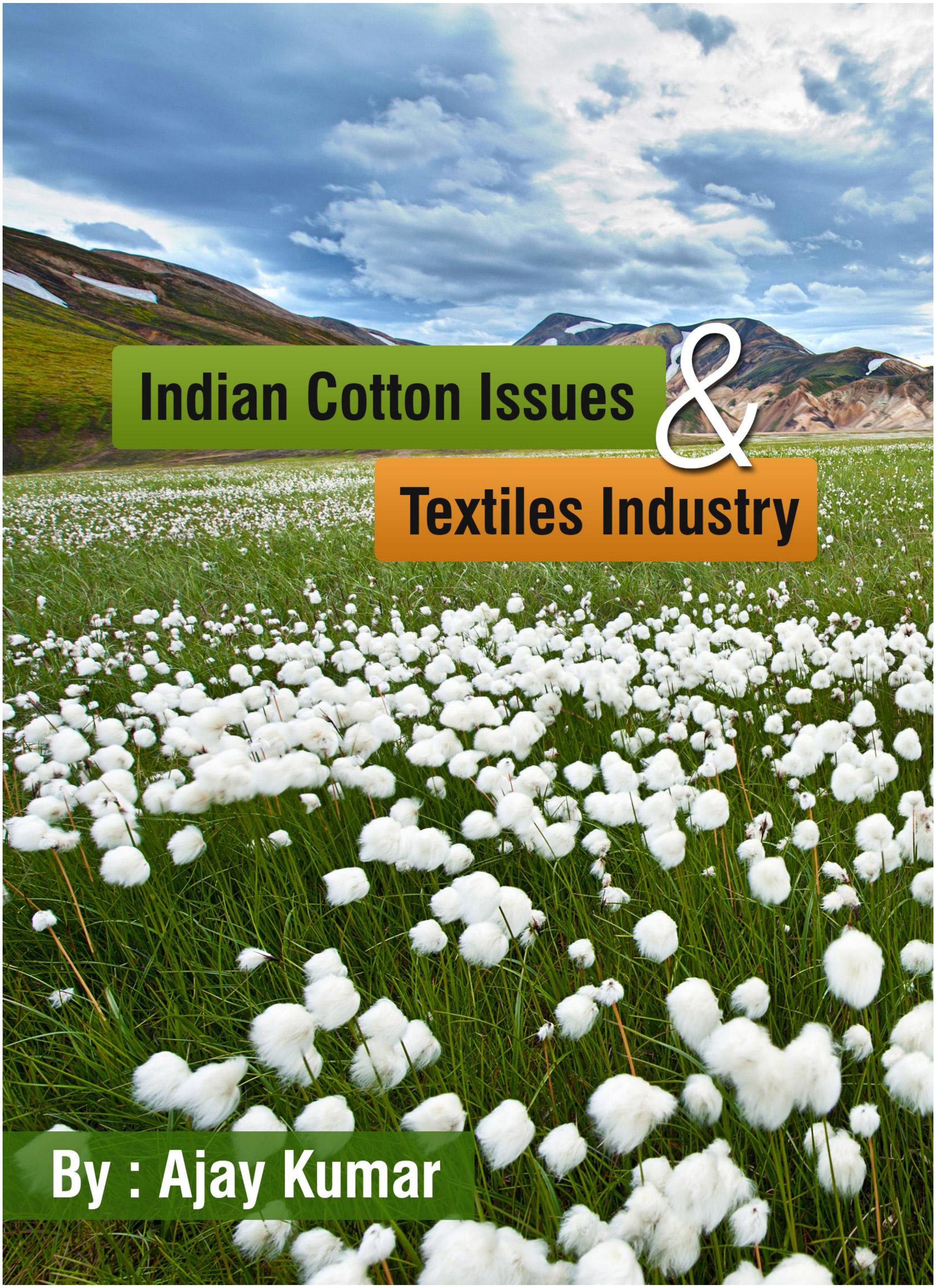
Indian Cotton Issues
&
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In the diverse economic and manufacturing activities of India, cotton growing, processing and trading occupy a predominant position and act as one of the strong competitive base for textile and clothing production. India is one of the largest producers and exporters of cotton and an influencing player in the global cotton economy. It is estimated that more than 60 million people in India have been directly engaged in cotton and cotton based manufacturing process and it is one of the largest employment sector of the rural India. The proposition of 'white gold' for cotton had rightly highlighted its significance in Indian economy since a long time. The dependence of millions of rural workforce on cotton and cotton economy, made this segment the back bone of rural economy, expansion of manufacturing activities and employment. Any adverse developments in cotton sector will have serious impact on the livelihood of many and overall economy. The primary objective of this article is to highlight two very important issues related to cotton. Firstly, from the producer's point of view; how to sustain the growth in cotton production which India had achieved over the years. Secondly, from an end user perspective; as the cotton consumption which has been increasing at a faster pace, what policies and measures need to be adopted to create a viable and stable mechanism which can augment supply to domestic manufacturing and for exports earnings.

Maximizing Cotton Production

Introduction of Bt cotton on commercial scale in year 2002 and various programmes under cotton Technology Mission (TMC) helped in reducing cost and increasing yield in India. A significant amount of cotton was being imported for spinning industry till 2004-05. A year later, India became a net exporter in cotton and holds this position now meeting the domestic requirement. India has occupied the 2nd slot in world cotton in production, consumption and for exports. However, the main issue that worries stakeholders in Indian cotton is the stagnation of productivity at an average of 500 kg per hectare for the past nine years. It seems that the gains have been stagnant and unaffected by the increase in area of Bt cotton during these times. The yield was 470 kg per hectare when the Bt cotton area was 5.6 per cent in 2004 and reached a mere 518 kg per hectare when the area under Bt cotton increased to around 10.8 million hectares, that is, 90 per cent of the total 12 million hectares in 2012-13.

Since the area under cotton is likely to stagnate around 12 million hectares because of pressure on land availability for alternative or competitive usages, clearly cotton productivity needs to improve considerably. High yield can ensure the remunerative prices for farmers after adjusting ever increasing input costs. Currently, the world average in cotton yield (around 750 kilos per hectare) is over 50% higher than ours, though the overall trend in average yield gap in world cotton vis-à-vis Indian Cotton is coming down. However, with need and ability to adopt requisite inputs, techniques and practices in cotton production at better pace than ever, there are high costs or opportunity foregone, if we remain lagging behind in average yield from world cotton.

Policy Focus for High Yield

The focus needs to be on technology and other factors that could complement the growing of Bt with widened share of existing cotton land in India. The awareness of farmers on how Bt cotton works (in terms of GM technology) is either limited or not getting implemented effectively. The government should pro-actively put into place systems or revamp the existing systems which would assess the situation of Bt
Cotton vis-a-vis non-Bt Cotton in terms of pest and disease incidence, economics of investments and returns, other problems like newer diseases, efficient crop management strategies, etc. It is being reported that the sucking pests' complex found to be very high in Bt Cotton vis-a-vis Non Bt Cotton. Most of the Bt-cotton fields were damaged by sucking pests (jassids, aphids and thrips - above ETL) in recent years. In the rain-fed zones, crops are suffering from leaf-reddening and wilt problems, which are getting more severe as years go by. As many crop scientists arguing for the shift towards hybrid cotton and pesticides with novel modes of action are important in helping cotton productivity. Research and development of seeds, and substantial improvement in irrigation facilities are urgent requirements to increase yield. The possibility of importing seeds and technology from countries which have achieved high yields like Brazil, Israel and China needs to be explored. High density planting is another important area that needs attention.

It is obvious that the low productivity in central zone, because of low yield of Maharashtra in particularly at 324 kilo per hectare in 2012-13, dragging down the national average yield. Notably, Maharashtra accounts for 36 percent of total cotton area in India. Even though the irrigation source and potential are very much limited in Central Zone, ideal temperatures and ample sunshine during grand growth and maturity periods and the extended moderately cool, rain free dry weather prevailing during October to February are favourable for obtaining higher yields above 700 kg/hectare. So here pest and disease incidence, economics of investments and returns, other problems like newer diseases, efficient crop management strategies etc. need immediate attention. If the yield in general and in this central zone in particular can reach the world average, India can overtake China as the largest cotton producer in the world. Over the years we have succeeded to mitigate the cotton contamination drastically. Still the focus should be the need for branding of Indian cottons with commitment to keep cotton contamination free and also to maintain the trash and other quality parameters of cotton in line with international norms.

Global factors and Uncertainty in Cotton Prices

Let me narrate one of unprecedented developmental that has more influence on international cotton market and prices. The China's cotton state reserves bureaus started to buy cotton aggressively at higher than market prices since 2011 (may be unprecedented rise of cotton price during 2010 made a case for this). Firstly it caused

Chinese inventories of cotton to rise sharply. Secondly, Chinese textile producers were also buying cotton outside China pushed international prices up even further. And thirdly, because direct cotton imports by Chinese mills are limited by a quota system, many textile producers opted instead to buy imported cotton yarn, rather than raw cotton in subsequent year. By October 2013, Chinese stock of cotton is over 60 per cent of global stock. Also, China has imported nearly 50 per cent of total global yarn during 2013. Thus, the largest player of cotton in the world -China had influenced the international cotton prices in substantive way in 2013 and also dictating consumption by mills either for Chinese spinners or elsewhere. Now, China's cotton production is expected to be lower in 2014/15, its cotton consumption is also declining. It is being estimated by various agencies that Chinese government currently holds enough stock for one-and-a-half years of consumption without any further imports or production.

According to USDA estimates, China would be holding around 12.5 million tons of cotton in inventory in the 2013-14 or around 60% of the global total. Here, two most important observations could be underlined for international cotton prices. First, Chinese cotton policies are unlikely to be a cause for decline in international cotton prices as it would cause heavy losses on their reserves. Secondly, increase in consumption trend mainly driven by India, Pakistan, Bangladesh and some other cotton based textiles producing countries would support the international cotton prices. In fact, according to International Cotton Advisory Committee (ICAC), there is increase in cotton consumption by mills globally. World cotton consumption has increased from 23.34 million tons in 2012-13 to 23.76 million tons in 2013-14 and there are projections to go up to 24.54 million tons in 2014-15. Production cost of competing textile fiber, that is, man-made fibers or others for textiles products are also increasing hence unlikely to pull down cotton prices. But, in medium term, there are genuine apprehension in cotton market and its prices for international cotton community. Chinese bloated cotton reserves have had kept domestic and international prices artificially high that may be reversed anytime. Recent past experience is speculative factors have played a distortionary role in the cotton economy and these affected the price stability and in turn the textile manufacturers. Remember the gigantic crisis thrust upon on the cotton economy in the year 2010-11 by some vested players and its vicious impact of it on hundreds of textile producing units. Fundamentally, a continuous rise in mill consumptions along with less room for speculators can set the discernible price trends. Absence of these factors may cause high uncertainty, volatility and unpredictability in cotton prices. If cotton price declines significantly, trading may incur losses and planting of cotton may be discouraging in many countries. Among significant producers and exporters, US cotton agriculturalists have enough safeguards and capability to mitigate the losses. But, in many developing nation including India or less developed nations, cotton growers can easily become victim of wild swing in international prices of cotton. Hence, ultimately, onus falls upon the major cotton producing or consuming (or both) governments to ensure remunerate farmer competitively, bring stability in prices for consumption as raw materials for cotton value chain industries and support exports. Hence, Indian cotton community must be safeguarded with developing and leveraging Indian spinning capacities and its operations.

Cotton Consumption and Growth factors

Growth in cotton can be ensured and sustained through push and pull factors respectively. Reaping the potential yields and maximum production in cotton by improving irrigation infrastructure, innovation in seeds and its application, providing best agricultural practices, technical assistance and other farm supports etc can be categorized under push factors. Increased demand of cotton for yarn production or other value added textiles products and in exports market can be realized under a category of pull factors. Recent investments through TUFS or otherwise, expansion and modernization in spinning sector have ensured the higher consumption demand of cotton in India. The opportunity and realization of supplying maximum cotton yarn for domestic downstream textiles value chain products like fabrics, made-ups and garments and also for exports market would augment the consumption demand of cotton further. Indian Textiles Industry has been showing positive growth rates in recent years barring 2011-12. The year 2011- 12 was lost year for textiles industry thanks to unprecedented price rise for cotton, devastating policy of banning cotton yarn exports and onset of demand recession in EU. Overall textile industry in India made huge losses and cotton eco-system also felt the pinch of this crisis in 2011-12. But, in year 2012-13 Indian textile Industry recovered well. In terms of Index of Industrial Production (IIP) data captured by Central Statistical Organisation (CSO), Textiles Products consisting of yarns, fabrics, made-ups, carpets and other textiles but excluding of apparel/ready-made garments have shown production growth of 5.9% during 2012-13 over 2011-12. Apparel/garment manufacturing was also observed with growth of 10.4% during 2012-13. Thus, overall Textiles products manufacturing has achieved production growth of 7.3 % during 2012-13. During the current financial year 2013-14, textiles industry is showing significant growth rate in each segment of its value chain. It is being expected or projected to achieve double digit growth rate. Apparel, known for most value addition in whole of textiles chains, are main drivers of overall textiles production growth rate. Importantly, high surge in cotton yarn manufacturing and cotton yarn exports are also auguring well for cotton based textiles production growth rate.

Domestic demand for cotton is basically driven by spinning mills, of which 90% falls under organised sector in India. Further consumption is bound to increase with more addition in capacity with increase in investments, up-gradation and modernisation of spinning technologies. India's domestic cotton consumption has increased from 2.9 billion kgs in cotton year 2000-01 to 4.6 billion kg in 2012-13. Growth in cotton yarn production is higher than any other production in textiles value chain. So, it's easy to reap benefit of higher exports earnings by converting more cotton into yarn and exports of surplus cotton yarn. But, there are slow paces for developing more value added products like made-ups and garments out of cotton. These sectors must be strengthened by augmented investments, upgradation and consolidation process. Indian textile and clothing industry (T&C) have made substantial investment in the entire value chain and an investment of US Dollar 30 billion has been invested in the last 10 years. The industry is planning to invest additional US dollar 20 billion in the next 5 years to expand capacities and modernize and upgrade the existing capacities. Notably, cotton based production capacity constitute nearly 70% of these investments. More emphasis is on strengthening weaving, processing and garmenting now.

This will further increase consumption of cotton for producing textile and clothing to supply for growing domestic market and also for increasing our market share in the world T&C trade from current 4% to 10%. In spite of some helpful policy measures on the part of the government and massive investments in some segments of the industry, the Indian textiles sector by and large continues to be fragmented. Labour laws that prevent consolidation and incentives available specifically to small units together provide a premium for remaining small. A combination of some antique policies and some abrupt recent policy interventions has created a complex situation that militates against investment decisions. Measures taken during recent years for controlling raw material prices or regulating cotton yarn production, trade or prices directly or indirectly, for example, have precipitated a perception of unpredictability in policies. Cotton value chain have now more tightly woven relationships and deeply knitted business interests. Unravelling any thread in isolation in terms of policy regulation can dampen the growth and overall production, consumption and trade of textiles products in its entire value chain. So, we have these challenges in achieving high growth for cotton economy. There is clarity about objective to maximize growth but overcoming challenges are real issues.

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