EPZ sector has suffered substantial erosion of market preferences and intense competition from a number of emerging low cost producers, leading to market shrinkage and loss of market share to those competitors. The threats to further market loss as a result of low cost and high volume producers capturing still larger market shares in our traditional export markets are real.

The Girard proposal for the complete elimination of tariffs on textiles and clothing in developed countries implies a complete erosion of tariff preferences enjoyed by ACP countries like Mauritius. Quota elimination coupled with tariffs dismantling will certainly add tremendous pressure on our textiles and clothing sector.

Finally, I should mention that the proposal made by Mauritius and endorsed by the ACP council of Ministers about the setting up of a textile restructuring fund has been well received by the EU Commission. In this regard, the Centre for the Development of Enterprise of the EU is working out a detailed technical dossier for submission to the Commission.

As far as Mauritius is concerned, it is difficult to predict what will happen. The effect will depend on the discussions on tariffs reduction taking place at the WTO, the efforts on the US market to curb the expansion of exports from China and the efforts of Mauritius to obtain a derogation for use of third country fabrics under AGOA. At the end of the day we hope that the restructuring exercise which has started and the private/public sectors initiatives highlighted above will enable us to maintain a dynamic and prosperous textile and apparel sector in Mauritius.

Dr. Ramgoolam: Mr Speaker, Sir, after this long explanation, can I ask the hon. Minister whether he does not agree that the poor performance in the EPZ sector, as far as job losses are concerned - I am taking one section by one section - is clear for all to see! In 1995, there were 80,466 jobs; in 2000, there were over 90,000 jobs created and now there are less than 85,000, I think 84,600 jobs, that is, a loss of a bit over 6,000 jobs over three years. In spite of the fact that the hon. Minister has not said it, the forecast is for further job losses. Does he not think that the Government is doing too little too late?

Mr Cuttaree: Mr Speaker, Sir, if the former Prime Minister wants to play with figures, I can do the same thing. I would just mention to him that in 1996 the number of jobs in the EPZ was 79,000 and today we have got 85,000. If he wants to play with this type of figures, I can play too. But this is a very serious matter and let us look at the problem as it is.

There is a restructuring exercise going on. We want to have a modern sector, because this is the only way this sector is going to survive. We all know if we go up the technology ladder the number of people employed in the sector is going to be fewer than what it is now. In fact, there is a consensus between the trade union movement and the Government on this, because this is the only way to make this industry survive. What I am trying to say is that Government is aware and is concerned about the employment losses which seem to be inevitable through this exercise. But what we are trying to do is to get enough time to find alternative employment opportunities for these people in other sectors. I did not invent these figures. I just quoted the figures mentioned for job losses in Indonesia, in Bangladesh. Last year, Mexico lost 350,000 jobs. In the US, already, in the last two years, 500,000 jobs have been lost. If the Prime Minister allows me to quote something - when he met the President of the United States, the President talked to the Prime Minister, he said: "You know, Prime Minister, everyone knows that textile chases cheap labour and this is something which is inevitable." If you look what is happening on the world scale on textile you will see that is in fact happening.

Dr. Ramgoolam: The hon. Minister talks about loss of jobs in the United States. Of course, with AGOA a lot of people opposed it precisely because of that reason. But he knows, for example, our export to the US has increased by approximately 12%. The hon. Minister talked about Bangladesh, Indonesia, but he did not talk about South Africa next to us. Their exports have increased by 19%. We must be fair to everyone.

The other thing that I need to say is that the hon. Minister made a statement, he is positive and thinks that there is a great future for our textile and the forecast was 3% growth. But in fact the forecast has been back now to negative growth. For two consecutive years you have had negative growth: -4% the year before and -2% now. As I have just said, we are doing too little too late. Does the hon. Minister not think that he needs to have fresh look at fresh policies?

Mr Cuttaree: We are shifting now from employment to production. I just want to make something very clear. Everyone seems to come and harps on the negative growth rate of the EPZ sector, but if you look at our two main markets, the United States of America and the EU, we will see that in the past two years, there has been positive growth on these two markets. If we are posting a negative growth it is because of the events in Madagascar. Let me explain that. Madagascar is doing the stitching and the production, but all the raw material, the fabric, is shipped from Mauritius to Madagascar. When there is a recession or we have the problem which we know happened in Madagascar, obviously, the exports to Madagascar fell and this is what led to this negative growth. Therefore, we should not exaggerate on that. On the contrary, what we should be looking at is what is happening on the American market and the European market in the wake of the dismantling of the Multi-fibre Agreement in 2005. This is the issue.

Mr Duval: In his Budget speech on 09 June, the Deputy Prime Minister forecast a rate of 4% for the EPZ. A few weeks later, the Central Statistics Office forecast a negative turnout of -2%, and in between there has been the Budget and there has been the Minister's own pessimistic speech on the Budget. Can I ask the hon. Minister how he reconciles, between the space of a few weeks, a positive forecast of 4% with a negative forecast of 2%?

Mr Cuttaree: I am sorry, but I think that the hon. Member knows that the Budget Speech was presented a few weeks back! Honestly, I do not want to challenge any statistics, but I will wait until the end of the financial year. I tend to think that the forecast of the Deputy Prime Minister is right.

Mr Duval: The hon. Minister mentioned the American market. Has he looked at the recent figures for the first quarter of March 2003 for the American market? It seems that there too it has contracted.

Mr Cuttaree: It has not contracted. There has been a slower rate of growth. There has not been any negative growth on the American market. One should not exaggerate. As I said, all the countries are finding now their exports displaced by China. In the month of April, China increased its export by 136%. Therefore, there is a problem on the American market and this is being tackled. As I explained, we went to the United States. We saw the people in the US industries, we discussed with them. We have had a coalition with the American industry to try to see what can be done, in fact, to curb the exports of China on the American market.

When I was in Geneva, I went and talked personally with the representative of China there, explaining to him that we are not targeting China, that China is a friend of

Mauritius and Africa. But the trend which is going presently on the American market will lead to the complete breakdown of the industry in Africa. I told him that I do not think this is what the Chinese want to happen, and he agreed with him. He told me that the Chamber of Commerce of China has actually asked the industry to slow down, because they do not want safeguards to be put by the United States on their exports. As you know, safeguards on exports are provided for in the WTO agreement which China signed.

Mr Duval: I think we have to get the facts right first. The Minister stated earlier that the American market was performing well and he stated just now that there has not been a contraction.

(Interruptions)

He did say that!

The Deputy Prime Minister: He did not say that!

Mr Duval: The last "Economic Indicators" shows that exports to U.S.A for the first quarter 2003 were Rs1.960 billion compared to Rs2.044 billion in the same period last year. So, there has been a contraction.

Mr Speaker, Sir, concerning South Africa, the American Association of OXTEXA. has published in its website the figures for Mauritius showing that Mauritius over the year to May 2003 has had a 5% growth rate in exports to America, and for South Africa, a 19% growth rate for the same period. This is the point being made by the Opposition that some people are doing very well out of the situation despite whatever may be happening elsewhere. We should not only look at the worst performing countries and compared Mauritius to these. We should, perhaps, here, be more ambitious and look at the people who are doing well and see why they are doing well.

Mr Cuttaree: I think one has to see from what benchmark one judges the expansion. The industry in South Africa is not comparable to us. If you look, for example, at Lesotho, it has a 100% growth on the American market because they started from nothing. In Mauritius, one has to put in one's mind that our capacity of production in the textile and garment sector has reached a limit. In fact, we do not even have workers now if we want to expand production. We have to go into vertical integration. This is what we are trying to do through the setting up of spinning mills and also to go into higher quality products. To compare us with what South Africa or Lesotho does is not correct.

Mr Duval: The Minister may choose to compare Mauritius to Bangladesh, that is his own choice!

Mr Speaker, may I ask the hon. Minister whether a large textile company in the north, basically, Novel Garments, has given any indication of performance problem and a possible closure in Mauritius?

Mr Cuttaree: Novel Garments has not made aware of any intention that it has to close down. But I think the House is aware also that, after the recent event, which happened with the workers of Novel Garments, there has been some discouragement at the level of the management; and, as a result of that, Government intervened; I talked to Novel Garment. My colleague, the Minister of labour, has talked to these people. The question of their closing down does not arise.

Mr Duval: Mr Speaker, problems in the textile industry started way back with Madagascar. It is not recent. Why has Government waited so long to take emergency measures, in a way put the EPZ in an I.C.U, after problems had started to happen in Madagascar two or three years ago? It is only now that we see Government reacting.

Mr Cuttaree: Mr Speaker, the problems of the textile industry are not linked to Madagascar. I explained it in the speech I made on the Budget. From the start, ten years ago, we knew that the Multi-fibre Agreement was going to affect our trade. We did not anticipate that China was going to join the WTO. Therefore, if the hon. Member asked me the question, I could ask him back the question: when he was the Minister of Industry in the Government of the Labour Party, what single measure has he brought in to look after the problems of the textile industry?

(Interruptions)

Mr Speaker: Order, please!

Mr Duval: May I suggest the hon. Minister to look at the fall in the interests rate in our last Budget? I would suggest also that he looks at what the former Prime Minister did for AGOA which he has not been able to follow upon. But be it as it may, the truth is that this Government has not done enough for the textile sector and is now having to manage a situation where we have thousands of jobs which are going to be lost in the near future.

Mr Cuttaree: The hon. Member is saying that the Government has not done anything, but he knows that from the time we took power, I have listed the various measures we have implemented.

(Interruptions)

What is happening is that with the dismantling of the Multi-fibre Agreement and the nearer we get to 2005 the situation becomes more difficult, not only for us, but for every main exporter of textile goods on the European and the American markets. Since this Government came in, we have tried to bring in measures in order to get these people to restructure their industry. One of the big problems of the industry is the lack of funding. They are highly indebted. They do not have funds to restructure. But I have explained before. The Government has come with so many initiatives …

(Interruptions)

Mr Speaker: Order, please! Order!

Mr Cuttaree: Let me make one thing clear. If the Government since the year 2000 had not taken so many initiatives, I fear to think what would have been the situation in which the EPZ would have found itself now. At least, if you look at the employment in the EPZ over the past three years, we have maintained an EPZ of 85,000 people …

(Interruptions)

Mr Speaker: Order, please!

Mr Cuttaree: … whereas in the time the hon. Member was a Minister, the figures were hovering around 80,000 people.

Mr Dulloo: The Minister referred to the Equity Fund which is not taking off right now. He has spelt out red tapism and bureaucratic measures and placing all the hopes for this sector on TEST. About the concrete measures, may I ask him whether it is Government policy to allow the accelerated depreciation of the rupee on purpose in order to save this sector, to save jobs so that the EPZ could have enough money to survive on the local market and to have more liquidity in rupee terms?

Mr Cuttaree: The hon. Member should know that the exchange rate policy is not decided by Government. It is decided by the Bank of Mauritius which takes into account various factors, like the need for development, employment creation, the control of inflation and in its wisdom the Bank of Mauritius applies its monetary policy. This has nothing to do with us.

Dr. Boolell: Will the Minister state the number of Equity Funds which are in operation and the amount of money released to sick industries?

Mr Cuttaree: Mr Speaker, Sir, the National Equity Fund is a Fund of Rs1 billion. This Fund was, in fact, incorporated in 2002, but we have to make sure that when you have an Equity Fund, you discuss it with all the stakeholders and, at the same time, we try to go and get the clearance of the Financial Services Commission. In fact, Sir, following extensive groundwork undertaken by SIC and DBM and approval in principle by the FSC, authorisation for the Fund to act as a private equity Fund was received on 21 March 2003. The final approval was issued on 29 May 2003. The question about how much money has been disbursed, I explained earlier on when I was reading the answer to the PNQ of the hon. Leader of the Opposition. This is public money, you do not take public money and hand it out. In fact, those people who have applied for funds from that Equity Fund have been requested to submit their business plans. These have been studied and very soon three of them will benefit from the Equity Fund.

Dr. Boolell: Mr Speaker, Sir, the hon. Minister is being alarmist. Nothing has been done. No measure has been implemented in spite of the high-powered committee set up, in spite of the measures spelt out, no money has been released to address fundamental issues; and the Minister has written off the textile sector with the consequence that so many people are being laid off. If the hon. Minister cannot assume his responsibility….

(Interruptions)

Mr Speaker: Order! Hon. Boolell, please. There is no need to shout.

(Interruptions)

Order!

The Deputy Prime Minister: On a point of order, Sir. We are all human beings, we have human ears, we cannot be subjected to that kind of behaviour. I think he should be called to speak like a hon. Member should speak.

(Interruptions)

Mr Speaker: Order! Hon. Boolell, this may amount to misconduct. You keep your tone down and you put your question, please. I remind you that you are in Parliament and not elsewhere. Keep your tone down and put your question in a civilised way, please!

Mr Cuttaree: The hon. Member is entitled to his weekly hysterical puff. If he has not listened to the answer I gave to the question, I'll make him get a copy so that he can read and understand.

Dr. Ramgoolam: Mr Speaker, Sir, in spite of what the Minister has said, it is a fact that job losses are increasing, negative growth is continuing for two years, foreign direct investment is going down. He misquoted the figure because when we left Government in 2000 the figure was 91,300. If I understood the Minister correctly, he has put in doubt the figures that the CSO is now giving. It is as if he does not agree with those figures. Has the Ministry done a study to ascertain the impact of the dismantling of the Multi-Fibre Agreement in 2005? What is the impact? Because words are going around that 20,000 to 25,000 people will lose jobs in the next two years?

Mr Cuttaree: Mr Speaker, Sir, I explained at length that what happens in the next two years does not depend only on one factor, not even on one international factor. There is the dismantling of the Multi-Fibre Agreement, there is the problem of the Chinese safeguard measures which are being considered by the United States, there are the proposals of Girard for the removal of the tariffs and there are the measures which we are taking to restructure the industry. What I am saying is simply the following: the industry is in difficulty because of international conditions and also because there is a need for financing to restructure that industry. We are taking all the necessary steps both locally and internationally to ensure that we safeguard the interests of the sector.

Dr. Ramgoolam: In fact, despite what the Minister is saying there is no effective result. He is saying that he is doing this and that, the Equity Fund, etc. We've just heard hon. Boolell asking a question and there is no money that has come out. Now, he is talking about the business plan. Does he not think that he should re-look at the policies and perhaps it is high time to separate the two Ministries? Somebody should have the portfolio of international trade and somebody else that of industry.

Mr Cuttaree: It seems that the solution, according to the hon. Leader of the Opposition, to the problem of industry is to separate the two Ministries. I'll ask the Rt. hon. Prime Minister to take note.

Dr. Ramgoolam: The Minister is perhaps trying to play on words! I am saying that we should need a full-time Minister of Industry to look at the jobs, monitoring and looking constantly at what is happening and what can be done.

Mr Cuttaree: This is an opinion with which I do not necessarily disagree and I am sure the Rt. hon. Prime Minister will take note.