



APPAREL / TRADE TALK

IMPACT OF COTTON IMPORTS

Cotton, the strongest link in India's textile value chain, has been going through a lot of permutations and combinations lately. Bindu Gopal Rao explores the situation at present to reason out the impact.

Cotton plays an important role in the Indian economy, as India's textile industry is predominantly cotton based and the country is one of the largest producers as well as exporters of cotton yarn. Gujarat, Maharashtra, Telangana, Andhra Pradesh, Karnataka, Madhya Pradesh, Haryana, Rajasthan, and Punjab, are the major cotton producing state in India. According to reports, India has been one of, if not the biggest producers and exporters of cotton in the world. India has imported cotton occasionally in the past due to crop issues and the like. The latest news is that, this year, India is set to import cotton, as imported cotton is working out cheaper than the local cotton due to the strong rupee.



NUMBER CRUNCHING

India's cotton exports have increased over the last one year. India's import of cotton (HS 52) increased from US \$552.89 million during April 2015 to February 2016 to US \$1,063.63 million during April 2016 to February 2017. "International cotton prices do not show a significant decline in prices. In fact, it shows a mildly upward price trend since the last three years. But domestic supply in India has been hit by a drought in Tamil Nadu and Andhra Pradesh recently. There is also a possibility that Indian farmers are holding on to their stock as international prices are expected to firm up even more. However, during the last five months, there has been a significant appreciation of the Indian rupee. Appreciation of the rupee implies cheaper imports. As a result, Indian mills are finding imported cotton cheaper and switching to foreign suppliers. Data shows that most supplies are coming from Brazil, Africa, USA and Australia," explains Parthapratim Pal, Professor of Economics, Indian Institute of Management Calcutta. Among these countries, cotton exports from the USA generally are supported by farm subsidies. US cotton exports are made artificially competitive through an elaborate mechanism of the US farm support system.

DOMESTIC WOES

While higher imports from foreign countries means that domestic producers are losing their market, whether it is good or bad for a country, is a more complicated question. "Cheap imports of raw materials and intermediate goods improve the competitiveness of producers for final products. If these benefits are passed on, then others in the value chain also gain. In this case, mill owners and garment manufacturers can benefit from cheaper cotton imports. If the lower prices of final goods are passed on, then consumers may also gain. However, it may be harmful for domestic cotton producers," says Pal. According to reports, India, till the 1970s, was an importer of massive quantities of cotton in the range of eight to nine lakh bales per annum. However, due to special schemes through successive five-year plans, the Government managed to boost cotton production to self sufficient levels. This brought down the import of cotton but in the late, 90s and early 2000s, again, large quantities had to be imported due to lower crop production and the

increasing demand of cotton by the domestic textile industry. Amit Vijaya and Richard Pandav, designers, Amrich: by Amit and Richard, explain, "This is an alarming issue, as cotton agriculture is one of the biggest in India. If we start importing cotton, there would be a problem with the consumption of locally grown and produced fibre and that would be detrimental to the farmers who are, as it is, struggling to make ends meet. This is much like what happened in the past with silk fibres, which were sourced from China. Competitive pricing led to a dearth in locally produced silk. This almost finished the production of silk yarns in the country making us rely completely on imports from China. Today, the country has a monopoly on silk yarns and fabrics sold in India. It would be an extremely sorry state of affairs if we allow the import of cotton to hamper one of our agricultural strengths."

CURRENCY CRISIS

According to senior officials in the Cotton Industry, India's 2016-17 cotton imports are set to jump more than a third from a year ago to a record three million bales as the rupee rises, which makes buying overseas cheaper. The strong rupee has also caused a complete slowdown in cotton exports. Indian mills have contracted to import around 1.5 million bales, and another 1.5 million bales will be imported by end of the current crop year, ending September 2017. This total of three million bales would be 36 per cent more than the 2.2 million bales imported in the 2015-16 crop year, with stocks coming mainly from the African countries, the United States, Brazil and Australia. Tightness in domestic supply is also boosting imports, as Indian farmers hold off on deliveries in the hope of achieving higher prices later in the crop year.



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The state-run Cotton Advisory Board forecasts the production of 35.1 million bales in the current crop year, but industry officials mention that the production is likely to be around 34 million bales, as output was hit in the southern states of Andhra Pradesh and Tamil Nadu by a drought. One of the biggest impacts, is the loss of exports to other nations such as Brazil, the USA and some African countries.

PRICE HIKE

High domestic prices have forced the industry to begin cotton imports early and about three lakh bales of the commodity was imported in December 2016. Typically, imports start by April-May when the domestic prices start moving up. However, this year, the arrival of cotton has dipped post the note-ban and farmers are not selling cotton in large quantities, as they prefer to deal in cash and demonetisation has not helped the cause. After demonetisation, several of the local cotton markets are not fully operational as arrivals have dwindled. "Furthermore, farmers have delayed deliveries in the hope of achieving higher prices later in the crop year. The fact is that textile mills of South India usually do import cotton but this year the North Indian mills have also begun to import cotton," aver Vijaya and Pandav. With exporters facing difficulties to source products from the markets, non-fulfilment of orders has led to cancellations as well as a fall in forward contracts. According to Cotton Corporation of India (CCI), the total arrival during October to December 2016 was 7.5 million bales compared to the 10 million bales in 2015. South Indian mills are importing cotton from West Africa as it is comparatively cheaper than Indian cotton, by almost ₹6,000-₹7,000 per candy. Cotton arrival is currently at 1,50,000 bales a day as opposed to the standard 2,25,000 bales. All this means that the industry is in the midst of a crisis and urgent remedial action is the need of the hour to ensure that domestic cotton producers get their due. ■

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