It's a Long Hot Summer for Textiles

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Memorial Day, which falls on the last Monday in May, signals the start of the summer season in the United States. While summer is on the start in the northern hemisphere, it is winding down in India. Although Indian summer is coming to an end, it looks like the summer season is never ending for the Indian textile industry. May is the cotton planting time in West Texas, which produces one third of cotton in the United States. The severe drought in West Texas is affecting cotton planting, which will impact this year's cotton production. While nature is responsible for the adverse situation in the United States, a number of factors including government policies are playing their part in multiple ways in the Indian textile scenario. Let us understand the cotton textile filed in the two most important regions of the world, i.e., the United States and India.

India Announces Restructured Subsidy Scheme to Boost Investments in the Textiles Industry

Indian government will provide a maximum subsidy of Rupees 1,972 crores (US $438 million) to attract an investment of about US $1 0.42 billion across the textiles value-chain.

A communique dated May 1st, 2011 from the Ministry of Textiles, India announced the restructuring of the popular Technology Upgradation Fund Schemes (TUFS) to boost the investments in the textiles sector. All segments within the textiles industry are expected to benefit from the scheme. The scheme will provide a maximum subsidy across the textiles supply chain from spinning, power loom, garmenting, processing and technical textiles for the period, April 28, 2011 to March 31, 2012. The subsidy will have a cap of Rupees 1,972 crores (~US $438 million).

The objective of the restructured scheme is to leverage investments in the textiles sector by having a balanced growth across the value chain, says the government announcement.

Spinning units with matching capacity in upward processing are eligible for 5 % interest reimbursement, while stand-alone spinning upgradation projects are eligible for 4% interest reimbursement. Value-addition sectors such as power looms, garmenting, processing and technical textiles are in for additional benefits. The government will provide 10% capital subsidy and 5% interest reimbursement on projects involving new shuttleless looms. Processing, garmenting and technical textiles sectors can get 10% capital subsidy and 5% interest rebate on specified machinery.

The interest reimbursement will be for a maximum period of 7 years. The investment of Rupees 1,972 crores (US $ 438 million) in the subsidy form is expected to result in an overall investment of Rupees 46,900 crores (US $1 0.42 billion) across the value chain in the Indian textiles sector.

Indian Cotton Market at Standstill

Total absence of buying said, Mr. K. N. Viswanathan, Honorary Secretary of The South India Cotton Association based in Coimbatore, India. In speaking to this scribe from India on May 10th, Mr. Viswanathan attributed to some important factors causing this price crash. Over stocking of cotton in anticipation of higher prices on speculative basis and lack of buying upstream have caused this situation, according to Mr. Viswanathan.

Cotton yarn market is at a standstill due to processing house closures in Tirupur area in South India. Furthermore, the spinning industry is facing serious power shortages. Cotton spinners are facing uphill battle in selling yarn to weaving units.

Sankar-6, benchmark cotton traded last Friday (20/05/2011) at Rupees 44,000 per candy (356 kg). It is now at Rupees 41,000 42,000 per candy with no takers. India is 24/7 market and no trading has occurred since last Friday, said Mr. Viswanathan.

Commenting on India's cotton production for this season, he said, his association estimates the production to be 31.2 million bales (170 kg each), which is the estimate provided by India's Cotton Advisory Board. He feels this season's production will lie between 30.5 million to 31.2 million bales. According to Mr. Viswanathan, arrivals since the beginning of this season till May 1st have been 28.7 million bales (170 kg each). He expects the daily arrivals for the next 30-35 days to be 45,000 bales per day. In a telephone conversation from New Delhi, India, Mr. V. Srinivas, Joint Secretary, Ministry of Textiles, India confirmed that the production estimate for this season still stands at 31.2 million bales. Mr. B. A. Patel, Joint Textile Commissioner, India told this scribe in a call from Mumbai that there has been no revision to the latest Cotton Advisory Board's estimate of 31 .2 million balesof170 kg each.

United States Releases First Projection for the Next Cotton Marketing Season

United States Department of Agriculture on May 11th projected lower cotton beginning stocks for the next marketing year 2011/12 beginning on August 1st, 2011.

The first World Agriculture Supply Demand Estimates (WASDE) for the 2011/12 season released on May 11th by the United States Department of Agriculture, projects the world cotton beginning stocks to be 42.52 million bales (480 pound each) for the next marketing year 2011/12. This is 1.7 million bales less than the estimated beginning stocks for the current season ending on July 31st.

Considering the beginning stocks for the 2009/10 season which was 60.54 million bales the next season will be beginning with about 18 million bales less. World's total cotton supply for 2011/12 season is projected to be 207.1 million bales. The total global use is projected at 159.36 million bales. The United States is projected to supply 19.76 million bales of which the production is pegged at 18 million bales. Chinese domestic consumption is projected to be 48 million bales which are 1 million bales higher than domestic consumption in the 2010/11 season.

According to United States Department of Agriculture, Indian mills are estimated to domestically consume 21.5 million bales (480 lbs each) in the next marketing year. India's export during the next marketing year is projected to be 4.8 million bales. India's production is estimated to be 27 million bales of 480 lbs each. The production for the 2011/12 season is expected to be increased by 3 million bales from the 201 0/11 production estimate of 24 million bales.

According to Shawn Wade, Director of Policy Analysis and Research for Plains Cotton Growers, Inc. in Lubbock, Texas, the WASDE report's initial forecast for 2011/12 production in the U.S. illustrates the fact that it is going take more than one growing season to rebuild U.S. ending stocks an appreciable amount.

"Even with the projected increase in 2011 United States cotton acres," explains Wade, "applying normal acreage loss and yield figures for the coming season would only produce a modest 750,000 bale increase in ending stocks at the end of the 2011 cotton marketing year. The fact that early season growing conditions in West Texas and in other parts of the U.S. Cotton Belt are less than optimal right now could easily result in lower yield potential and increased acreage loss totals this growing season. Either one of those outcomes would prolong the current situation of tight United State's cotton supplies."

Global ending stock on July 31st, 2012 is projected to be 47.93 million bales which will be higher than the last two seasons.

United States Releases Final 2010 Cotton Report

United States Department of Agriculture released the final crop production report for the year 201 0 on May 11 the United States, the world's leading exporter of cotton produced 18.1 million bales (480 pound each) in 2010. 10.7 million all cotton acres were harvested against the planted area of 10.97 million acres.

The area harvested and the bales produced in 2010 are much higher than those in the previous year, 2009.

The average yield across United States in 2010 for all cotton was 812 pounds per acre against 777 pounds per acre in 2009.

The upland cotton production in 2010 was 17.6 million bales (480 pound each) and the average upland cotton yield was 805 pounds per acre. 10.5 million acres of upland cotton were harvested in 2010.

Texas ranked first in upland production with 7.84 million bales followed by Georgia with 2.25 million bales and Arkansas came third with production of 1.18 million bales.

Comparing the total area harvested, bales produced and the yield per acre, 2010 performed extremely well against the previous year 2009.

The percentage increase in cotton production for the year 201 0 was 49% compared with the previous year. According to the March 31st, Prospective Planting report from USDA, cotton planting this year may go up by 15% in the United States.

Textiles Part of Winning Election Game in India

Textiles are part of the winning party's election manifesto in the State of Tamilnadu, India. Election results for the 234 seat state assembly held a month back were announced on May 13th.

The southern state of Tamilnadu, which is the home for the largest concentration of spinning industry in India with over 1900 spinning mills voted out the current ruling party which won the election using a freebies bonanza in 2006. Freebies have become a part of the election game in Tamilnadu state these days. Tamilnadu, which is the 7th most populated state in India with 72 million people elected the current opposition party, AIADMK led by ex-film star and a former Chief Minister, Ms. J. Jayalalitha with a stunning majority.

Among the many freebies in the election manifesto, such as free laptops for higher education students, the winning party has announced that it will provide four sets of school uniform to the students who are in the public education system. This is a good opportunity for textile industry as it has to provide uniform cloth to a large number of children. According to some statistics, the state has over 13 million school children between the age 6 and 18.

The incoming government has pledged that it will fulfill the election manifesto within 18 months. The new government in Tamilnadu, India has to deal with many issues which are near and dear to the textile industry such as power shortages, dyeing and processing industry issues such as closures, environmental problems and cotton availability.

United States Estimates Enhanced Cotton Trade Next Year United States Department of Agriculture on May 12th estimated that the world's cotton trade for the next marketing year 2011 /12 starting on August 1st will be increased by 8% from the previous year and is valued at 39.9 million bales (480 lbs each).

United States, the world's largest exporter is estimated to export 13.5 million bales (480 lbs each), which is 13% less than its export in 2010/11.

Contrary to the USA export numbers, Australia and Brazil are expected to export more and are pegged at 4.3 and 4.5 million bales respectively.

India's export will remain unchanged from the previous year at 4.8 million bales of 480 lbs each.

On the import side, China, the world's largest cotton importer is expected to import 19% more at 16 million bales, making it the second highest import on record. Bangladesh, world's second largest cotton importer is forecast to import 4 million bales.

Cotton Prices Expected to Decline Next Year

Cotton prices are expected to decline in 2011/12 marketing season effective August 1st, 2011. According to United States of Department Agriculture Economic Research Service, price decline is attributed to tempered growth in global cotton consumption.

Cotton prices are forecast to fall but are expected to 70% higher than the prices two years back, according to May 12th report from USDA.

Global cotton consumption is expected to rise only by 2.6% from the previous year although this higher than the long term annual growth of 1.9%. Global use is expected to be 119.5 million bales (480 lbs each).

India's consumption in 2011/12 is forecast at 21.5 million bales of 480 lbs each which is 2.4% higher than the previous year. India's share in the global consumption will be 18%. Pakistan's consumption is expected to rise by 5% and is pegged at 10.75 million bales, which is 9% of global consumption.

Although the global economy is recovering, cotton consumption is tempered by its higher prices and relative price with competing synthetics, according to the USDA report.

Cotton Price Crash Resulting in Human Tragedy in India

Three cotton farmers have committed suicide recently in the Vidarbha region in central India.

In speaking to this scribe from India at 11 AM US CST on May 15th, Mr. Kishor Tiwari, President of Vidarbha Jan Andolan Samiti (VJAS), a farmer support group said, 2 farmers committed suicide on this past Friday and one farmer committed suicide on this past Saturday. Farmers in anticipation of higher prices were stocking-up the crop but the market has crashed in India resulting in human tragedy. Farmers are committing suicides due to farming debts and increase in cotton cultivation costs.

Despite record production expected this year in India which is pegged at 32 million bales (170 kg each), Indian government has imposed a quota of 5.5 million bales for export. Farmers are not getting international prices for their harvest. Recently, even traders in local markets are seriously affected, said Mr. Tiwari. Mr. Tiwari blamed the Ministry of Textiles, India for imposing the export quota.

Indian market has been crashing for the past few days. Good quality cotton lint price has come down by over 50%. On Friday, May 13th, quality cotton traded at Rupees 38,000 per candy (356 kg). Tiwari said, last month farmers were getting Rupees 7,000 per quintal (100 kg) for seed cotton, which has crashed now to Rupees 3,200 per quintal (100 kg).

Mr. Tiwari said that he will be leading a delegation of 100 farmers and few farm industry leaders to meet with Mrs. Sonia Gandhi Chairperson of the United Progressive Alliance, the coalition group which runs the Government of India on May 20th in New Delhi. The group is planning on a hunger strike if the talks do not take place as planned.

When pressed by this scribe, Mr. Tiwari reiterated that it is a fact that three deaths have happened in the past two days due to cotton situation in the Vidarbha region in the State of Maharashtra, India. Vidarbha region constitutes about 25% of India cotton cultivation with 22 lakh (2.2 million) hectares planted on an average.

Gujarat Chief Minister Intervenes on Indian Cotton Export Situation

Chief Minister, Mr. Narendra Modi of Gujarat, India's number one cotton producing state has stated that the export policy of the Indian Union Government is anti-farmer one and has written an urgent letter to Indian Prime Minister, Mr. Manmohan Singh.

The letter sent by Mr. Modi available on his website posted on May 16th insists that the Indian government should lift the cotton export ban immediately. Gujarat Chief Minister has also requested a separate export allocation of 10 lakh (1 million) bales of 170 kg each for his state. "While internationally cotton prices are increasing, we are having opposite experience at home-front where prices are going down," said Mr. Modi.

In his letter to Indian Prime Minister, Mr. Modi pointed out that cotton producers have no arrangement to store their yield and therefore they are compelled to sell cotton at lower prices. In commenting on the price crash, the chief minister said, "BT cotton Sankar 6's price has come down from Rupees 44,000 per candy from earlier Rupees 62,500, while short staple V 797 cotton price is down at Rupees 25,000 from earlier Rupees 50,000 per candy. Raw BT Cotton was priced at Rupees 7,250, but now its price is 40% down."

The Chief Minister also pointed out that while last year 295 lakh bales cotton was produced and 85 lakh export quota was approved, this year there has been 330 lakh bales production, but the approved export quota is only 55 lakh bales.

According to the latest estimate from India's Cotton Advisory Board, state of Gujarat is projected to produce 102 lakh (10.2 million) bales of 170 kg each, which is one third of India's expected total production of 312 lakh (31.2 million) bales each weighing 170 kgs.

Supreme Court of India Passes an Interim Order to Ban a Key Cotton Pesticide

India's Supreme Court on May 13th banned endosulfan, a key cotton crop pesticide. An interim order was issued to immediately ban the production, use and sale of endosulfan allover India.

On Friday, May 13th, a three member justice’s bench consisting of the Chief justice of India heard the public interest writ petition filed by the Democratic Youth Federation of India against Union of India, Pesticides Manufacturers & Formulators Association of India and others. The bench in hearing the arguments felt the need for a detailed report by an expert committee. An expert panel headed jointly by the Director General of Indian Council of Medical Research and Agriculture Commissioner has been constituted.

The court ordered for an interim report from the committee within 8 weeks, until then the endosulfan ban will be in place.

Endosulfan is banned in European Union, Australia, USA and many other countries. In June last year, the United States Environmental Protection Agency moved to ban endosulfan with all uses of endosulfan to be phased out by 2016. India is the number one producer and exporter of endosulfan and has 80% of its market share.

The supreme court of India will take up this case in the second week after the summer vacation. Until then at least, this pesticide will be unavailable in India both for domestic and export usage.

Indian Spinning Mills to Stop Production on 23rd May

Indian spinning mills will stop its production for a day on May 23rd, Monday. The Indian spinning industry has also decided to curtail its daily production to 1/3rd of the present day production limit from May 24th onwards.

On May 18th in the joint press conference organized in New Delhi, India by the Confederation of Indian Textile Industry (CITI) and other leading Indian spinning associations, the decision to stop the production of spinning mills for a day on Monday, March 23rd was announced. Mr. Shishir Jaipuria Chairman of the Confederation of Indian Textile Industry also briefed that a joint representation from the concerned industry associations has been sent to the Ministries of Textiles Finance and Commerce on the current plight of the textile industry in India.

In the press conference, Mr. Jaipuria listed the government policies, which have been responsible for the decline of the profitable spinning industry. CITI and other leading spinning associations such as the Southern India Spinning Mills Associatiol1' have demanded these urgent measures from the Indian Government:

1) The Drawback pollution issues prevailing in various dyeing c facility on export of cotton yarn was withdrawn on 29th April 2010 and the DEPB benefits on export of cotton yarn were withdrawn on 21st April 2010. Both these facilities may be reinstated with retrospective effect immediately.

2) An Excise duty of 1 0.30% was imposed on manufacture of garments. We request the government to withdraw the Excise duty on garments to perk up the consumer demand. This should be done at least till the GST is introduced.

3) An announcement may be made by Government that no restrictions would be placed on export of cotton yarn in future so that mills can start winning the confidence of their buyers which will now take a long time since the damage has already happened and buyers have moved to the competitors. This will also help in resuming the investments in the production of cotton yarn.

4) Providing 2% interest subvention for all textile and clothing products i.e. all products falling under chapters 50 to 63, excluding fibers.

5) Since the spinning mills are incurring huge cash losses, government may consider giving one year moratorium period for repayment of loans and interest and also exempt this period for TUF eligibility so that NPAs are avoided.

6) Permit conversion of a portion of CC limits into term loans to fill up the gap in the CC limits caused due to sudden fall in the prices of unsold yarn and cotton and such loan should be given five years repayment period with normal interest rate and it should not affect the credit rating of such units resulting in proliferation of Non Performing Assets (NPAs).

7) Address the lusters particularly Tirupur and other places in Tamil Nadu so that the domestic garment industry works in full capacity, which in turn boost yarn sales.

Mr. Jaipuria criticized the policies of the government which have resulted in the stock piling of cotton yarns, which is about 500 million kgs. Mr. Jaipuria has emphasized that the overstock situation is resulting in cash losses to the spinning industry. A major point of concern is the lack of working capital to procure cotton which is resulting in cotton price crashes in India.

India May Allow Additional 1.5 Million Bales of Cotton for Export

India may allow additional export of 1.5 million bales (170 kg each) this year adding up to a total export of 7 million bales (170 kg each). Earlier the government has capped the export of cotton at 5.5 million bales (170 kg each). In a communication sent to this scribe from India, Mr. Kishore Tiwari, President of Vidarbha Jan Andolan Samiti (VJAS), which is a farmer support group, noted the latest statement from the Gujarat State Congress party.

According to the communication, Gujarat State's Congress party delegation led by Mr. Arjun Modhwadia met with the Indian Textile Minister Mr. Dayanidhi Maran and the Indian Finance Minister Mr. Pranab Mukherjee on May 19th to demand an increase in the cotton export quota. The textile minister has accepted the demand to allow the export of additional 1.5 million bales (170 kg each) which will enhance the total export limit to 7 million bales (170 kg each), this year.

In his communication Mr. Tiwari, President of VJAS emphasized the urgent need for central government's intervention and demanded immediate lifting of all export restrictions for raw cotton and yarns so that farmers can get higher price.

India's Textile Minister is expected to convene India's Cotton Advisory Board meeting soon to allow the export of additional 1.5 million bales of 170 kg each, said the Gujarat state congress party statement.

At the time of this reporting, there has been no official release from the Ministry of Textiles, India with regard to additional exports of cotton.

Long Summer Ahead

Given the interest of various segments of the Indian textiles sector, it looks like the Indian summer will overlap with that of the United States and may even extend indefinitely!

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