SAI SINDHU INTERNATIONAL JOURNAL OF RESEARCH (SSIJR)

www.ssijr.org

DISPUTE SETTLEMENT MECHANISMS IN THE TEXTILE INDUSTRY

Kanaga Prabha B

Assistant Professor of Law, Erode College of Law, Erode.

Abstract

Industrial disputes are an unavoidable reality in India's dynamic economic environment, particularly in labour-intensive sectors such as textiles where production schedules, employer-employee relations, and vendor reliability are crucial. India's legal framework provides multiple avenues for dispute resolution, including statutory forums like Labour Courts and Industrial Tribunals, commercial courts under the Commercial Courts Act, 2015, and specialised mechanisms such as MSME Facilitation Councils. Alongside these, alternate dispute resolution methods, arbitration, mediation, and conciliation—have become increasingly significant for addressing contractual and commercial conflicts. Despite this institutional variety, procedural delays, high litigation costs, and limited awareness often restrict effective access, especially for small and medium enterprises. Judicial interventions in matters such as denial of export incentives, mill closures, and labour disputes reveal that general mechanisms frequently fall short when applied to the complex realities of the textile industry. Courts have played a corrective role, ensuring fairness and protecting both business viability and worker welfare, but reliance on litigation is not sustainable. This study highlights the need for sector-specific reforms that emphasize speed, industry expertise, and practical fairness. Establishing a dedicated institutional framework would reduce judicial burden, safeguard industrial harmony, and strengthen the textile sector's contribution to India's economy.

Keywords: *Industrial Disputes, Labour Intensive Sectors, Textile Industry, Industrial Tribunals, and Labour courts.*

1.1 Introduction

In this complex and dynamic industrial environment, disputes are inevitable. Whether arising from industrial relations, supply chain failures, regulatory compliance issues or commercial misunderstandings, the presence of unresolved disputes can lead to significant disruptions in productivity and operational continuity. In labour-intensive industries like textiles, where time-bound production, stable employer-worker relations and reliable vendor partnerships are critical, the availability and effectiveness of dispute settlement mechanisms become especially important.

India's legal system offers a range of dispute resolution bodies-formal, quasi-judicial and informal-that are intended to address the diverse nature of conflicts in the industrial sector. These include statutory forums like Labour Courts and Industrial Tribunals, commercial courts set up under the Commercial Courts Act, 2015and specialised mechanisms such as the MSME Facilitation Councils. Additionally, alternate dispute resolution (ADR) techniques like arbitration, mediation and conciliation have gained increasing relevance in recent years, particularly for commercial and contractual disputes. However, challenges such as procedural delays, high litigation costs and limited awareness often restrict effective access to these bodies-particularly for small and medium enterprises in sectors like textiles. This chapter provides a comprehensive overview of the dispute settlement mechanisms available in India, especially those relevant to the textile industry. Along with the bodies which settle issues from labour to export challenges and socio-legal challenges.

1.2 Dispute Settlement in the Textile Industry

In India textile sector disputes are typically handles through a combination of legal and administrative avenues, starting with internal grievance mechanisms and potentially involving government agencies, labour courts and even the World Trade Organisation (WTO) for international trade disputes. As textile industry is more labour driven thus chapter discusses the labour issues and its mechanism along with the other core issues like customs, international disputes and other miscellaneous issues and the bodies which makes the textile industry run peacefully. First in this chapter, the international mechanism can be discussed which plays an important role as textile industry became significant because of its ability to be a global player in terms of exports and its revenue generation.

1.3 Textiles Monitoring Body (TMB) The Agreement On Textiles and Clothing

As previously mentioned, "the Agreement on Textiles and Clothing (ATC) was a decade-long transitional agreement under the World Trade Organization (WTO), effective from January 1, 1995, until January 1, 2005. Its primary goal was to eliminate the quota-based Multi-Fibre Arrangement (MFA) gradually and fully incorporate the textile and clothing industry into the General Agreement on Tariffs and Trade (GATT) framework. To oversee the enforcement of the ATC and review all related measures for compliance, the Textiles Monitoring Body (TMB) was established. This quasi-judicial, permanent body is composed of a Chairman and ten members who serve in a personal capacity and make decisions unanimously through consensus.[1] India's role within the TMB framework allowed it to actively participate in reviewing safeguard measures, addressing issues related to quota administration and ensuring fair treatment under the transitional arrangements. The TMB's function as a quasi-judicial body provided India with an institutional platform to raise concerns and contribute to the interpretation and implementation of ATC provisions. This participation also had domestic relevance." As quotas were gradually phased out, Indian textile exporters faced both new opportunities and challenges. The country had to adapt its production strategies, enhance competitiveness and respond to any trade barriers that emerged during the transition.

Through its involvement in the TMB, India could advocate for fair practices and protect its trade interests, making the body a vital component of its broader trade and industrial policy during the period of global textile liberalization.

1.4 Global Trade Policies and The Impact of Subsidies on Textile Production

In the global textile trade, disputes do not arise merely between private entities but are often rooted in broader trade policies and state actions.

One of the key challenges affecting textile production and export in developing countries like India stems from the global imbalance caused by subsidies and protectionist measures adopted by other

---

[1]World Trade Organization, Agreement on Textiles and Clothing, available at https://a.fanj.nl/english/tratop_e/texti_e/texintro_e.htm (last visited March 14, 2025).

nations. These issues frequently escalate into disputes that are addressed by international dispute settlement bodies, particularly within the WTO framework. Understanding these structural imbalances is crucial to comprehending how external economic and legal factors disrupt domestic production capacities. It is within this larger context that the role of dispute settlement bodies becomes significant-not only in resolving immediate trade disagreements but also in shaping the legal and economic environment in which textile industries operate.

As we all know raw material such as cotton were and remain heavily subsidized[2] and this has an impact on production and investment decisions in the sector, there were also alleged subsidies to producers and exporters of apparel and textile products.[3] In this light, although this paper concentrates on private dispute resolution, trade policy provides essential context for considering institutional reform. The relative negotiating power of China or India in establishing, protecting and advancing their terms of trade and in defending domestic institutions against importing countries' interests gives them and their exporters an advantage in international trade and investment relations. To address this particular imbalance, the full scope of required reforms extends far beyond the regulation and resolution of commercial disputes between private interests.

1.5 The Dispute Settlement Body (DSB)

The Dispute Settlement Body (DSB) of the World Trade Organization (WTO) plays a critical role in resolving international trade disputes, including those arising in the textile sector, which has historically been one of the most contentious areas in global commerce. "Dispute settlement body is a body established for resolving the disputes between the conflicting parties by overseeing the entire dispute settlement mechanism. The General Council of WTO, which carry out the c of the ministerial conference, renders its obligations under the dispute settlement understanding through dispute settlement body, as mentioned in article 4.3 of WTO.[4]

Given the prevalence of issues such as export subsidies, import restrictions and discriminatory trade practices, the DSB

2 Gro Intelligence, Lander, available at https://gro-intelligence.com/lander (last visited May 14, 2025).

3 World Trade Organization, China - Measures Relating to the Production and Exportation of Apparel and Textile Products (DS451), available at https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds451_e.htm (last visited May 14, 2025).

4 Prateek Jain, Dispute Settlement Mechanism under WTO, iPleaders, April 9, 2020, available at https://blog.ipleaders.in/dispute-settlement-mechanism-under-wto/ (last visited May 14, 2025).

serves as the principal mechanism for enforcing WTO agreements like the Agreement on Subsidies and Countervailing Measures (ASCM) and the Agreement on Textiles and Clothing (ATC). These mechanisms are essential not just for resolving direct disputes but also for ensuring that countries like India-whose textile sectors are deeply dependent on exports-can safeguard their domestic industries against global unfair trade practices. The existence and functioning of the WTO's DSB underscore the importance of legal recourse in maintaining a level playing field in international textile production and trade, making it a significant component of any socio-legal analysis related to production decline.

1.6 Case Study: Mexico's WTO Dispute Against China Over Textile Subsidies

As textile industry has several disputes with subsidies and trade dispute, it is important to discuss a real-world issue as a case study to understand the dispute settlement between countries by the WTO,

"On 15 October 2012, Mexico requested consultations with China concerning measures that allegedly support producers and exporters of apparel and textile products. Mexico claims that China maintains a wide variety of measures that support producers and exporters of apparel and textile products, as well as suppliers in the cotton and chemical fibres industries. Measures cited include tax exemptions for certain enterprises, reduction of import duties and VAT for purchase of equipment by certain groups of enterprises and those located in certain regions, measures contingent on use of Chinese goods and contingent on export performance, low cost loans by state-owned banks to certain industries, preferential land use rights, discounted electricity rates, support for production, sale and transportation provided to cotton farmers and the Chinese petrochemical industry and cash payments from government agencies. According to Mexico, these measures appear to involve both prohibited and actionable subsidies that are causing or threatening to cause serious prejudice through displacement and impedance of Mexican exports to the United States as well as through significant price undercutting, price suppression, price depression and lost sales in the United States."[5]

This case exemplifies how subsidy-based trade practices can disrupt global

[5] World Trade Organization, China - Measures Relating to the Production and Exportation of Apparel and Textile Products (DS451), available at https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds451_e.htm (last visited May 14, 2025).

textile production chains and highlights the role of the WTO Dispute Settlement Body in addressing such grievances. It also underscores how developing countries, like India, could be similarly impacted by such practices and how legal recourse at the international level becomes essential in protecting domestic industries.

1.7 Customs, Excise and Service Tax Appellate Board Tribunal

CESTAT which also stands for Customs, Excise and Service Tax Appellate Board Tribunal was created to provide an independent forum to hear the appeals against orders and decisions passed by the Commissioners of Customs & Excise under the Customs Act, 1962, Central Excise Act, 1944 and Gold (Control) Act, 1968. The Gold (Control) has been repealed. It is under the Ministry of Finance.[6]

It is a quasi-judicial body that hears appeals against orders and decisions passed under the Customs Act, 1962 and Central Excise Act, 1944.

It also has appellate jurisdiction in Anti-Dumping matters, which happens mostly in the textile sector. A special bench headed by the President of CESTAT, hears against orders passed by the Designated Authority in the Ministry of Commerce.[7]

In the context of the textile industry, especially with regard to issues arising from customs, excise and service tax disputes, the role of the Customs, Excise and Service Tax Appellate Tribunal (CESTAT) becomes significant. Many textile units rely on imports of raw materials or machinery and disputes often emerge over the classification of goods, eligibility for exemptions, or denial of export incentives like duty drawback or MEIS. In such cases, when the initial adjudication by customs or excise authorities does not favour the industry, the aggrieved party can approach CESTAT as the appellate authority. This tribunal plays a key role in safeguarding the interests of textile exporters and manufacturers by providing legal remedies in tax-related conflicts. Especially in regions like Coimbatore, where textile production and export are central to the local economy, such mechanisms ensure that disputes impacting the sector's financial stability are addressed through a structured and legally binding process.

[6] Department of Revenue, Ministry of Finance, Government of India, Customs, Excise & Service Tax Appellate Tribunal (CESTAT), available at https://dor.gov.in/customs-excise-service-tax-appellate-tribunal-cestat (last visited May 14, 2025).

[7] Ias Express, Customs Excise and Service Tax Appellate Tribunal (CESTAT): Functions & Limitations, available at https://www.iasexpress.net/ie-pedia/customs-excise-and-service-tax-appellate-tribunal-cestat/ (last visited May 14, 2025).

1.8 Settlement and Effects of Industrial Disputes in The Indian Textile Industry

The settlement of industrial disputes is defined under section 2(P) of the Industrial Disputes Act, Industrial disputes are conflicts between workers and employers. The settlement started in the course of conciliation proceedings, the conciliation officer will dissolve the problems among them. The settlement started between the management of the Indian textile industry and the association of workmen. If there are any Industrial disputes in the Indian textile industry that results in less production and no profits for employers. The conflict should be resolved to get profits and benefits in the Indian textile industry. The textile industry has two segments, unorganized and organized sectors. The unorganized sector means traditional methods which are small-scale like handicrafts. Whereas the organized sector means the modern machinery used for the production of materials in the Indian textile industry. It helps in producing a variety of textiles.[8]

1.9 Disputes within the Labourers

Industrial disputes in the textile sector like in any other industry are governed by the Industrial Disputes Act, 1947.This Act applies to all industries, including cotton-based textile mills and provides the legal framework for the investigation and settlement of industrial disputes.

The resolution of industrial disputes between employers and employees follows four main approaches under the Indian legal framework: conciliation, court of inquiry, voluntary arbitration and adjudication. These mechanisms provide a structured pathway for addressing conflicts that arise within the industrial sector, including the textile industry.

Conciliation is often the first step, where a government-appointed Conciliation Officer intervenes to facilitate dialogue and promote mutual understanding between the disputing parties. Either party may initiate this process by issuing a notice, after which the officer attempts to guide both sides toward an amicable settlement.

If conciliation fails or if the government deems it necessary, a Court of Inquiry may be established to investigate the dispute thoroughly. This court is expected to complete its inquiry and submit a report, usually within six months,

[8] Sorna S G, Settlement and Effects of Industrial Disputes in the Indian Textile Industry, Aequitas Victoria Foundation, July 17, 2022, available at https://www.aequivic.in/post/settlement-and-effects-of-industrial-disputes-in-the-indian-textile-industry (last visited May 14, 2025).

outlining its findings and suggesting possible resolutions.

Another method is voluntary arbitration, where both the employer and the employee agree to resolve their issues through a mutually chosen arbitrator. The arbitrator functions independently and delivers a binding decision after impartially evaluating the matter.

Finally, adjudication involves a formal referral of the dispute by the government to a Labour Court, Industrial Tribunal, or National Tribunal. This process results in a legally binding decision issued by a judge or presiding officer, based on a detailed examination of the case.

While these mechanisms offer a comprehensive framework for dispute resolution, their generalised nature often fails to address the textile sector's industry-specific concerns, such as mill closures, production interruptions and export-related conflicts-highlighting the need for a more tailored adjudication system.[9]

In the case of Sanghi Jeevaraj Ghewar Chand & Ors vs Secretary, Madras Chillies[10], the dispute arose under the Industrial Disputes Act and the Payment of Bonus Act, specifically concerning Section 39 and Section 1(3) of the latter. The conflict began when employees demanded a bonus, which the employer refused to grant. This disagreement led to an industrial dispute between the employer and the employees. The matter was ultimately resolved through industrial adjudication under the Industrial Disputes Act. The court held that the employees were not entitled to receive the bonus and noted instances of misconduct and misbehaviour on the part of the employees.

1.10 Judicial Interpretation and Legal Precedents in the Textile Industry

1.10.1 Swadeshi Cotton Mills v Union of India,1981[11]

Swadeshi Cotton Mills, established in 1946, initially operated a textile manufacturing unit in Kanpur under the name "The Swadeshi Cotton Mills, Kanpur." Between 1956 and 1973, the company underwent considerable expansion, setting up or acquiring textile units in Pondicherry, Naini, Udaipur, Maunath Bhanjanand Rae Bareilly. Each of these units was independently registered under Section 10 of the Industries (Development and Regulation) Act, 1951.

In addition to its six industrial establishments, the company held

9 Sorna S G, Settlement and Effects of Industrial Disputes in the Indian Textile Industry, Aequitas Victoria Foundation, July 17, 2022, available at https://www.aequivic.in/post/settlement-and-effects-of-industrial-disputes-in-the-indian-textile-industry (last visited May 14, 2025).

10 AIR 1969 SC 530.

11 1981 AIR 818, 1981 SCR (2) 533.

substantial interests in various independent enterprises and assets. Notably, it owned a 97% stake in Swadeshi Mining and Manufacturing Company Ltd., which operated two sugar mills. It also maintained significant investments, including a major shareholding in Swadeshi Polytex Ltd. Between 1957 and 1973, Swadeshi Cotton Mills experienced notable financial growth, with its reserves and surplus increasing from Rs. 2.3 crores to Rs. 4.3 crores. However, by 1976-77, these reserves declined to Rs. 2.8 crores. Similarly, the company's fixed assets rose from Rs. 5.8 crores in 1957 to Rs. 19 crores in 1973-74, before slightly falling to Rs. 18 crores in 1976-77.

The legal dispute arose following the Government of India's decision to take over the management of Swadeshi Cotton Mills on April 13, 1978. Acting under clause (a) of sub-section (1) of Section 18AA of the Industries (Development and Regulation) Act, 1951, the government justified its action on the grounds that the company had created circumstances that adversely affected-or were likely to adversely affect-the production of its goods, thereby warranting immediate intervention. The National Textile Corporation Limited was entrusted with the management of the company for a five-year period, subject to compliance with any directives issued by the Central Government.

The following are the issues with respect to the case,

Interpretation of "public interest"

A major question in this case was whether the government's takeover of a company's management could be considered as being in the public interest. The court examined if such action was justified by assessing whether it was taken for valid reasons like protecting national security, avoiding job losses and ensuring fair treatment and wages for the workers.

Legality of Government Action

The petitioners challenged the legality of the government's decision under Section 18A of the Industries (Development and Regulation) Act, 1951. The primary issue was whether the Act permitted the government to assume management of a private enterprise without the owners' consent and whether such action aligned with constitutional safeguards.

Violation of Principles of Natural Justice

A further issue raised was whether the government's action violated the principles of natural justice. Specifically, the Court examined whether the proprietors of Swadeshi Cotton Mills were afforded a reasonable opportunity to be heard prior to the government's assumption of control.

Adequacy of Compensation

The Court also considered whether the compensation provided to the company's owners was fair and adequate, focusing on whether it sufficiently addressed the loss of control over the business.

The court held the following judgement,

The Court first analysed the interpretation of the term "immediacy", rejecting the claim that it was beyond judicial scrutiny. It held that urgency could not alone justify the infringement of property rights, citing relevant precedents.

The Court then interpreted Section 18AA of the IDR Act, asserting that Section 18AA (1) must not be construed to override the fundamental principle of Audi alteram partem-the right to be heard. Emphasising the necessity of procedural fairness, the Court declined to annul the government's order outright. Instead, it directed the Central Government to provide the company owners with a fair and meaningful hearing within a reasonable timeframe, ensuring a comprehensive consideration of all relevant facts before arriving at any new decision.

With regard to the report by the investigating committee, the Court held that there was no obligation to furnish the report to the company's management prior to the takeover. It found that the company was already aware of the government's concerns, particularly since it had engaged in negotiations requesting additional time to arrange finances and resume operations. The government had, in fact, granted such an extension.

From the facts and judicial findings of the Swadeshi Cotton Mills case, it is evident that while the government has statutory powers under the Industries (Development and Regulation) Act, 1951, such powers must be exercised within the boundaries of constitutional principles and natural justice. The takeover of the company, though justified by the government on grounds of urgency and declining production, raised serious concerns regarding procedural fairness and the right to be heard. This case also took precedent from the Keshav Mills company vs Union of India.[12]

The Court's insistence on upholding the Audi alteram partem principle even in situations demanding immediate action underscores the judiciary's commitment to ensuring that executive powers are not exercised arbitrarily. Furthermore, the case highlights the importance of balancing

[12] 1973 AIR 389

public interest with individual rights, particularly property rights.

In conclusion, while the government may intervene to protect national economic interests, such actions must be accompanied by fair procedures, transparency and an opportunity for affected parties to be heard. This case sets an important precedent reinforcing the idea that the rule of law must prevail even in times of administrative urgency.

While this being said, there seems to be another core issue in connection with this is that if the government can take over the company due to its declining in production but what happens when the companies here, public sector undertakings like the NTC in specific is met with an issue of declining production, what does the take on for this issue is still a question mark in the current situation.

1.10.2 The State Of Tamil Nadu V. Sri Venkatesa Mills Ltd, 1986[13]

The case concerns whether the textile committee cess, which was collected by the respondent, Sri Venkatesa Mills Ltd., at the time of sale, should be considered part of the sales turnover under the Tamil Nadu General Sales Tax Act, 1959and therefore liable for sales tax. The textile committee cess was imposed under Section 5A (1) of the Textiles Committee Act, which allows the imposition of an excise duty on textiles and textile machinery produced in India, with a maximum rate of one percent ad valorem.

The revenue authorities argued that the cess collected by the respondent at the time of sale should be included in the sales turnover and taxed under the Tamil Nadu General Sales Tax Act. On the other hand Sri Venkatesa Mills contended that the textile committee cess was a separate levy, distinct from sales tax, even though it was collected at the same point of sale. According to the respondent, the cess was not part of the sale price and should not be treated as such for the purposes of sales tax.

The court referred to the precedent set in E.I.D. Parry (India) Ltd. v. State of Tamil Nadu (1979), where it was held that a gallonage fee collected from buyers at the time of sale did not form part of the sales turnover, as it was a separate statutory obligation. In that case, the Court had ruled that although the fee was collected at the point of sale, it was not part of the sale price and therefore, could not be taxed under the sales tax law. Similarly, in this case, the Court concluded that the textile committee cess, although collected at the time of sale, was a separate charge imposed

[13] [1986]63STC141(MAD)

under the Textiles Committee Act. The Court noted that the cess was collected by the respondent as a statutory obligation and it was not part of the sale price or sales tax.

The Court upheld the Tribunal's decision, ruling that the textile committee cess should not be treated as part of the sales turnover. Since the cess was a separate statutory charge, it was not liable to be taxed under the Tamil Nadu General Sales Tax Act. As a result, the State's tax revision cases were dismissed, affirming the distinction between the cess and the sales price, which is subject to sales tax.

It is inferred from the case The State of Tamil Nadu v. Sri Venkatesa Mills Ltd. that the textile committee cess, though collected at the point of sale, does not form part of the sales turnover subject to tax under the Tamil Nadu General Sales Tax Act. The court highlights the distinction between sales tax and statutory levies, asserting that the cess is a separate charge under the Textiles Committee Act. This implies that such statutory cess is not part of the sale price and cannot be taxed as part of the sales turnover, following legal precedents that treat similar statutory payments as separate from commercial transactions.

1.10.3 K.G. Denim Ltd. v. The Joint Director General of Foreign Trade, Salem, 2024[14]

K.G. Denim Ltd., a reputed textile manufacturing and exporting company, had availed the benefits of the Export Promotion Capital Goods (EPCG) Scheme, which allows import of capital goods at concessional customs duty provided the importer meets specific export obligations. The company claimed that it had fulfilled all conditions of the scheme, including the export performance criteria within the prescribed time. However, the Joint Director General of Foreign Trade (DGFT), Salem, refused to issue the Export Obligation Discharge Certificate (EODC), a document that certifies compliance with the EPCG conditions. The reason cited for the rejection was certain alleged procedural deficiencies or inadequacies in documentation, despite the petitioner asserting that it had submitted all necessary records to prove its fulfilment.

The central issue before the Madras High Court was whether the DGFT was justified in denying the issuance of the EODC under the EPCG Scheme, even when the exporter had reportedly complied with the substantive export obligations but

[14] Excise Appeal No.40877 of 2014

may have had minor procedural shortcomings.

The Madras High Court ruled in favour of K.G. Denim Ltd., quashing the order passed by the DGFT. The court found that the rejection of benefits under the EPCG Scheme was arbitrary and unreasonable, especially in light of the petitioner's substantial compliance with the scheme's requirements. The Court held that procedural lapses cannot outweigh actual compliance with export obligations and that the petitioner had a legitimate expectation to receive the EODC after meeting the core conditions of the scheme. Accordingly, the court directed the DGFT to issue the EODC without any further delay.

The decision in K.G. Denim Ltd. vs. The Joint Director General of Foreign Trade reflects the judiciary's proactive role in ensuring that procedural formalities do not obstruct the genuine entitlement of exporters to government incentives. The Export Promotion Capital Goods (EPCG) Scheme, designed to enhance export competitiveness, must be implemented in a manner that supports rather than hinders business operations-especially in a vital sector like textiles. The court's emphasis on substantive compliance over technical lapses reaffirms the principle that beneficial schemes should be interpreted in the favour of the intended beneficiaries when their bona fide efforts to comply are evident. This judgment strengthens the concept of legitimate expectation, where exporters who meet the core conditions of such schemes can justifiably expect the corresponding benefits.

1.10.4 Indorama Synthetics (India) Ltd. vs. The Additional Director General of Foreign Trade, 2016[15]

Indorama Synthetics (India) Ltd., a textile manufacturing company, had imported capital goods under the Export Promotion Capital Goods (EPCG) Scheme, which allows for the import of capital goods at concessional duty rates, provided the importer fulfils certain export obligations. The company claimed to have met these obligations within the stipulated time frame. However, the Additional Director General of Foreign Trade (DGFT) denied the issuance of the Export Obligation Discharge Certificate (EODC), citing procedural deficiencies in the documentation submitted by Indorama. The company contended that it had substantially complied with the scheme's requirements and that minor procedural lapses should not lead to the denial of benefits.

[15] W.P.(C) 6422/2013

The primary issue before the Madras High Court was whether the DGFT was justified in denying the EODC to Indorama Synthetics (India) Ltd. under the EPCG Scheme, despite the company's substantial compliance with the export obligations, due to alleged procedural deficiencies.

The Madras High Court ruled in favour of Indorama Synthetics (India) Ltd., holding that the denial of the EODC was unjustified. The court emphasized that when an exporter has fulfilled the substantive requirements of the EPCG Scheme, minor procedural lapses should not be a ground for denying the benefits. The court directed the DGFT to issue the EODC to Indorama, reinforcing the principle that procedural technicalities should not override substantial compliance in the implementation of export promotion schemes.

It is inferred that, The Indorama Synthetics (India) Ltd. case echoes the principles established in previous judgments, particularly in the K.G. Denim Ltd. case, highlighting the judiciary's stance on balancing substantive compliance with procedural requirements. In both cases, the court emphasized that minor procedural lapses should not overshadow a company's substantial compliance with the core objectives of export promotion schemes.

This decision reinforces the idea that government incentive programs, such as the EPCG Scheme, are meant to support the growth and competitiveness of industries like textiles, not to hinder businesses due to technicalities. By prioritizing fairness and recognizing legitimate business efforts, the judgment ensures that exporters are not penalized for minor documentation errors when they have fulfilled the primary export obligations.

On account of the textile industry, this judgment is crucial as it not only protects exporters from bureaucratic rigidity but also strengthens the legitimacy of government-backed schemes aimed at boosting the sector's global competitiveness. By fostering a more practical approach to compliance, it ensures that genuine exporters can access critical incentives without undue delays or barriers, ultimately contributing to the industry's growth and its position in the international market.

1.10.5 M/S National Textile Corporation Ltd. v. The Presiding Officer, Industrial Tribunal-cum-Labour Court, SAS Nagar, Mohali & Ors, 2024[16]

[16] 2024: PHHC:162557

M/s. National Textile Corporation Ltd. (NTC), a government-owned company managing multiple textile mills, was required to contribute to the Textile Workers Welfare Fund under the Textile Workers Welfare Fund Act, 1964. The Act mandates employers in the textile industry to pay a portion of their earnings to a welfare fund aimed at supporting the welfare of textile workers. NTC challenged the government's demand for contributions during periods when its mills were closed or non-operational, arguing that since no workers were employed during those times, it should be exempt from making payments for such periods.

The primary issue was whether NTC was legally obligated to make contributions to the Textile Workers Welfare Fund during periods when its textile mills were closed or non-operational. The court had to decide if the statutory duty to contribute depended on the active employment of workers or if the employer's obligation was continuous regardless of the operational status of the mills.

The Delhi High Court ruled against NTC, holding that the obligation to contribute to the welfare fund under the Textile Workers Welfare Fund Act, 1964, is a continuous and broad duty. The court clarified that the statutory responsibility to contribute does not depend on whether the mills were operational or if workers were actively employed during closure periods. The employer's obligation to ensure worker welfare remains in effect even when the mills are non-functional. Consequently, the court directed NTC to pay the outstanding dues to the welfare fund.

This judgment reinforces the principle that statutory obligations related to workers' welfare cannot be waived or suspended due to temporary closures or financial hardships in the textile industry. It highlights the continuous nature of labour welfare responsibilities, emphasizing that employers, including government entities like NTC, must uphold their legal duties regardless of operational conditions. The decision underscores the judiciary's commitment to protecting worker rights by ensuring welfare schemes remain funded even during difficult periods, thereby reinforcing the importance of statutory compliance for the sustainability of welfare programs in vulnerable sectors like textiles.

1.10.6 The Commissioner of Income Tax, Madurai vs. M/s Saravana Spinning Mills Pvt. Ltd, 2007[17]

M/s Saravana Spinning Mills Pvt. Ltd. was a company engaged in the business of manufacturing yarn. The company had claimed deductions under Section 80-IB of the Income Tax Act, 1961, for the assessment years 1999-2000 and 2000-2001. The Assessing Officer (AO) disallowed the deductions, stating that the company was not engaged in the manufacturing of articles or things as required under the provisions of Section 80-IB. The AO's decision was upheld by the Commissioner of Income Tax (Appeals) and the Income Tax Appellate Tribunal (ITAT)

The primary issue before the Supreme Court was whether the spinning of yarn from raw cotton amounts to "manufacture or production of articles or things" under Section 80-IB of the Income Tax Act, thereby entitling the company to claim deductions.

The Supreme Court held in favour of M/s Saravana Spinning Mills Pvt. Ltd., ruling that the spinning of yarn from raw cotton constitutes "manufacture or production of articles or things" under Section 80-IB. The Court observed that the process of spinning yarn involves a transformation of raw cotton into a new and distinct product, which is commercially recognized as yarn.

It is inferred from the case of The Saravana Spinning Mills Pvt. Ltd. Case that it underscores the importance of a nuanced understanding of the term "manufacture or production of articles or things" under Section 80-IB of the Income Tax Act, 1961. The Supreme Court, in ruling in favour of the petitioner, clarified that the process of spinning yarn from raw cotton qualifies as a manufacturing activity, thus entitling the company to claim deductions under the said section.

The Court's judgment is significant in reinforcing the idea that the transformation of raw materials into commercially recognized products, even when the change is not as drastic as creating entirely new goods, still qualifies as "manufacture." In this case, spinning yarn from raw cotton is a process that results in a new, distinct product, a transformation that the Court recognized as qualifying for tax deductions. The ruling sets an important precedent for industries where processes involve turning basic materials into finished goods, even when such processes may seem less involved than traditional manufacturing.

[17] 2007 AIR SCW 5196

For the textile industry, this decision is particularly beneficial, as it broadens the scope of what qualifies as manufacturing activity for tax purposes, offering more companies the opportunity to benefit from tax deductions intended to encourage industrial growth. This ruling also strengthens the position of manufacturers who engage in similar value-adding processes but might face challenges in proving their activities qualify as "manufacturing" under the Income Tax Act. It highlights the judiciary's role in ensuring that the tax laws are applied fairly and in line with the practical realities of business operations, fostering an environment where the textile sector can continue to grow and innovate.

1.10.7 State of Tamil Nadu v. Binny Ltd, 1980[18]

Binny Ltd., a prominent textile manufacturer in Tamil Nadu, operated a store within its factory premises where its employees could purchase provisions. During the assessment for the year 1967–68, tax authorities sought to levy sales tax on transactions from this store, asserting that these constituted taxable sales under the Act.

The central question was whether the company's operation of the store amounted to "business" as defined under Section 2(d) of the Tamil Nadu General Sales Tax Act, 1959. This section defines "business" to include any trade, commerce, or manufacture carried on with a motive to make a profit.

The Supreme Court examined whether the store's operations were conducted with a profit motive. It was found that the store was maintained solely for the convenience of the employees and goods were sold at cost price without any profit margin. The Court emphasized that the absence of a profit motive is crucial in determining whether an activity constitutes "business" under the Act.

The Court concluded that since the store operated without any intention of making a profit and solely served the employees' needs, it did not qualify as "business" under the Act. Therefore, the sales made through the store were not subject to sales tax.

This judgment clarifies that for an activity to be considered "business" under the Tamil Nadu General Sales Tax Act, it must be carried out with a profit motive. Employers operating internal stores for employees' benefit, without profit, are not conducting "business" and thus are not liable for sales tax on such transactions.

[18] AIR1980SC2038

From the judgment in State of Tamil Nadu v. Binny Ltd., it is inferred that Sales made by an employer to its employees through a company-run store do not constitute "business" under the Tamil Nadu General Sales Tax Act, 1959, if the transactions are made without any profit motive. Since Binny Ltd. sold goods at cost price purely for the convenience of its employees, the Supreme Court held that such sales are not taxable under the Act. This case establishes that the intention to earn profit is a crucial factor in determining tax liability under sales tax law.

1.10.8 Arvind Mills Limited vs Union Of India, 1983[19]

Arvind Mills Ltd., a composite textile mill, produces yarn and then applies a sizing process to the yarn before weaving it into fabric. The sizing process adds weight to the yarn.

It is inferred that excise duty liability arises at the stage when the product reaches its marketable form and the manufacturing process is complete. Any further processes, like sizing in the case of yarn, which add weight but do not alter the essential character of the product, should not be included in the excise duty calculation. Therefore, excise duty cannot be levied on the increased weight resulting from such post-manufacture processes.

The Gujarat High Court held that excise duty must be levied on the weight of the yarn before sizing, as the manufacturing of yarn is complete once it is marketable (i.e., before sizing). The court quashed all excise duty demands based on sized yarn, ordered refunds of excess duty collected with interest and prohibited future collection of excise duty on sized yarn.

It is inferred that excise duty liability arises at the stage when the product reaches its marketable form and the manufacturing process is complete. Any further processes, like sizing in the case of yarn, which add weight but do not alter the essential character of the product, should not be included in the excise duty calculation. Therefore, excise duty cannot be levied on the increased weight resulting from such post-manufacture processes.

1.11 Addressing Sector-Specific Challenges: The Need for Specialized Adjudication in India's Textile Industry

While there are several cases handles by many authorities and the judiciaries like the honourable Supreme Court and High courts it still feels relevant to state that there is a lack of sector specific

[19] (1984)2GLR1140

adjudication which when made up would be able to solve all the other relevant issues which might sound small but in reality, might affect the sector in a huge manner and the many issues which are not yet addressed.

As per the Times of India,[20] it is known that the textile industry is facing with rising defaults and incident of fraud. Though this report specifically deals with the default and fraud, there is a special need to address the issues other than fraud or default. As it is evident that the textile industry plays a pivotal role in India as it serves as a major source of employment and export revenue. However, despite its importance, the industry faces a unique set of challenges that are not always adequately addressed by the general legal and adjudicatory frameworks in place. Issues such as delays in raw material supply, mill closures, production bottlenecks and disputes over export obligations continue to hinder the growth and global competitiveness of the sector. These challenges are often exacerbated by the absence of a specialized adjudication system that can cater to the distinct needs of the textile industry. The absence of a sector-specific adjudication mechanism prevents timely and effective resolution of these disputes, undermining the industry's productivity and competitiveness, particularly in the global market."

1.12 Conclusion

The dispute settlement mechanism along with the case laws and judicial interpretations discussed clearly highlight a recurring theme which is the need for a more nuanced and sector-sensitive approach to resolving disputes within the textile industry. Courts have time and again stepped in to correct procedural injustices or rigid interpretations of policy frameworks, such as in the cases involving the denial of EPCG benefits or disputes arising during mill closures. These rulings underscore that while the general mechanisms of industrial dispute resolution exist, they are often insufficient in practice when applied to the complex realities of the textile sector.

Rather than reiterating the absence of a specialized forum, what emerges from these judicial trends is a call for a systemic shift-one that prioritizes speed, industry understanding and practical fairness. The judiciary has played a crucial role in interpreting the law in a way that protects

[20] Parag Dave, Textile Sector Faces Challenges of Rising Defaults, Fraud, The Times of India, May 12, 2025, available at https://timesofindia.indiatimes.com/city/ahmedabad/textile-sector-faces-challenges-of-rising-defaults-fraud/articleshow/121118834.cms (last visited May 14, 2025).

the economic viability of textile businesses and the welfare of workers. However, relying on courts as the last resort cannot be the long-term solution.

Going forward, any meaningful reform must focus not just on policy support but also on building an institutional framework capable of addressing the textile industry's specific legal and operational concerns efficiently. This would not only reduce the burden on courts but also ensure that disputes-especially those related to production disruptions, export incentives and welfare obligations-are resolved swiftly, preserving industrial harmony and sustaining the industry's contribution to the economy.

References

1. Prateek Jain, Dispute Settlement Mechanism under WTO, iPleaders, April 9, 2020, available at https://blog.ipleaders.in/dispute-settlement-mechanism-under-wto/
2. Department of Revenue, Ministry of Finance, Government of India, Customs, Excise & Service Tax Appellate Tribunal (CESTAT), available at https://dor.gov.in/customs-excise-service-tax-appellate-tribunal-cestat
3. Ias Express, Customs Excise and Service Tax Appellate Tribunal (CESTAT): Functions & Limitations, available at https://www.iasexpress.net/ie-pedia/customs-excise-and-service-tax-appellate-tribunal-cestat/
4. Sorna S G, Settlement and Effects of Industrial Disputes in the Indian Textile Industry, Aequitas Victoria Foundation, July 17, 2022, available at https://www.aequivic.in/post/settlement-and-effects-of-industrial-disputes-in-the-indian-textile-industry
5. Parag Dave, Textile Sector Faces Challenges of Rising Defaults, Fraud, The Times of India, May 12, 2025, available at https://timesofindia.indiatimes.com/city/ahmedabad/textile-sector-faces-challenges-of-rising-defaults-fraud/articleshow/121118834.cms