

INDIAN INSTITUTE OF FOREIGN TRADE, NEW DELHI



MGCE REPORT

HS Code 570232 (Startup) : Carpets and other floor coverings, of man-made textile materials, woven, not tufted or flocked, of pile construction, not made up (excl. Kelem, Schumacks, Karamanie and similar hand-woven rugs)

SUBMITTED TO

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INTRODUCTION

- **H.S Code 570232** deals in man-made textile materials including carpets, carpeting, rugs, mats, and matting, as well as other similar products, measured in square meters.
- As per 2022 statistics, H.S. Code 570232 exports from India account for about 46% of the world's total exports, making it the highest exporter in the globe.
- Next highest exporter is Egypt which exports around 5.7% of the world's total exports

Carpets and other floor coverings, of man-made textile materials

- **Global Carpet Export Dominance:** India leads the global market, exporting 85-90% of its carpets, accounting for around 40% of handmade carpet exports worldwide.
- **Export Trends:** Despite a decline from US\$ 1.79 billion in FY22 to US\$ 1.36 billion in FY23, India's carpet exports remain substantial, with a notable performance of US\$ 537 million during April-August 2023.
- **Steady Growth:** Witnessing a Compound Annual Growth Rate (CAGR) of 7% since 2017-18, India's carpet exports demonstrate resilience and consistency in the international market.
- **Economic Impact:** Export growth provides additional livelihood opportunities, particularly benefiting artisans and weavers from marginalized communities, including farmers, contributing to rural empowerment.
- **Product Composition:** Handmade carpets, including woollen, rugs, druggets, durries, and cotton carpets, constitute a significant portion of India's carpet exports, with jute and silk carpets also contributing substantially.
- **Export Destinations:** India exports carpets to over 70 countries, with the USA, Germany, Australia, the UK, the UAE, Netherlands, and Sweden being major importers.
- **USA Dominance:** The USA emerges as the largest importer, accounting for 60% of India's carpet exports, with a value of US\$ 818 million in FY23, showcasing its significance as a key market.

The Indian handmade carpet of handicrafts industry is perhaps the only sector in rural India that is almost **100% export-oriented** and provides direct employment to the millions, generating opportunities for rural unemployed artisans. Last year alone, the carpet sector contributed close to **\$1.9 billion** to the government exchequer and generated huge employment for the rural communities in the villages.

Now on a broader level, carpets will come under **the textiles sector** and this sector is the 2nd largest employer after agriculture, so that is another factor for the study. Govt. has set a target of **\$100 billion** worth of exports for the next 5 years and the carpet craft becomes a major factor if we are to achieve that. (Ministry of Commerce and Industry)

Carpet is a kind of art that migrated from Persians and Mughals into India, it is believed that **Babar first imported** carpet from **Turkey** to India. At the great **London Exhibition in 1851**, Indian handmade carpet received the world's attention and appreciation for the first time for the acceptable quality, oriented pattern, fine weavers, and rich color combination.

Today, the sector employs close to a **million artisans** and weavers, and the large concentration of certain geographies in the export basket threatens the livelihood of these artisans. So, the solution will be to achieve **export competitiveness and look for diversification**. Drafting the new **National Textiles policy** will be a step in the right direction as the last one came in 2000.

The carpet industry is scattered across the country and that makes it a crucial sector due to the large logistical intricacies and the associated **value chains** that are driven by it. It is present in clusters across India:

Shahjahanpur (UP) is well known for luxurious carpets while Agra is the traditional center of carpet weaving from the period of the Mughals. **Kashmir** is famous for its fine-quality hand-knotted carpets, with some having close to 300 knots per square inch.

PRODUCT SELECTION AND EXPORT DESTINATION

SELECTION

(Brief description of approach taken and trade metrics used)

We have made use of Trade metrics to arrive at a suitable export destination and product for our HS code 57.

Product selection in HS code 57

SHI: HS 57 has a SHI of 0.27. This denotes the exports are well diversified across 6-digit codes for Chapter 57.

RHI: HS 57 has an RHI of 0.57. This denotes that the export destinations are highly concentrated and in need of diversification.

Low SHI and High RHI strategy: HS 57 has a combination of low SHI and high RHI. Since we have positioned as a startup, we can shift from old destination to a new destination.

Export Propensity Index: For HS 57, the value of the Export propensity index (EPI) for HS 57 is 1.05%.

This high EPI value would provide our startup with a gestation period of 2-3 years in the domestic market.

The high value of EPI also denotes potential for exports in the future and favorable government policies.

Revealed Comparative Advantage: Now to select a product at the 6-digit level, we use RCA calculations. We look at 5-year trends of RCA to weed out any anomalies. RCA values must be greater than 1.

PHI: The value of PHI at a 6-digit level for HS 57 would be less than 0.5 as there is the absence of any monopoly or oligopoly of carpets in India. This would make entry of a startup easier even in codes with high RCA due to L1 presence.

Final Product Selection:

Based on our calculation of all the above indicators, we have selected **HS 570232** as our product. Its RCA value in 2022 was 4.28 and had an increasing trend.

Export Destination Calculation for HS 570232

We obtained the list of importers for HS 570232. We then select countries with positive annual import growth values (2018-22).

Since we are positioned as a startup, we further select countries having negative BOT. From this list, we exclude countries that contribute to the high RHI value of 0.57 for HS 57. These countries include US, Germany, UK, Australia, and Canada.

Post this exclusion, we select countries with low import RHI as they would have multiple import players and hence easier to enter the market.

For ease of calculations, we only consider countries with import RHI < 0.3. They are 14 in total.

With respect to these 14 countries, we calculate Trade Intensity Index (TII) for India and the L2 players to find the best export destination.

There are four countries for which India's TII is higher than top 3 L2 players. These are Switzerland, Croatia, Hungary, and Slovenia.

Final Export Destination Selection:

Out of these four countries, we choose **Switzerland** as our final export destination due to its higher imported value (2022) and higher Import Penetration Index (IPI).

Imported Value 2022 (\$ thousands)	Importers	Import RHI (Trade Map)	IPI	TII of India	TII of strongest L2 player	Next L2 player	TII	Next L2 player	TII
3444	Switzerland	0.25	0.0021761%	5.49	Germany: 1.64	Turkey	1.671498021	Nederland	0.359203426
151	Croatia	0.25	0.00046724%	9.776725267	Netherland: 3.65	Germany	1.485167107	Denmark	1.910072136
220	Hungary	0.2	0.00021548%	12.0749484	Germany: 0.55	Austria	2.459843035	Slovakia	4.420811364
95	Slovenia	0.19	0.00016516%	4.176180948	Germany: 1.08	China	2.787102143	Austria	1.434037738

Taking this computation forward by calculating the **Final Landed Price (FLP)** of India's exports in each of the four countries, we can see that that the **FLP for Switzerland is the lowest on availing the preferential rate of import duty at 0% under the recently signed India-EFTA TEPA.**

Market	Import RHI (Trade Map)	IPI	India TII	L-2 TII	CIF Price	Tariff	FLP
Switzerland	0.25	0.0022%	5.5	Germany: 1.64	14,375.00	0%	14,375.00
Slovenia	0.19	0.0002%	4.2	Germany: 1.08	14,333.00	8%	15,479.64
Hungary	0.2	0.0002%	12.1	Germany: 0.55	14,000.00	8%	15,120.00
Croatia	0.25	0.0005%	9.8	Netherland: 3.65	13,667.00	8%	14,760.36

FLP Calculation for prospective target markets

NON-TARIFF MEASURES (NTMs) imposed by Switzerland

Type O NTM – Preferential Treatment under the India-EFTA TEPA

Under the recently signed Trade and Economic Partnership Agreement (TEPA) between India and the European Free Trade Association (EFTA), of which Switzerland is a member, a preferential 0% rate of import duty has been extended to imports under Chapter 57 from India into Switzerland, as soon as the Agreement comes into effect, upon the fulfilment of the following two conditions –

1. There should be a **‘Change in Tariff Sub-Heading (CTSH)’**, which means that all non-originating materials used in the manufacture of the products have undergone a change in tariff classification at the six-digit level.
2. **‘VNM 60%’** indicates that the value of non-originating materials does not exceed 60 percent of the ex-works (EXW) price of the product.
 - Ex-works price means the price paid for a product to the manufacturer in the Party where the last working or processing was carried out, in accordance with the international commercial terms (“incoterms”), excluding internal taxes which may be reimbursed when the product is exported.
 - Value of non-originating materials means the customs value at the time of importation of the non-originating materials used, or, if this is not known and cannot be ascertained, the first ascertainable price paid for the materials in a Party.

In order to avail preferential treatment under the terms of this Agreement, an exporter will have to **get designated as an ‘Approved Exporter’** as per Appendix 2.A.2 on origin declaration. Further, a Certificate of Origin will have to be obtained as per the originating criteria specified in Appendix 2.A.3 which further carries a reference to Articles 4, 5 and 6 of Annexure 2.A on Rules of Origin.

Further, a **Movement Certificate EUR.1** will have to be obtained through an application filed by the exporter or his authorized agent and carrying a description of the products in the box as per Appendix 2.A.4 of the Agreement.

Type B NTM – Technical Barriers to Trade

As per information obtained from the **UNCTAD TRAINS database**, the following NTMs have been imposed by Switzerland on imports of carpets under the HS Code 570232 from the world over, which would affect imports from India as well as those from other L2 players –

1. NTM Code – B22

NTM Description – Restricted use of certain substances

Measure Description – Textile materials and leather articles and the colored parts thereof which may come into contact with the human body for a prolonged period ***shall not contain azo dyes*** as referred to in Article 21.

Regulation Title – Ordinance of the FDHA of 23 November 2005 on articles intended to come into contact with mucous membranes, skin or hair and capillary system, and on candles, matches, lighters and joke articles (RS 817.023.41)

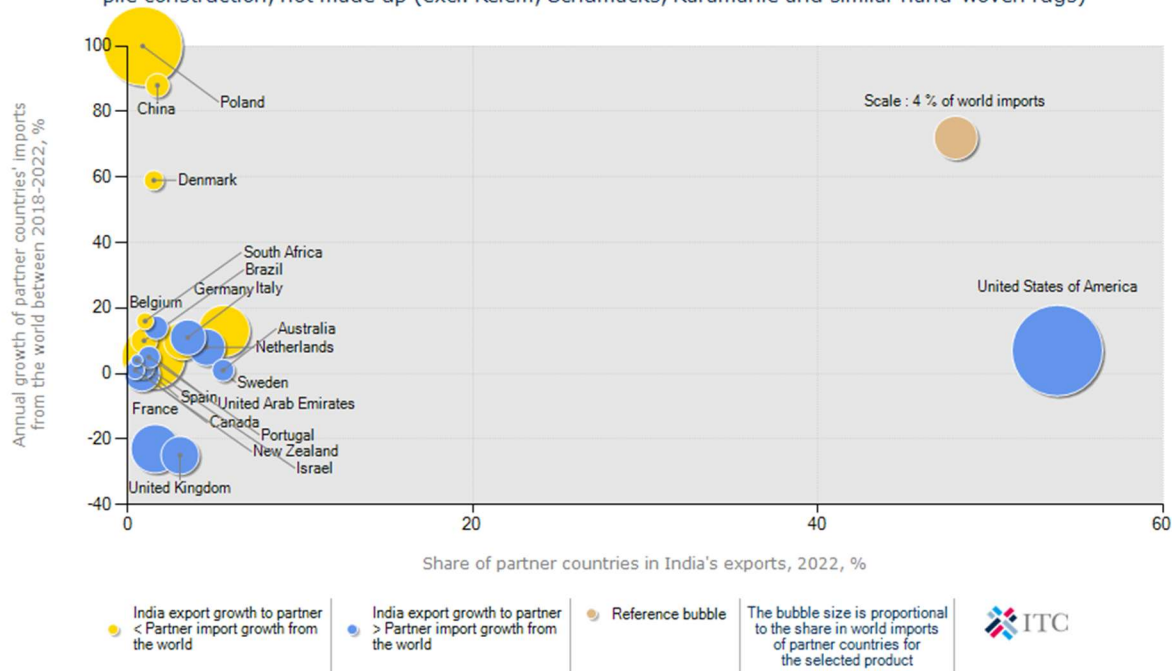
As per information obtained from the **WITS database on NTMs** imposed by Switzerland on Chapter 57 at 2-digit level, the following additional NTMs *may* also have to be contended with –

ReporterIS03	ReporterName	Sector	NTMCode	NTMDescription
CHE	Switzerland	Textiles and Clothing	A	Sanitary and phytosanitary measures
CHE	Switzerland	Textiles and Clothing	A110	Temporary geographic prohibitions for SPS reasons
CHE	Switzerland	Textiles and Clothing	A140	Special Authorization requirement for SPS reasons
CHE	Switzerland	Textiles and Clothing	A810	Product registration requirement
CHE	Switzerland	Textiles and Clothing	A830	Certification requirement
CHE	Switzerland	Textiles and Clothing	A840	Inspection requirement
CHE	Switzerland	Textiles and Clothing	B	Technical barriers to trade
CHE	Switzerland	Textiles and Clothing	B110	Prohibition for TBT reasons
CHE	Switzerland	Textiles and Clothing	B220	Restricted use of certain substances
CHE	Switzerland	Textiles and Clothing	B320	Marking requirements
CHE	Switzerland	Textiles and Clothing	B700	Product quality or performance requirement
CHE	Switzerland	Textiles and Clothing	B800	Conformity assessment related to TBT
CHE	Switzerland	Textiles and Clothing	B830	Certification requirement
CHE	Switzerland	Textiles and Clothing	F	Charges, taxes and other para-tariff measures
CHE	Switzerland	Textiles and Clothing	F610	Custom inspection, processing and servicing fees

Since clear information was unavailable on various online sources regarding the application of above mentioned NTMs specifically to HS Code 570232, it is pertinent to seek further information from other credible sources such as CHAs and/or Inspection agencies before undertaking any export initiatives under the recently concluded India-EFTA TEPA.

EXPORT OF HS CODE 570232 FROM INDIA

Prospects for market diversification for a product exported by India in 2022
 Product : 570232 Carpets and other floor coverings, of man-made textile materials, woven, not tufted or flocked, of pile construction, not made up (excl. Kelem, Schumacks, Karamanie and similar hand-woven rugs)



India's exports represent 46.2% of world exports for this product, its ranking in world exports is 1

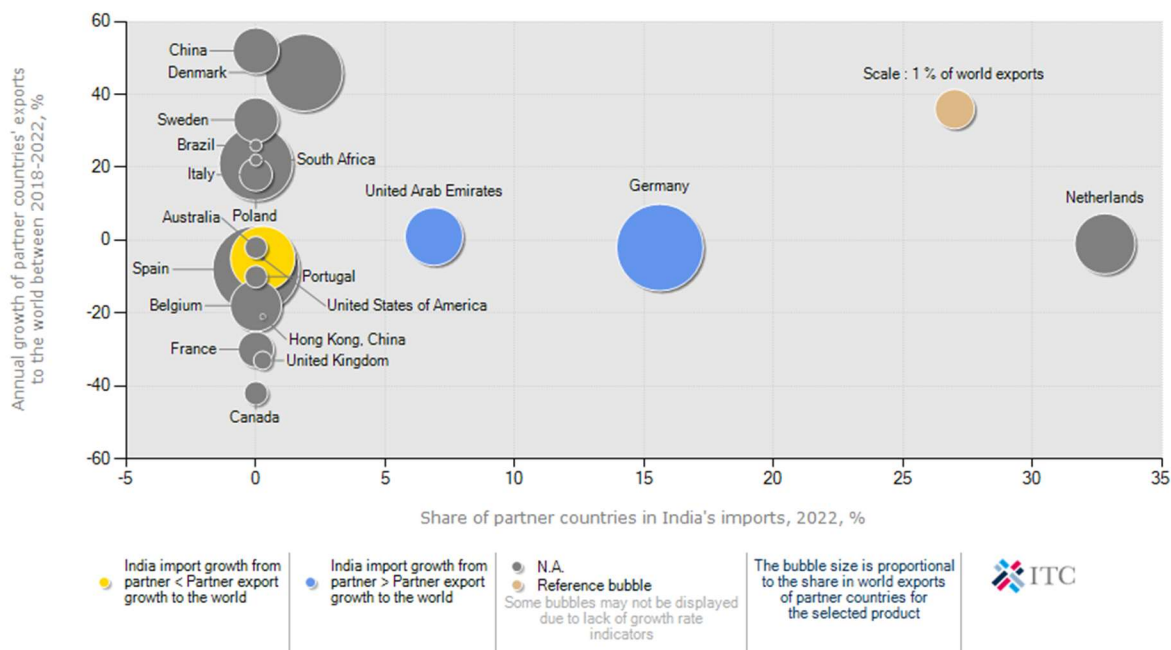
The average distance of importing countries is 10,339 km and the export concentration is 0.3

India exported 7631 tons valued at \$ 108,808K as per the latest available annual data

The top three export destinations include USA, Germany, and Australia

IMPORT OF HS CODE 570232 INTO INDIA

Prospects for diversification of suppliers for a product imported by India in 2022
 Product : 570232 Carpets and other floor coverings, of man-made textile materials, woven, not tufted or flocked, of pile construction, not made up (excl. Kelem, Schumacks, Karamanie and similar hand-woven rugs)



India's imports represent 0.2% of world imports for this product, its ranking in world imports is 53

The average distance of supplying countries is 6226 km and the import concentration is 0.31

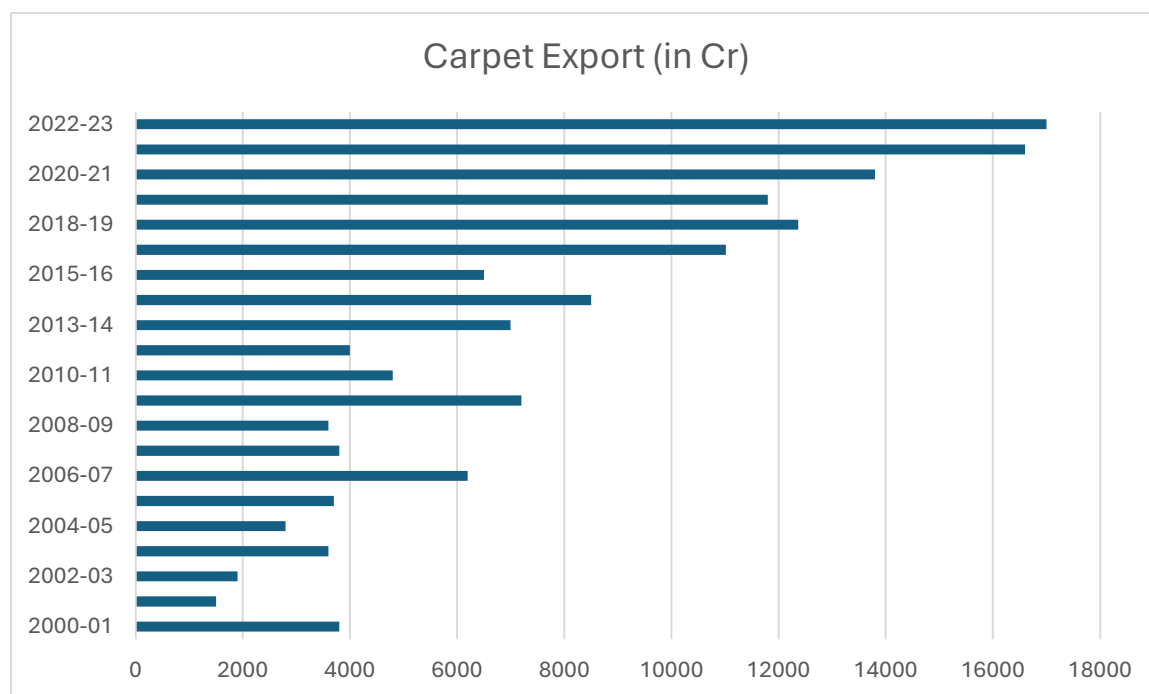
India imported 46 tons valued at \$ 378K as per the latest available annual data

The top three suppliers include Netherlands, Germany, and UAE



CARPET EXPORT PROMOTION COUNCIL OF INDIA

CEPC, a non-profit making organization, **was setup in 1982** by the Ministry of Textiles, Government of India to promote export of Carpets, all types of Handmade / handmade knotted Carpets, Rugs, Floor Coverings & other allied Products from India. And since then, has been the voice of Indian carpets business community. With a working office in the heart of Delhi, Registered Office at NOIDA, UP, and regional office at Bhadohi (U.P.) & Srinagar (J&K). **CEPC has more than 2000 members** across the country. One of the fascinating aspects of CEPC is the overwhelming variety of handmade carpet products it deals with.



Source: 2023 Annual Report of Ministry of Textiles and CEPC data

The following important roles are played by the CEPC in the current setting of Indian exports:

- CEPC is an ardent advocate of exporters to the Government and the primary focus is to **provide export assistance** to its member exporters.
- CEPC sends trade delegation to all major and developing markets around the world, showcases Indian exports all over the world **through exhibitions, fairs**.
- CEPC can help **the sourcing needs** of an importer anywhere in the world, and the selling needs of Indian exporters.

Upcoming events by CEPC:

- **Domotex Asia China Floor- 28th May 2024**

One of the world's leading flooring shows attracts buyers from all across Europe. Participation in the Domotex fair will enhance India's Share in Germany and many small-scale cottage-based exporters will be benefited through participation in Domotex-2023. India exports **more than 25% of its Handmade Carpets** to this region and participation in this fair alone helps Generate approximately 200-300 Crores in addition to generating employment opportunities in the rural Sector

- **Index Dubai- 04th June 2024**

For over 30 years, INDEX has grown into a global industry event, which not only includes the fundamentals of a trade exhibition, but an array of intriguing conferences, inspiring features, and innovative products.

The meeting place for the industry, join the thousands of professionals who attend every year to connect with global brands and manufacturers and discover the next big thing in interior design.

INNOVATIONS IN THE CARPET INDUSTRY

Smart carpets

Technology has given birth to the concept of smart carpets. These carpets are equipped with sensors and advanced technologies that enable them to serve a multitude of purposes. Some smart carpets can monitor the well-being of room occupants and detect accidents, such as falls. In the commercial sector, smart carpets can be used to monitor foot traffic and optimize space utilization. The development of smart carpets represents an exciting trend that has the potential to reshape how we interact with our homes and workspaces.

Augmented Reality

Augmented Reality (AR) has also found its way into the carpet sector. Customers can use augmented reality technology to visualize how a carpet would look in their home before making a purchase. By simply scanning a room with their smartphones or tablets, they can virtually lay different carpets on the floor, allowing them to assess how various colors and patterns would complement their space. This technology has the potential to revolutionize the way customers shop for carpets, reducing the need for physical samples and showroom visits, and potentially lowering the rate of returns and exchanges.

3D printing

3D printing technology is making its mark in the carpeting sector, enabling the creation of intricate designs and patterns that were previously challenging to achieve with traditional manufacturing methods. 3D printing allows for the customization of carpets to meet customers' demands and preferences. It also helps manufacturers reduce material waste and production costs by producing only the necessary amount of material, eliminating excess inventory.

GLOBAL VALUE CHAIN

The global carpet value chain is a complex process that involves several stages, from sourcing raw materials to producing finished carpets and rugs. Here's a simplified overview:

1. **Raw Material Sourcing:** This stage involves obtaining the fibers that will be used to make the carpet. Common carpet fibers include wool, nylon, polyester, and polypropylene. Wool is a natural fiber that is often prized for its durability and luxury, while synthetic fibers are less expensive and easier to care for.

Wool: Major producers include Australia, New Zealand, China, Argentina, and Iran.

Nylon & Polyester: Leading producers are China, India, Taiwan, and the United States.

Polypropylene: Top producers include China, the United States, and Saudi Arabia.

2. **Spinning:** The raw fibers are spun into yarn. This process involves twisting the fibers together to create a strong and continuous strand. This is a global industry with major players in China, India, Turkey, and many Southeast Asian countries like Vietnam and Thailand.

3. **Dyeing:** The yarn may be dyed before or after it is woven. Dyes are used to create the carpet's color and pattern. Similar to Spinning, China, India, and Turkey are major players. Germany and Switzerland are known for high-quality dyes.

4. **Weaving or Tufting:** The yarn is woven or tufted into a fabric backing. Weaving is a traditional method that involves interlacing the yarn at right angles to create a strong and stable fabric. Tufting involves punching the yarn through a backing material to create a loop pile.

Weaving: Belgium, Turkey, Iran, India, and China have a long history and expertise in carpet weaving.

Tufting: China dominates tufted carpet production, followed by the United States, Belgium, and Turkey.

5. **Finishing:** The finished carpet is then washed, sheared, and inspected. Additional finishing treatments may be applied, such as stain protection or anti-static treatment.

6. **Distribution and Retail:** The finished carpets are then shipped to distributors and retailers, where they are sold to consumers. This is a global operation with major distributors and retailers in all developed countries and increasingly in developing regions. The United States, Europe, and China are major consumer markets.



As we can see, India has presence across all stages of the Carpets GVC and the primary L2 players from which we face competition include Germany and Turkey when exporting to Switzerland. As per Trademaps data, Germany is the biggest exporter of carpets to Switzerland under HS Code 570232 with a significant 44.3% share in its imports. India comes second with an import share of 16.9% and followed by Turkey with an import share of 11.8%. However, India not only enjoys a significant cost advantage vis-à-vis other countries as its CIF price at \$22,385 is significantly lower but has also experienced the strongest growth in imports at 23% per annum between 2018 and 2022.

Recommendations and Conclusion

With the signing of the TEPA and exports of 570232 from India having been granted zero customs duty, the price advantage enjoyed by Indian exports will be further consolidated. Both German and Turkish imports are already being cleared under the FTAs signed by these countries with Switzerland respectively in 1972 and 2021.

Moreover, the government of India offer monetary support to exporters under the following initiatives –

1. Under the Yarn Supply Scheme, following assistance shall be provided by the Government of India:
 - i. Freight reimbursement for transportation of yarn (all types)
 - ii. Expenses of operating the yarn depots.
 - iii. 10% Price Subsidy on hank yarn (cotton, silk, wool)
 - iv. Service Charges to NHDC

To complement the pricing advantage enjoyed by India, it is recommended to create a value proposition by marketing them as being completely free from substances harmful to human skin, most notably azo dyes that have explicitly been restricted by Switzerland. India can showcase the use of completely natural materials such as cotton, silk, and wool (for which subsidy has been availed under the Yarn Supply Scheme anyway).