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Product Brief

Indian Wool Market Brief

2005

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Report Highlights:

Due to the apparent current short supply situation in Australia, Indian knitwear wool importers are looking for alternative cheap supply sources for blending with limited high-priced Australian supplies. This provides an opportunity for US wool exporters, who may wish to work with Indian agents. Like other major suppliers such as Australia and New Zealand, US exporters should concentrate on building supply lines and establishing quality designations for major blends, especially in the worsted and knitwear sectors.

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I. Market Overview

India produces about 47,000 tons of wool, mainly of the coarser type, and imports an equal quantity, mostly for apparel and knitwear/carpets. The apparel industry uses about 32,000 tons of the imported wool (mostly <22 microns), and the rest is used by the knitwear and carpet industry. Due to low domestic processing costs and lower tariffs for raw wool vis-à-vis processed wool, most of the wool is imported in raw greasy form, which is scoured, combed, and carded for spinning and weaving. The peak demand for wool is during March through June, as industries start processing wool for final use before the start of the winter season.

In the **apparel industry**, worsted suiting, shawls, and knitwear manufacturers use on average 27, 17, and 24 percent of the wool imports. Most of the branded wear manufacturers are vertically integrated and cater to high-income domestic consumers and exports. They are more quality-conscious than those catering to the medium and lower segments of the domestic market, who blend fine quality wool with mediocre wool to cut costs. They are interested in reliable suppliers of consistent quality, low cost wool. Because of the high credit risk involved in supplying wool directly to mills and processors, most exporters operate through established agents or consolidators who are familiar with the industry.

The **carpet industry** consists of producers of hand tufted, hand knotted, and machine tufted, the first two mostly catering to exports. The preference, typically, is for 30-50 microns, pastel to white-colored wool. Weaving and spinning are mostly done separately, except by a few composite units, where the operation is integrated. This segment offers very little opportunity for US wool exporters, considering the quality of wool required and vis-à-vis the available US quality, which is higher.

The **knitwear industry** typically uses wool of 26-28 microns. This segment consists mostly of small units, except for a few large, branded manufacturers and exporters, who mostly depend upon agents or consolidators for their wool requirements.

II. Opportunities and Constraints

Australia is the major supplier of finer raw wool to the knitwear/hosiery segments, followed by South Africa. New Zealand supplies mostly coarser wool. Chile, Brazil, and China also have recently entered the Indian market, although their market share is likely to remain limited due to inconsistent quality and unreliable supplies. According to industry sources, the supply of 26-28 microns wool is shrinking from Australia, the major supplier, on account of better returns realized in the finer micron category. Due to the apparent current short supply situation in Australia, Indian knitwear wool importers are looking for alternative cheap supply sources for blending with limited high-priced Australian supplies. This provides an opportunity for US wool exporters, who may wish to work with Indian agents.

Table 1: Quality Attributes of US Wool Vs. Australian Wool

Attribute	Australian Wool	U.S. Wool
Feel	Wool of the same micron feel finer	Wool of the same micron feel coarser
Yield	70 – 75 Percent	50 – 55 percent
Wool Top Yield	90-95 percent	About 80 percent
Color	Mostly white	Mostly creamy white
Vegetable Matter	0 – 1 percent	2 percent
Black Hair	Very few to nil	Not countable
Colored fibers	5 per 100 gram	Not countable
Fiber Length	3 – 5 inches	2 – 4 inches

Source: Informal poll of Indian Industry

According to industry sources, Australia supplies almost 95 percent of apparel wool imports. Consistent supplies, reliable quality, higher wool top yields, longer fiber length (3-5 inches), white color, low vegetable matter, and very low black fiber content are the major positive attributes of Australian wool, which helps it to command a premium over US wool (see Table 1). Additionally, Australian quality/grade certificates are more detailed, instilling more confidence among Indian agents. Australian wool exporters also informally provide a discount for any quality deviations from the contracted-for specifications at the actual user's premises.

The major problem with US wool, according to industry sources, is variable wool top yield - the major factor in determining profit margins in the wool processing business. This is due to high vegetable matter content and short fiber length, and could be solved by proper classification (fleeces, bellies, and pieces) at the farm level. Official testing and certification for wool top yield could be another alternative.

Fiber thickness (measured by its diameter) and its feel are other price-deciding factors in the wool trade. Fiber diameter is tested and averaged out among pre-decided samples taken from the same lot. While trade takes place on the basis of the average micron measurement of the lot (as certified), it is the feel of the fiber that decides its end use, which in turn determines its top price. The coarser feel of the US wool is attributed to wide within-lot fiber thickness variations, due to mixing of unsorted wool from different sources to make a particular lot. A slightly darker shade and high colored fiber content in US wool are also perceived to be negative factors, resulting in a lower price. While the problem of darker shades in wool is genetic, the color fiber count could be controlled by careful sorting and cleaning at the point of shearing.

The U.S. quality certificates are perceived to be not as detailed as the Australian. Providing detailed information about wool quality would help instill confidence among Indian buyers, thus offering them an alternative supply source for quality wool.

III. Marketing Channels

An "agent-importer", who usually works exclusively for an exporter, imports the greasy wool (see Figure 1). Working with a single importer makes it easier to adjust payment terms if the sample and the delivered lot differ in quality, and aids the exporters in offering better after-sales service. Agent-importers offer a credit line of 15 to 30 days to their clients, in some cases even up until the final stages of manufacturing. Like other major suppliers such as Australia and New Zealand, US exporters should concentrate on building supply lines and

establishing quality designations for major blends, especially in the worsted and knitwear sectors.

IV. Market Access

Greasy wool attracts a tariff of 5.1 percent, and wool tops are subject to a 15.3 percent duty. There are no non-tariff trade barriers applicable to wool imports, nor are there national standards. Traders or agent-importers typically open irrevocable/confirmed letters of credit (LC), with payment terms ranging from 90 – 180 days. Depending on the reputation of the importing party, some exporters might also accept a Usance LC with payment terms extending up to 180 days, or Cash Against Documentation basis. Payments are mostly made on delivered quality basis, though some do pay on sample basis. Importers of US wool mentioned that quality differences between the sample and the actual delivered product have created payment problems in the past.

Both Indian and multinational banks finance wool imports. The international exposure and connectivity to international financial clearance systems, such as SWIFT, make it possible for multinational banks to transact business on behalf of their Indian clients.

V. Key Industry Contacts

Wool Importers/Agents:

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Figure 1: Market Channel for imported Wool

