CARPETS

PRODUCT REPORT

By:

Muneeba Nawaz

Assistant Director, TDAP Lahore

CARPET SECTOR ANALYSIS

Contents

01	**Brief Profile of the Sector**	
	I	Background
	II	Sub-Sectors
	III	Geography
	IV	Contribution to Economy
02	**Value Chain**	
	I	Process & Linkages
	II	Problems in value chain
03	**Trade Statistics**	
	I	Global Exports & Imports
	II	Exports Vs Imports Analysis
	III	Country wise Analysis
	IV	Product wise Analysis
	V	Pakistan's share in world's exports
04	**Competitiveness of the Sector**	
	I	Cost Structure
	II	Productivity
	III	Time & Delivery Performance
	V	Quality Standards / Requirements
05	**Government facilitation to the Sector**	
	I	FBR-Duty Drawback Schemes
	II	SBP-Regulations
	III	Ministry of Textile notifications
06	**Potential for increase in Exports & Challenges faced (Analysis)**	
	I	Sector Challenges: Productivity & Demand
	II	Potential markets for Pakistan
	III	How to be compatible in potential markets
07	**Conclusion:**	SWOT Analysis
		List of top ten Exporters

Brief Profile of the Sector:

A carpet is a textile floor covering typically consisting of an upper layer of pile attached to a backing. The pile was traditionally made from wool, but, since the 20th century, synthetic fibers such as polypropylene, nylon or polyester are often used, as these fibers are less expensive than wool. The term "carpet" is often used interchangeably with the term "rug", although the term "carpet" can be applied to a floor covering that covers an entire house, whereas a "rug" is generally no bigger than a single room, and traditionally does not even span from one wall to another, and is typically not even attached as part of the floor.

The origin of Pakistani handmade carpet industry can be traced back to the 11th century with the arrival of the first Muslim conquerors, the Ghaznavis and then Ghouris. Later the Muslim Mughal kings imported weavers and setup carpet making centers. Lahore, Multan, Hyderabad in Pakistan and Agra, Mirzapur and Jaipur in India became famous for their carpets. Muslim kings patronized it and Muslim weavers moved knots into designs and earned name and fame beyond their own country. Some of the most exclusive carpets were created specifically during the Mughal reign, each carpet was different from the other, but infused with a common magic of color and designs. Some of the fine pieces of art of those days can be seen today at the Victoria and Albert Museum, London and in other museums in Europe and the United States.

The carpets woven in Lahore were the first to reach European markets, including England, as far back as Seventeenth century. During the British colonial era, prison weaving was established in district and female jails in cities such as Lahore and Karachi.

Photograph of Carpet Weavers in Karachi Jail 1873

After independence, the craft of hand knotted carpets remained relatively neglected for more than two decades. The real breakthrough came about in the 70's when there was a decline in production of carpets in Iran. The late 70's and 80's were the boom period for the Pakistan carpet industry. As a result of this boom, hundreds of new carpet manufacturing units came into existence. As the industry is labor-intensive, manpower constitutes for more than 50% of the total cost of production. The types available in carpet market are: Mats, Rugs, and Wall to wall carpets, Wall carpets.

Pakistani carpet have become renowned the world over for their exquisite design, subtle elegance, attractive colors and workmanship. The technique of carpet weaving in Pakistan is largely influenced by Persian style. The main raw materials used in Pakistan for making handmade carpet is wool, silk and synthetic fibers.

HS CODE : 57

Carpets and other textile floor coverings

Pakistan' main exports include following types.

Position 5701

Carpets and other textile floor coverings, of textile materials, knotted, whether or not made up

- **Subheading 5701 10**

  Carpets and other textile floor coverings, of wool or fine animal hair, knotted, whether or not made up

- **Subheading 5702 10**

  Kelem, Schumacks, Kramanie & sim, hand woven rugs

- **Subheading 5701 90**

  Carpets and other textile floor coverings, of wool or fine animal hair, knotted, whether or not made up

- **Subheading 5701320**

  Carpets and other textile floor coverings, tufted, whether or not made up

- **Subheading 570299**

  Carpets and other textile floor coverings, woven, not of pile construction, made up

1.2 Sub-Sectors:

- Wool and Woolen and other Yarns Manufacturing Industry
- Industrial Chemicals and Dyes Manufacturers /Suppliers Industry.
- Iron and wooden Looms Manufacturers
- Transport/ Carriages Industry with Packaging, Forwarding and Exports Agents/Firms
- Yarn Dyeing Industry
- Carpets Finishing, Washing and Repairing Industry
- Contractors/Traders/Local bazaars/Collectors/ Exporters

1.3: Geography

Important places for the Pakistanian carpet manufacturing.

Hand knotted carpet are the largest cottage industry of the country. It has roots all over the country. It is basically an un-organized sector spread in remote villages across Pakistan. Carpets and Rugs of different types are woven in each province of Pakistan. Each has their own Styles, specialties and qualities which are famous for their multipurpose nature and distinct designs; so, all such types of producing areas create new opportunities to increase future demand.

The industry is primarily located in Kharan Kalat, Muzaffarabad, Karachi, Mirpur Khas, Thatta, Tharparkar, Hyderabad, Karachi, Kasur, Sheikhupura, Multan, Laya, D.G. Khan, Shangla Hills, Gujranwala, Attock, Ahmed Pur East Bahawalpur, Zahir Peer, and surrounding areas of Quetta, Peshawar and Lahore where skilled workers are easily available.

1.4: Contribution to Economy:

More than 99 % of carpets made in the country are exported. Local consumption is negligible. It is not only a major earner of foreign exchange for the economy but it also directly and indirectly contributes to Economy in the following ways:

1. Sharing in country's Exports: Hand knotted carpet industry used to be one of the major foreign exchange earners of Pakistan. Due to slow down in world markets, law and order situation in the country and other number of reasons, the export of carpets have declined from US$.278 million in 2004 – 2005 to US$. 67.152000 million During 2019. Similarly the percentage sharing in GDP has also dropped. The export of hand knotted carpets from Pakistan is 0.5% of total export of the country. (PCMEA)
2. Employment Generation: Pakistan carpet industry has been the most potential sector in creation of employment in the country. In additional to rural employment, 70% of which used to be women, it has also provided employable space in urban areas. In its peak period, it used to provide jobs to 1.5 million people in the country.
3. Vertical and Horizontal Promoter of following Industry Segments:
    - Woolen and other Yarns Manufacturing Industry
    - Industrial Chemicals and Dyes Manufacturers /Suppliers Industry.
    - Iron and wooden Looms Manufacturers

- Transport/ Carriages Industry with Packaging, Forwarding and Exports Agents/Firms
- Dyeing/Finishing, Washing and Repairing Industry
- Contractors/Traders/Local bazaars/collectors/ Exporters

USES & BENEFITS

Carpets are used for a variety of purposes, including insulating a person's feet from a cold tile or concrete floor, making a room more comfortable as a place to sit on the floor (e.g., when playing with children or as a prayer rug), reducing sound from walking (particularly in apartment buildings) and adding decoration or color to a room.

Improves Indoor Air Quality: New carpet is the lowest VOC-emitting flooring choice available. It actually acts as a passive air filter, trapping dust, pollen and other particles and removing them from the breathing zone.

Provides Warmth and Comfort: Carpet provides actual thermal resistance. In colder climates or seasons, it retains warm air longer, an energy conservation benefit.

Softens Slips and fall: Carpet is ideal for cushioning our footsteps, reducing slips and falls and minimizing injuries when falls do occur.

Reduces Noise : Big screen TVs, speaker phones, computers and modern sound systems make our homes noisy places. Carpet helps absorb these sounds.

VARIETIES/PICTURES:

Three types of hand-made carpets are produced and/ or marketed by Pakistan –

1. Single knot (major qualities are Bokhara, Jaldar and Silk Touch),
2. Double knot (popularly known as Pak-Persian Carpets
3. Turkish Knot made with hand spun vegetable dyes learned and indigenized from Afghan refugees settled in Pakistan (major qualities include Ziegler or Chobi, Kazak, Karghai, Khal Mohammadi, & Modern Gabbeh).

BOKHARA RUGS

Classical Turkmens' hand knotted rugs are popularly known as Bokhara rugs. Produced on a large scale in Pakistan. The average knot density of a Bokhara rug is 200 knots per square inch (KPSI. Red is the most popular color incorporated in a Bokhara and therefore has the highest demand. One of the most common uses of these **Pakistani Rugs** is as a prayer mat due to their tightly knotted structure which offers a great deal of comfort and calming effect for the body.

SALOR BOKHARA

Out of all the carpets manufactured in Pakistan, using traditional methodologies, the Salor Bokhara is truly one of its kinds. Easily distinguished with their unique designs and intricate patterns, Salor Bokhara contains about 2 rows of octagon and each of these octagons contains one more octagon which is then quartered filled with a lovely floral design; there are instances with a design of flower and pearl mix matched in these octagons.

TEKKE BOKHARA

The Tekke Bokhara rugs in the Pakistani rugs category are undoubtedly the most popular forms of the invaluable Bokhara Rugs. The Tekke Bokhara can further be categorized under two more categories namely: Royal Bokharas & Princess Bokharas. As the names suggest, both are of ultimate imperial qualities.

YOMUD BOKHARA

The Yomud Bokhara is a rug that has been named after a tribe housed in the heart of central Asia. These rugs are adorned with very fine Persian or Turkish knots. The carpet's knot density may range from 250 to 550 knots per square inch (KPSI) for these exquisite Pakistani carpets.

JALDAR RUGS

Afghans are the master creators of these classy rugs that are best known as Jaldar Rugs; these rugs are mostly exported from Pakistan and India to the rest of the world. Jaldars are frequently confused with Bokhara rugs due to the great deal of similarity in their design and structure. Though there is a very slight difference of guls - a medallion-like design used in these rugs. The guls that are unique to Jaldar rugs are angular and diamond shaped whereas the guls integrated in the Bokhara rugs are rounded in shape. These symmetrical knotted rugs possess a knot density of 100 to 250 knots per square inch (KPSI).

GABBEH RUGS

In Persian language the word ‘Gabbeh’ means something that is natural, unchanged, and raw. The Iranians were the first people to have introduced this rug to the world, but the skillful Pakistani rug makers and their respective manufacturers have also been able to master the art of making these exquisite rugs. Gabbeh rugs are most commonly designed in an asymmetrical and geometrical manner that uses very thick pile and a slightly lower knot density.

CHOBI RUGS

North America is a huge market for Chobi Rugs that are being produced and exported from Pakistan. The word “Chobi” has been derived from a Persian word “chob” meaning wood. These rugs are mostly hand knotted with knot density falling anywhere over 100 that uses a type of unique knot known as “seena”. Their composition requires quite a lot of labor work; as these rugs are entirely made with hand spun wool on a cotton warp.

CAUCASIAN RUGS

Caucasian rugs originated from Persia, but today they are one of the many carpets manufactured in Pakistan. These rugs are now exported from Pakistan on a very large scale due their high demand in the global market. These rugs are eminent with bold geometric designs that come in various different colors; red, brown and blue being the most popular of all colors.

2. Value Chain

2.1 Process and Linkages:

(A) Procurement of Raw Materials

The value chain of carpet production starts from the procurement of raw materials. Two basic raw materials (i) warp & weft (ii) woolen yarn are required for the production of carpets.

Warp & Weft is based upon different number of cotton threads twisted together to produce one single yarn. The thickness of yarn depends upon quality of the carpets to be produced.

Woolen Yarn is the most important ingredient of carpet manufacturing. Raw wool is a natural fiber. It has a lot of varieties. The softness, shines, sheen, and color richness all depends upon wool blend. To maintain the standard and blending, the producer of woolen yarn (the mill owner) has to maintain the stocks of raw wool throughout the year. Under present scenario of declining export of carpets No one maintains the stock. The result is non-regular blending of woolen yarn. Each kind of wool processes different absorbing capacity. Any change in the blending can change the shade of dyed color.

(B) Designing on Paper / Computer

Carpet designing is a very serious and technical job. The artist, in addition to capable of free hand drawing, must be competent in mathematics as very warp and each knot according to quality and size has to be counted before designing. The designer shall have complete command on Geometrical designs as well. Under present system of manufacturing there is no one who is qualified from any art school. That’s why reproduction of ancient carpets is produced. This is workable for some time, but not every time. No innovative designs are introduced due to lack of proper education. Moreover, most of the designers still use paper designing which requires a lot of time while change of color combination is again the same pain full process.

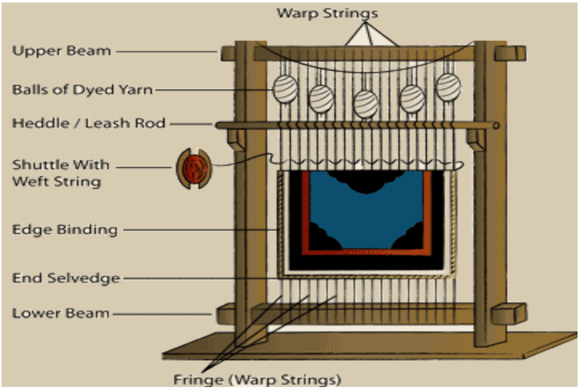
(C) Dyeing of Woolen Yarn

Colors represent the carpets. Dyeing with chemical dyes is totally a scientific field. But, under present system of production, we have no qualified dyer in the industry. Under this modern world Pakistan carpet industry uses open pans for dyeing. No one is familiar about softness of water, there is No temperature or pressure control, No check on purity of dyes, No control about gravity of acids. There are bundles of issues and the result is variation of color shades.

(D) Manufacturing on Looms

The most important part of carpet production is putting knots on each warp. The system of preparing Warp & Weft is centuries old. Manufacturing loom is a simple frame having two vertical pillars on left and right. While two steel pipes or wooden bars are placed horizontally on top and bottom. The warp is mounted vertically and stretched. The worker sits in front of the warp and starts putting knots on each thread of the warp.

As the loom is very simple, the workers are not properly trained and there is no supervision, this procedure leads to a lot of defects. The most important is quality control. For example in 16/16 quality each inch shall have 16 warps and 16 rows of knots. Because of the improper training and lack of modification, the numbers of warps per sq. inch are not maintained. This results in distraction of design. The second one is that line of boarder have to be straight. It is not controlled. The lines become crocked which affects the value of carpet. Bowing is a common factor. All these defects are corrected during finishing which is a time consuming and costly job. All the above issues can be controlled through a modified loom and proper training of workers.



(E) Washing of Carpets

Each and every piece of hand knotted carpet has to be washed. This is a technical job but the worker do it on the basis of tradition and experience. It is quite expensive and time consuming. In some case we are required to wash the carpet two, three or even four times. The carpets are washed by using a lot of water and various chemicals. Then the wet carpet is spread in the sun to get fully dried. Normally it takes three days. Then it is again washed to clear the chemicals fully or apply the chemicals again. A lot of time and cost is consumed in washing process.

(F) Sheering

After washing, the carpets look like a fabric. The designs disappear and it cannot be considered as carpet at this stage. To clear the design, to revive the shine and to make it sellable, the sheering is applied. Earlier this process was manually performed by using specially designed scissor. But now some sheering machines are used which are electrically operated. But, both the sheering mechanisms has a common problem. That is control of pile thickness. The sheering machines used now-a-days are manually operated and we cannot expect from human hand to apply similar pressure throughout the day. The result is un-even pile.

(G)Finishing

The final touch is finishing. There are a lot of finishing issues which need to be addressed. It starts upon arrival of unwashed carpets from looms. The boarder lines have to be straighten, the bowing has to be fixed, and fringes have to be knotted together. All these processes are done before washing. After sheering, the finisher has to remove un-desired cotton thread from pile, edges have to be repaired or new edges have to be placed and stitched. The total frame of carpets is mostly crocked of unbalanced. It is stretched under the sun. All the above issues are required in each and every piece of hand knotted carpets. These finishing processes take long time before the carpet gets ready.

2.2. Problems in value chain:

- New manufacturing techniques/ types of skills are required by the carpet industry.
- Expensive and somewhat limited availability of critical raw materials for both pre-weaving and post-weaving processes, production and processing of carpets is a major drawback to the competitiveness of the industry. A crucial limiting factor for the production of carpets is the scarce domestic supply of high-quality wool
- Moreover it is a cottage industry and time of production is more, as mostly women weave the carpets when they get free of their house chores. .

- At the enterprise and households levels, insufficient training and experience related to quality among weavers presents big problem on productivity.
- There is weak quality control and monitoring both at institutional and households' levels.
- Additionally, the huge scarcity of small medium and large-scale carpets producing factories, increasing difficulty sourcing natural dyes, the limited domestic availability and short shelf life of critical inputs for washing necessitate identifying alternative chemicals and / or methods to carry out these activities.
- Year round production is difficult to achieve due to labor behavior and liquidity problems of the manufacturers.

3. Trade Statistics

3.1: Global Exports:

Exporters	Exported value in 2015	Exported value in 2016	Exported value in 2017	Exported value in 2018	Exported value in 2019	Exported value in 2020
World	15188230	15056026	15956700	16479697	15559743	14,713,002
China	2629738	2538131	2707665	2977667	2921214	2,964,456
Turkey	2009356	1913135	2161753	2264274	2531118	2,621,045
India	1718225	1736714	1752976	1756444	1720884	1,689,060
Belgium	1718061	1713264	1747999	1720238	1609838	1,371,617
Netherlands	1067199	1110077	1196687	1297115	1216039	1,114,025
United States of America	1031966	974400	999189	977854	909950	770,495
Germany	567251	601043	619553	646910	600559	550004
United Kingdom	323734	302192	323967	362742	351249	280840
Egypt	337998	307875	319390	317431	310089	395811

Source:Trade Map

Global Imports:

Importers	Imported value in 2015	Imported value in 2016	Imported value in 2017	Imported value in 2018	Imported value in 2019	Imported value in 2020
World imports	13508159	13406368	14375169	15007867	14445188	13434681
USA	2650210	2789508	2903802	3256226	3053757	3,095,600
Germany	1159698	1216369	1239187	1262669	1184123	1,172,013
United Kingdom	1243101	1184759	1160732	1179411	1143408	929,073
Canada	755454	741324	783948	774429	744783	656,943
Japan	546697	570551	601982	631930	611502	559,580
France	441106	462812	486650	517554	492879	441,076
Saudi Arabia	500172	381775	390257	371985	451737	360,333
Australia	429029	431712	432386	428395	380446	368,378
Netherlands	349193	325729	371572	372719	355497	323,198
Belgium	264250	267128	268173	266670	252890	272,788

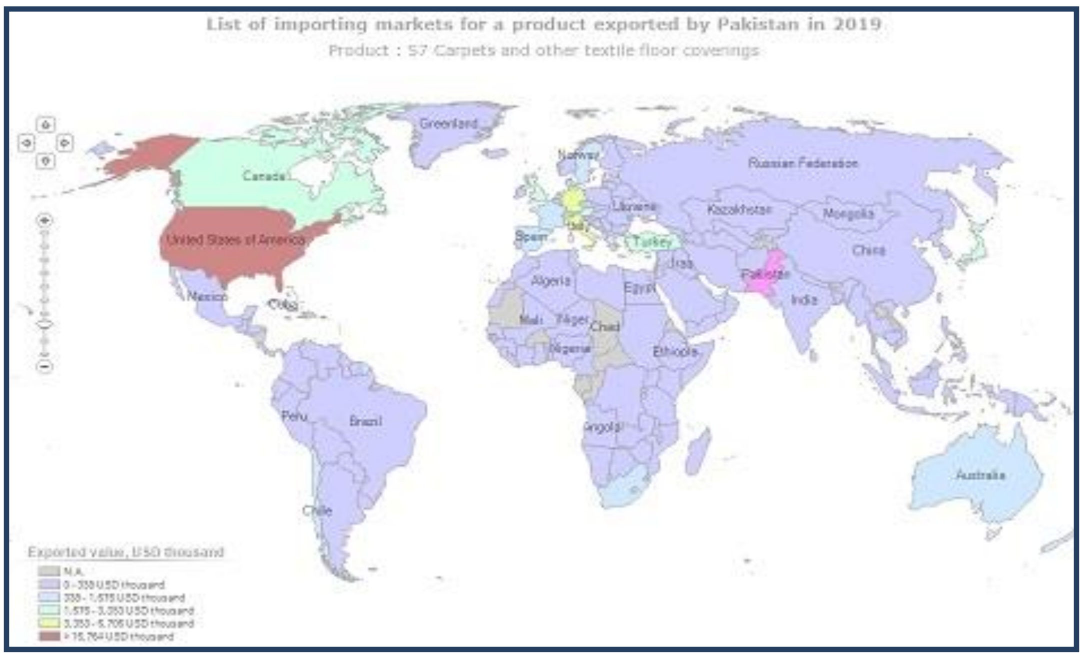
Source:Trade Map

3.2: Country wise Analysis of Pakistan's exports during last 6 years:

Importers	Exported value in 2015 (USD Thousand)	Exported value in 2016 (USD)	Exported value in 2017(USD)	Exported value in 2018 (USD)	Exported value in 2019(USD)	Exported value in 2020 (USD
World	105242	88773	75155	72040	67152	54485
USA	53999	45891	37515	37732	33529	27739
Germany	8276	7053	6275	6228	4925	5261
Italy	3758	4185	3748	3997	4089	2496
U.K	3646	3346	2990	2845	3183	2380

Turkey	3801	2178	1613	1681	2156	1855
Japan	3853	2602	2247	1958	2082	1721
Canada	2287	1902	1854	1327	1916	1425
Austria	950	2038	1498	2207	1804	1330
France	4418	3906	2637	2617	1662	1297

Source Trade Map



3.3: Product wise Analysis:

Reporter	Product Code	Product Name	2015 Exports	2016 Exports	2017 Exports	2018 Exports	2019 Exports
Pakistan	570110	Carpets & oth. textile floor coverings, knotted, whether or not made up, of ...	98,393.02	82,925.42	69,359.52	65,963.73	61,369.60
Pakistan	570210	Kelem, Schumacks, Karamanie & sim. hand-woven rugs	3,155.58	3,895.19	4,249.27	4,704.33	3,994.74
Pakistan	570190	Carpets & oth. textile floor coverings, knotted, whether or not made up, of ...	1,360.04	640.41	229.75	214.71	398.12
Pakistan	570320	Carpets & oth. textile floor coverings, tufted, whether or not made up, of ...	718.60	513.05	527.55	389.09	594.08
Pakistan	570299	Carpets & oth. textile floor coverings, woven, not of pile construction, ma ...	1,039.27	518.53	400.93	120.97	202.33
		Total	104,666.51	88,492.60	74,767.02	71,392.83	66,558.87

Source: Trade sift

3.4: Exports Trend:

Reporter	Partner	2015 Exports	2016 Exports	2017 Exports	2018 Exports	2019 Exports
Pakistan	USA	53,961.10	45,856.43	37,459.88	37,506.53	33,388.85
Pakistan	Germany	8,275.54	7,032.53	6,265.24	6,189.36	4,900.01
Pakistan	Italy	3,757.95	4,184.89	3,742.70	3,971.70	4,077.10
Pakistan	United Kingdom	3,645.26	3,344.02	2,985.81	2,827.38	3,114.70
Pakistan	France	4,418.01	3,905.83	2,633.15	2,600.67	1,656.67
		74,057.86	64,323.70	53,086.78	53,095.64	47,137.33

Source: Trade sift

3.5.Pakistan's share in world's exports:

Product Code	Product Label	World's imports from world	Pakistan's exports to world	
		Value in 2019, USD thousand	Value in 2019, USD thousand	Share in world exports, %
'5701	Carpets and other textile floor coverings, of textile materials, knotted, whether or not made ...	832986	61950	6
'5702	Carpets and other textile floor coverings, woven, not tufted or flocked, whether or not made ...	4827101	4540	0
'5703	Carpets and other textile floor coverings, tufted "needle punched", whether or not made up	6602293	626	0
'5704	Carpets and other floor coverings, of felt, not tufted or flocked, whether or not made up	634798	12	0
'5705	Carpets and other textile floor coverings, whether or not made up (excluding knotted, woven ...	1447879	23	0

4. Competitiveness of the Sector

The sector's faces challenges across three levels, in competing with other carpet exporters i.e. business capabilities; institutional and trade support; and national environment, policy and regulations. Three dimensions of Pakistan export competitiveness are:

Compete: Issues limiting the sector's capacity to compete in national and foreign markets. This includes challenges related to access to inputs, productivity, quality management, national infrastructure and compliance with standards, among others.

Connect: Issues restraining connectivity to suppliers, markets and clients. This dimension includes challenges related to market information, marketing, trade promotion, and branding and trade agreements, among others.

Change: Issues limiting the sector's capacity to change innovate and tap into emerging trends. This dimension relates to challenges in accessing trained / skilled labor, institutional support to in-innovate, investment promotion, corporate social responsibility, and compliance with standards.

4.1: Cost Structure

Following table gives an overview of the indicative prices of medium-sized woven and knotted woolen carpets in the low, middle and high market segments. "Indicative" is key here, since prices for carpets vary depending on manufacturing technique, size, design, brand and other ways of value addition. Size, is especially relevant here, since the large differences in size directly influence the price.

Table: Indicative consumer prices of medium-sized woollen carpets

	Low-end	Middle-end	High-end
Woven woollen carpets	€15–50	€50–100	€100 or more
Knotted woollen carpets	€18–55	€55–110	€110 or more

The European consumer price of carpets is around 4 to 6½ times the selling price. Shipping, import and handling add 15–20%. Wholesalers account for a further 50–90% markup. Retailers may add another 90–150% to the price. Finally, European VAT percentages range from 18% in Malta to 27% in Sweden.

The original selling price depends heavily on the availability and cost of raw materials. In recent years the price of wool has increased considerably, largely due to renewed demand from China. Occasional increases in the price of raw materials are not directly passed on to the consumer, but do put pressure on exporters, importers and retailers' margins.[i]

According to PCMEA, The Cost Structure of Pakistan handmade Carpet Industry is 2 folds:

1. **Cost of production:**

   1. Capital Expenditure on purchase of total **Business Assets** comprise of land and building, hand looms for carpet manufacturing and vehicles for transport of goods, which makes a huge part of assets. The business owners in the *"Handmade Carpet Manufacturing"* sector incur capital expenditure which is relatively high as compared to other sectors which is dependent on the size of the business and the number of looms operating.
   2. Liabilities constitute trade payables and borrowing for plant & machinery and vehicles.
   3. Material cost
   4. Wages to weavers

5. Processing & Transport Local Costs like dyeing, washing, sheering, painting, Embossing/trimming,/ Clipping etc.
6. Other Overheads/ utilities/ misc.
7. Transport to Abroad and clearance cost

2. Costs for the final point of sale in the international carpet market.

These include the following:

1. Packaging cost of international level
2. Shipping agents Costs
3. F.O.B. or CI&F or C&F Costs
4. Provincial and Federal Government Levies/Taxes/Duties
5. Importing Countries Fees/Charges if applicable
6. Costs incurred on re export of received back carpets from abroad for Repair and Refinishing in Pakistan.
7. Unforeseen Expenses

4.2: Productivity:

Carpets are an important export product from Pakistan. The total export value of carpets from Pakistan stood at US $ 67 million in 2019.This low performance is the result of inter alia others reasons, the low productivity. According to PCMEA, the production of handmade carpets has declined over the past decades and so, it has been noted that new weavers were not introduced. New products were not brought due to non-availability of R&D. Afghan refugees went back who were main labor force for carpet industry and that our workers mainly only know kind of manufacturing technique of Persian techniques. New manufacturing techniques/ types of skills are required.

Domestic Market

Unfinished and finished carpets enter the domestic market through retailers, who get their product through middlemen. Some weavers and middlemen sell unfinished carpets directly the market at a lower price. Demand in the domestic market is for the traditional carpets.

It is estimated that domestic sales are stagnant due to the sluggish economy, especially for high-end carpets. The carpet belts/clusters in Pakistan having faced declining demand, falling prices and higher costs (of both labor and inputs), the carpet industry as a whole is under threat.

International Market

It is estimated that at least 25 % of the total exports are not recorded. In 2019, Pakistan exported approximately US $ 67.152 million of carpets in value. Exact numbers are not accessible as it remains unclear how many Afghan carpets crossed the border to Pakistan, from where carpets are sent to other international markets. Top export destinations, are the United States, Germany and Canada, UK, depending upon the level of interest of these markets in Pakistani carpets. Based on their high reputation, demand for hand-made, traditional Pakistani Carpet is nevertheless always there.

4.3: Time & Delivery Performance:

Limited direct connections with buyers inhibit the ability of sector stakeholders to understand and adapt production to market requirements. Connections between Pakistani carpet producers/exporters and international buyers have been lost as a consequence of poor products Time & Delivery Performance regime slowing the growth of Pakistan Exports.

Producers / Exporters have limited capacity to organize and initiate commercial relationships. Weak organization among them and lack of business and marketing skills hinder opportunities to initiate marketing and develop expertise to compete in regional and international markets. Moreover production process is very slow as it is mainly cottage industry.

4.4: Quality Standards / Requirements

The European Union's General Product Safety Directive applies to all consumer products, including carpets. It states that all products marketed in Europe must be safe to use[ii].

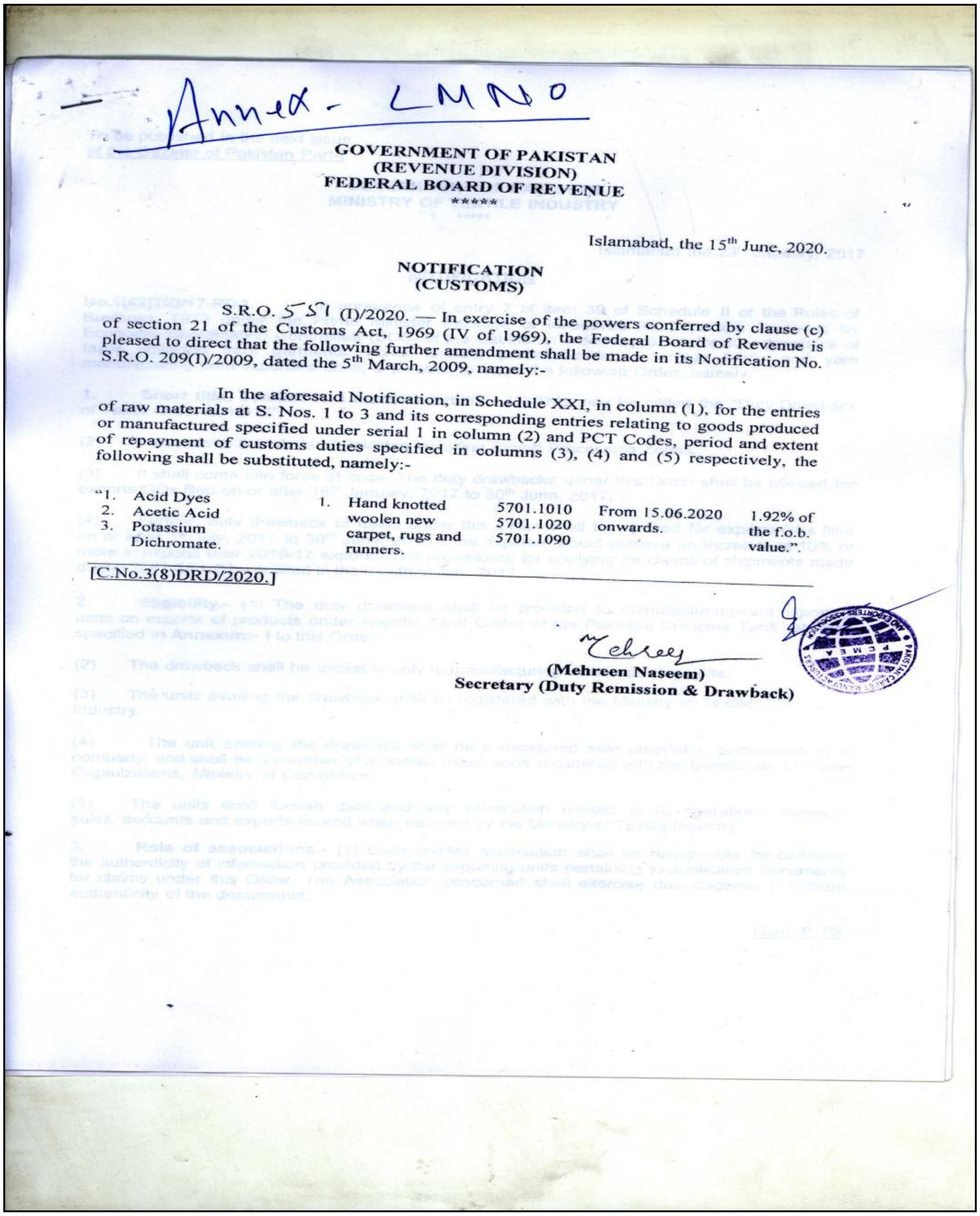
Main market	mandatory requirements	Non-mandatory requirements
United States	• Flammability standards (for large carpets) • Labelling requirements (carpets must be labelled with the letter 'T';	Color, design, type of fiber and price are important attributes • Colours: earth or natural tones are popular in the United States market

	small carpets and rugs not meeting the standard must be labelled with the statement: FLAMMABLE) • General Certificate of Conformity: product complies with all applicable statutes, regulations, rules, bans or standards of the United States Consumer Product Safety Commission • Other requirements apply for certain types of carpets	• Kazaks and Chob Rangs in natural dyes would have a market edge • Contemporary designs such as gabbehs would have market potential*
EU (Germany, Italy, France)	Product safety: under the General Product Safety Directive • Labelling – specific rules for textiles: e.g. fiber composition • Chemical substances: azo dyes are illegal	Sustainability and certification are important to buyers. For carpets, social aspects such as child labour are major issues. Consumer labels such as Good Weave, STEP, and Care and Fair are important • Germany: color, design, type of fiber, and price are important attributes • Germany: Chobis in natural dyes, as well as contemporary carpets in both bright and earth tones, have market opportunities
United Arab Emirates (UAE)	UAE conducts carpet evaluations to assess the real historical and financial value of the carpet and prevent fake carpets from entering the country	Timely delivery is very important among consumers • Prayer rugs could have market potential
Turkey	• Exporter Registry Form • Certificate of Origin (English)	Popular trends : modern designs, simplicity and minimalism

	• European Conformity marking, as required under the Construction Products Directive (89/106/EEC) • Textile and apparel products made available on the market must be labelled or marked to indicate fiber composition	• Construction companies, in coordination with architects, decide and buy the flooring for newly built flats in Turkey[iii]
Japan	Household Goods Quality Labelling Act: carpets for household use require labelling including composition of fibers, name and address or telephone of the party responsible for labelling (see Textile Goods Quality Labelling Regulations) • Act on Control of Household Products Containing Harmful Substances • Fire Service Act: flame-retardant standards (for carpets used in facilities such as theatres and hotels) • Second-hand Articles Dealer Act (if carpets are antiques)	• Rising importance of eco-friendly carpets

05. Government Facilitation to the Sector

i. FBR-Duty Draw back Schemes



Annex - LMNO

GOVERNMENT OF PAKISTAN
(REVENUE DIVISION)
FEDERAL BOARD OF REVENUE
*****

Islamabad, the 15th June, 2020.

NOTIFICATION
(CUSTOMS)

S.R.O. 551 (I)/2020. — In exercise of the powers conferred by clause (c) of section 21 of the Customs Act, 1969 (IV of 1969), the Federal Board of Revenue is pleased to direct that the following further amendment shall be made in its Notification No. S.R.O. 209(I)/2009, dated the 5th March, 2009, namely:-

In the aforesaid Notification, in Schedule XXI, in column (1), for the entries of raw materials at S. Nos. 1 to 3 and its corresponding entries relating to goods produced or manufactured specified under serial 1 in column (2) and PCT Codes, period and extent of repayment of customs duties specified in columns (3), (4) and (5) respectively, the following shall be substituted, namely:-

"1. Acid Dyes 2. Acetic Acid 3. Potassium Dichromate.	1. Hand knotted woolen new carpet, rugs and runners.	5701.1010 5701.1020 5701.1090	From 15.06.2020 onwards.	1.92% of the f.o.b. value.".

[C.No.3(8)DRD/2020.]

(Mehreen Naseem)
Secretary (Duty Remission & Drawback)

ii. SBP Regulations

State Bank of Pakistan

بینک دولت پاکستان

State Bank of Pakistan

| اردو | Search SBP

MEDIA CENTRE | HELP DESK | CONTACT US

me | About SBP | Laws & Regulations | Circulars/Notifications | Monetary Policy | Financial Markets | Publications | Economic Data | Financial Inclusion

Circulars/Notifications - Exchange Policy Department

EPD Circular Letter No. 17 of 2020 **August 17, 2020**

The Presidents/Chief Executives of
All Authorized Dealers in Foreign Exchange

Dear Sir/Madam,

Amendment in Guidelines on Use of Deposits Mobilized under FE-25 Scheme for Financing Exports/Imports Amid COVID-19 Pandemic

Attention of Authorized Dealers (ADs) is invited to Appendix VI-3 Chapter 6 of the Foreign Exchange Manual regarding guidelines on use of deposits mobilized under FE-25 Scheme for financing of Imports/Exports and other relevant instructions issued from time to time.

2. In view of the global outbreak of COVID-19, which has adversely affected, inter alia, the international trade transactions, it has been decided to make the following amendments in the foreign exchange regulations to facilitate the exporter and importers in settlement of their FE-25 loans:

A. Para A Sub-Para (p) of Appendix VI-3, Chapter 6 - Exports (For financing pre-shipment, discounting/ purchase of documents)

Authorized Dealers may extend the maximum period of 270 days (both pre-shipment & post-shipment), allowed for settlement of export loan in terms of above referred sub-para, up to further 180 days, thus making total tenor of the loan to 450 days. This extension shall be provided by ADs for loans maturing up to September 30, 2020 and shall be subject to submission of satisfactory explanation by the exporter, along with supporting evidences, showing that the delay in realization of exports proceeds was caused due to COVID-19 pandemic. Moreover, in case of pre-shipment FE-25 loans where the export contract has been cancelled, the bank may allow settlement of loan through realization of exports proceeds against substitute contracts/LCs, during the extended period of 180 days.

B. Para B Sub-Para (a) of Appendix VI-3, Chapter 6 - Imports (Financing against Import Bills)

Authorized Dealers may extend the maximum period of 6 months, allowed for settlement of import loan in terms of above referred sub-para, up to further 180 days, thus making total tenor of the loan to 360 days. This extension shall be provided by ADs for loans maturing up to September 30, 2020 and shall be subject to submission of satisfactory explanation by the importer, along with supporting documents, evidencing inability of the importer to settle the loan within the prescribed time.

3. All other instructions related to the above shall remain unchanged.

4. Authorized Dealers are advised to bring the above instructions to the knowledge of all their constituents for meticulous compliance.

Yours truly,

Sd/-

(Arshad Mehmood Bhatti)
Director

Back to Circular Page / Home Page

iii. Ministry of Textile notifications:

To be published in the next issue
of the Gazette of Pakistan Part-I

GOVERNMENT OF PAKISTAN
MINISTRY OF TEXTILE & COMMERCE
(TEXTILE DIVISION)
*****

Islamabad the 20th October, 2017

NOTIFICATION

No.1(42-A)TID/17-TR-II. In pursuance of entry 7 of item 39 of Schedule II of the Rules of Business, 1973, the Prime Minister Package of Incentives for Exporters approved by Economic Coordination Committee (ECC) of the Cabinet in order to provide duty drawback of taxes collected from garments, home textiles, processed fabric, greige fabric and yarn manufacturing cum-exporter units and Duty Drawback of Taxes Order 2016-17, Textile Division is pleased to make the following Order, namely:

1. **Short title, content and commencement.-** (1) This may be called the "Duty Drawback of Taxes Order 2017-18".

(2) It extends to the whole of Pakistan including Export Processing Zones.

(3) It shall come into force at once.

(4) The duty drawbacks under this Order shall be allowed for exports GDs filed on or after July 1st, 2017 to 30th June, 2018 as under;

a) 50 percent of the rate of drawback shall be provided without condition of increment.
b) Remaining 50 percent of the rate of drawback shall be provided, if the exporter achieves an increase of 10% or more in exports during performance year (FY 2017-18), as compared to the base year (FY2016-17).
c) The actual rate of drawback against (b) above shall be determined on the basis of annual performance of the exporter, but in order to improve her/his cash flow, the disbursement against (b) above shall be allowed on the performance during July-December, 2017, subject to submission of a bank guarantee that the exporter will return the excess amount, in case his/her annual exports are less than the amount of drawback paid to him/her.
d) An additional 2% drawback shall be allowed for exports to non-traditional markets i.e. Africa, Latin America, non-EU European countries, Commonwealth of Independent States and Oceania. List of eligible countries is attached at **Annexure-I**.

2. **Eligibility.-** (1) The duty drawback shall be provided to manufacturing-cum exporting units on export of products under specific Tariff Codes of the Pakistan Customs Tariff at rates specified in **Annexure- II** of this Order.

(2) The drawback shall be available only to manufacturing-cum exporting units.

(3) The export performance in case of drawback at 1(4)(b) above shall be analysed separately for each category of eligible products.

To be published in the next issue
of the Gazette of Pakistan Part-I

GOVERNMENT OF PAKISTAN
MINISTRY OF TEXTILE & COMMERCE
(TEXTILE DIVISION)
*****

Islamabad the 3rd August, 2018

NOTIFICATION

No. 1(42-B)TID/18-TR-II. In pursuance of Entry 7 of Item 39 of Schedule II of the Rules of Business, 1973, the extension in Prime Minister's Package of Incentives for Exporters approved by the Federal Government in order to provide duty drawback of taxes collected from garments, home textiles and processed fabric to manufacturing cum exporting units and commercial exporters, the Textile Division is pleased to make the following Order, namely;

1(1) This may be called the "Duty Drawback of Taxes Order 2018-21".

(2) The duty drawbacks under this Order shall be allowed for the shipments made from the July 1st, 2018 to 30th June, 2021 to the whole of Pakistan including exports from Export Processing Zones as under;

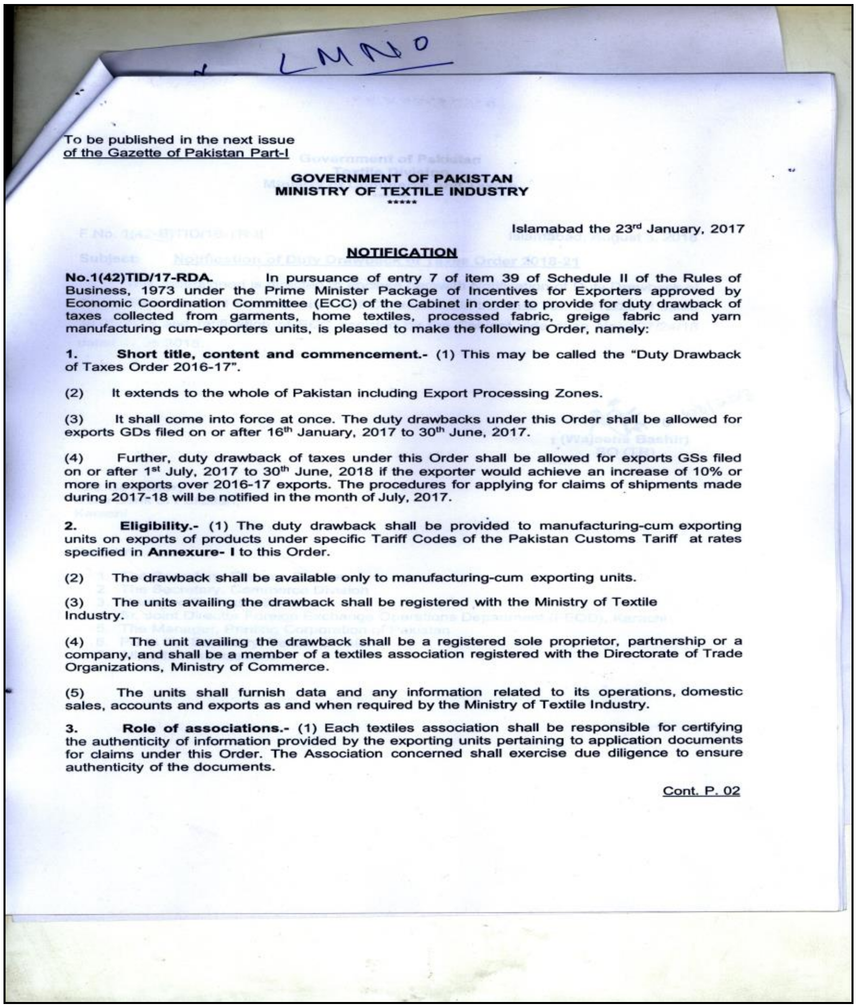
a) Fifty percent of the rate of drawback shall be provided without condition of increment.

b) Remaining fifty percent of the rate of drawback shall be provided, if the exporter achieves an increase of ten percent or more in exports during the financial year 2018-19 as compared to the financial year 2017-18 or exports in financial year 2019-20 as compared to financial year 2018-19 or in financial year 2020-21 as compared to financial year 2019-20;

c) The actual rate of drawback against clause (b) shall be determined on the basis of annual performance of the exporter, but in order to improve his cash flow, the disbursement against clause (b) shall be allowed on the performance during July-December of each year, subject to submission of a bank guarantee that the exporter shall return the excess amount, in case his annual exports are less than the eligibility criteria stipulated in clause (b); and

d) An additional 2% drawback shall be allowed for exports to non-traditional markets i.e. Africa, Latin America, non-EU European countries, Commonwealth of Independent States and Oceania, at the time of submission of claims mentioned in clause (a). List of eligible countries is attached at **Annex-I**.

03/08/2018



LMNO

To be published in the next issue
of the Gazette of Pakistan Part-I

GOVERNMENT OF PAKISTAN
MINISTRY OF TEXTILE INDUSTRY
*****

Islamabad the 23rd January, 2017

NOTIFICATION

No.1(42)TID/17-RDA. In pursuance of entry 7 of item 39 of Schedule II of the Rules of Business, 1973 under the Prime Minister Package of Incentives for Exporters approved by Economic Coordination Committee (ECC) of the Cabinet in order to provide for duty drawback of taxes collected from garments, home textiles, processed fabric, greige fabric and yarn manufacturing cum-exporters units, is pleased to make the following Order, namely:

1. **Short title, content and commencement.-** (1) This may be called the "Duty Drawback of Taxes Order 2016-17".

(2) It extends to the whole of Pakistan including Export Processing Zones.

(3) It shall come into force at once. The duty drawbacks under this Order shall be allowed for exports GDs filed on or after 16th January, 2017 to 30th June, 2017.

(4) Further, duty drawback of taxes under this Order shall be allowed for exports GSs filed on or after 1st July, 2017 to 30th June, 2018 if the exporter would achieve an increase of 10% or more in exports over 2016-17 exports. The procedures for applying for claims of shipments made during 2017-18 will be notified in the month of July, 2017.

2. **Eligibility.-** (1) The duty drawback shall be provided to manufacturing-cum exporting units on exports of products under specific Tariff Codes of the Pakistan Customs Tariff at rates specified in **Annexure- I** to this Order.

(2) The drawback shall be available only to manufacturing-cum exporting units.

(3) The units availing the drawback shall be registered with the Ministry of Textile Industry.

(4) The unit availing the drawback shall be a registered sole proprietor, partnership or a company, and shall be a member of a textiles association registered with the Directorate of Trade Organizations, Ministry of Commerce.

(5) The units shall furnish data and any information related to its operations, domestic sales, accounts and exports as and when required by the Ministry of Textile Industry.

3. **Role of associations.-** (1) Each textiles association shall be responsible for certifying the authenticity of information provided by the exporting units pertaining to application documents for claims under this Order. The Association concerned shall exercise due diligence to ensure authenticity of the documents.

Cont. P. 02

6. Potential for increase in Exports & Challenges faced (Analysis)

6.1 : Sector Challenges:

According to PCMEA, Pakistan Carpet Industry, since 1960's has been facing these challenges:

1. Majority of the Carpets Manufacturers and Exporters with few exceptions are themselves Traders and Middlemen not possessing the needed technical knowledge and know how to produce quality and various types of Carpets which have demand in International markets.
2. Lack of willingness to do Domestic and International Markets Intelligence and operational Research.
3. No concrete practicable Initiatives including R&D programs in all sub sectors of carpet Industry Sector.

4. No serious attempts to set up Training Programs for the Sector development by creating new workforce and capacity build of exiting poorly skilled workers.
5. Abandoning of formal Carpets Manufacturing Factory System.
6. No new investments in creating Physical Infrastructure for the continued4s development of the Sector and sub sectors.
7. Almost no policy support of all related kinds by the successive governments for the Carpet Sector especially in its Export and Import Policies and Taxes/Duties.
8. The indifferent and disinterest on the part of Industry beneficiaries especially Exporters to modernize their Manufacturing Technology, exploring new markets and well fare of the workforce.

Productivity & Demand

In contrasts to Pakistan's declining exports, in the world markets, carpets exporting countries are showing increase especially Pakistan's competing countries in the region. According to PCMEA, The system of Carpets manufacturing in Pakistan has been the victim of following issues viz a viz Productivity and Demand:

1. Standardized wool and Yarn is not maintained/applied/ensured in bulk supplies.
2. The prices of Ryan are always unstable in local market.
3. Looms are made without any approved qualified standardized mechanism.
4. The looms are installed in a defective manner causing manufacture of crooked carpets.
5. Carpet manufacturing time is too long and slow besides cause of loss of income to the workers notwithstanding the constraint of hand weaving process.
6. Majority of the workforce is part time working for about 5 hours a day maximum. This state of affairs and attitude of workers not only effect productivity but also causes them of loss of income. The output of workers is badly affected and resultantly, single standardized uniform one patterned output cannot be determined /achieved per month to ensure the on time delivery of customer's orders. The untrained workers under this unorganized production operations system therefore badly affects the quality and leads to finished product variations Designs are not produced on the carpets as per the requirements. The border lines get crocked and uneven pile destroys the piece.

7. The carpet washing and finishing stages are also unnecessarily stretched out for long hours and thus affects the total coat of the piece.
8. The most important factor of low productivity is the wastage of raw materials at every stage of carpet due to non-technical and nonprofessional manufacturing processes. The wastages cannot be recycled. It is estimated that about 65% of raw materials are wasted during various processes.

6.2: Potential markets for Pakistan:

The International Carpet Market

There is always more demand for good looking, cheap priced carpets and floor coverings in the world market.

The leading import market for carpets is the European Union, which buys more than half of the total value of world imports. North America takes a further about 20% shares. These aforementioned markets are naturally taken as potential markets for Pakistan Competing for these markets are six main producing countries – the Islamic Republic of Iran, India, China, Nepal, Pakistan, Afghanistan and Turkey.

6.3: How to be compatible in potential markets:

Some of the proposals for this purpose are mentioned as under:

- Research and Development Programs
- International Market Intelligence forum and sharing with Industry
- Establishment of Formal carpet manufacturing Factory System
- Launching more aggressive and modern skill development programs of workforce
- Improvement and upgrading of working conditions and environments in the industry
- Finding ways and means and policy to increase wages/income for the workforce in the industry.

Conclusion/Abstract

Carpet weaving has been a major cottage industry in employing thousands of village artisans. Almost all the production of handmade carpets, is exported. Though the industry grew extremely fast over the earlier past decades, in recent 2 decades it has shown a tendency to slow down. Recently, the Pakistani industry has been outcompeted by India, China and, to some extent, by Turkey, Iran, and Afghanistan.

The Pakistan Carpets Manufacturers and Exporters Association (PCMEA), the sole representative Organization of Handmade Carpets Industry Sector in Pakistan feels that the discontinuation of Zero Rating Facility Status has resulted in ruining of this Export Oriented Industry, Mass Unemployment and huge Foreign Exchange Losses to the country. The average normal exporter's working capital is around Rs.2.50 to 3.00 million while the contributors to Carpet Production Cycle are so small that they even cannot think of paying and disposing advance sales tax. The deposition of advance sales tax by the exporting firm will have cut back on his working capital position that already is faced with a period of more than one year to recover his investment from foreign accounts. As the Carpet industry is facing serious challenges, it will further plunge and dip due to significant volumes of Liquidity being stuck in the form of advance Sales Tax. The 17pc GST levied will severely affect it growth rate.

As per recent International MARKET IMPACT SURVEY launched in the perspective of COVID-19 & LOOMING RECESSION, to update information about Global Carpets and Rugs Market, with timely insights during 2020, it has been concluded that the Global Carpets and Rugs Market will to reach $39.1 Billion by 2027 complimentary to clients. Global Carpets and Rugs Industry includes the following Product Segments:

- Woven Carpets and Rugs
- Tufted Carpets and Rugs
- Other Carpets and Rugs.

The Carpets and Rugs market in the U.S. was estimated at US$9.1 Billion in the year 2020. China, the world`s second largest economy, is forecast to reach a projected market size of US$7.7 Billion by the year 2027. Among the other noteworthy geographic markets are Japan, Germany and Canada, each forecast to grow at 0.4%, 0.9% and 1.6% respectively over the 2020-2027 periods.

In order to reap the benefits of the remerging Global Markets, Pakistani Exporters with tangible Policy Support and incentives must prepare themselves starting with Timely market intelligence which is the paramount in these uncertain times of Pakistan Carpet Industry as a whole.

Europe’s top importers of hand-woven rugs (with substantial imports from emerging countries) are Denmark, Germany, and the United Kingdom. Buyers are increasingly moving towards attractive and bold colors and non-geometrical exclusive patterns for carpet and rugs, which also aids to drive demand in the market.

High demand for residential and non-residential applications in various countries, including Germany, France, Russia, Italy, and the U.K., will fuel product demand over the next few years. This could be attributed to the heavy deployment of carpets as flooring materials in production units, commercial firms, and non-residential offices across Europe.[iv]

SMART SWOT Analysis of Pakistani Carpet Industry

1. **Strengths:** Carpet is a high quality handmade product. It is unique to our country, so it attracts the people overseas. Carpet industry has flourished due to availability of artistic skills, cheap labor and flexibility in manufacturing all kinds of carpets.

2. **Weaknesses:** The industry's weak point is being unorganized sector. Pakistani carpet industry is primarily plagued with the problems of supply chain, Liquidity crisis, production capacity, quality control and skill development for fashion designing. The Exporters on their part with their own investment are not prepared to explore and enter new International markets not doing R&D in the Industry

3. **Opportunities:** Rising trends including an increase in the demand for eco-friendly carpet, growing acceptance of carpet tiles, and inclination towards contemporary area rugs are shifting the dynamics of the European carpet market. Furthermore, demand exclusively for high-quality handmade rugs and carpet will remain high, therefore the industry is expected to grow over the

next few years. Key drivers in the market are development in the transportation and construction industries, along with a rise in renovation activities.

4. Threats: Industry is suffering a lot due to unhealthy competition existing within it. There would be a lot of competition aroused to the handmade carpet industry as machine made carpets are entering in the market & they are producing cheaper products and also the comparative rate of production is high in machine made carpets.

List of PCMEA Top Ten Exporters

1. Mis Shama Carpets
2. M/s Abbas Corporation
3. M/s Latif Enterprises
4. N/s Lahore Carpets Manufacturing Co
5. M/s Usman Carpet House
6. M/s Jamal Rug Weaverss (pvt) Ltd
7. M/s Standard Carpets
8. M/s Al-Mumtaz Carpets
9. M/s World Wide Traders
10. M/s Fateh Woolen Mills (pvt) Ltd

[i] https://www.cbi.eu/market-information/home-decoration-textiles/woven-knotted-woollen-carpets/europe
[ii] https://www.cbi.eu/market-information/home-decoration-textiles/woven-knotted-woollen-carpets/europe
[iii] https://www.intracen.org/uploadedFiles/intracenorg/Content/Redesign/Projects/AAT/AFG_Carpets.pdf
[iv] https://trends.biz/press-market-report-carpets-and-rugs-forecasts-global-industry-analysts-inc