

October 13. 2010

Dr. Manmohan Singh

Honorable Prime Minister of India

South Block

New Delhi.

Sub: Measures required for ensuring adequate availability of Cotton in Domestic Market.

Respected Sir,

We would like to draw your attention to the precarious cotton situation in the country. The quantity of 55 lakh bales that government had assessed as exportable surplus for the entire cotton year 2010-11 (October-September) has already been applied for registration with the Textile Commissioner within a short period of only 10 days. Exporters are committed to ship out this quantity by 15th December 2010, as per the stipulations of registration. That would mean that they would need to acquire this quantity latest by end November 2010. However, arrival of lint cotton in the market up to 30th November would be only around 60-65 lakh bales (excluding kapas in transit and process) and consumption during the period would exceed 45 lakh bales. Thus, even if last year's ending stock of 40.5 lakh bales as estimated by CAB is taken into account in full, there will be practically no cotton stock left in the country if 55 lakh bales get exported during this time. This will lead to a cotton famine in the country and mills will be forced to close down or scale down production drastically.

This scenario has pushed up cotton prices to over Rs.41000 a candy, as against Rs.23000 a candy that prevailed during this time last year. Mills have been complaining that cotton is not available in the market even at this price. If this situation continues for a few more days forcing mills to curtail production of yarn, supplies to the value added segments and employment in the entire textile value chain would be seriously affected. This, in turn, will result in a price spiral for textile products in the domestic market adding significantly to inflationary pressures. Given the global and domestic demand trends, indications are that the present price trend will continue throughout the current cotton year, unless effective steps are taken on urgent basis. Cotton exports at this stage will only help a handful of cotton exporters to reap windfall profits at the cost of the textile industry, to the peril of farmers and the economy as a whole.

In managing the cotton economy, the first priority should be to ensure that farmers get reasonable income. Currently, they are getting remunerative prices and the domestic cotton prices at par with international prices. Textile industry is prepared to pay international cotton prices to the domestic farmers and therefore their interest is fully


protected. The next priority should be the textile and clothing industry which sustains over 35 million workers and their families, mostly in rural areas. The current situation is actually helping only the speculative elements among our cotton traders and the textile industries of China, Pakistan and Bangladesh, which are beating us in the Western textile markets on the strength of our own cotton. Ginners in India are refusing cotton to our mills, since they have committed deliveries to exporters.

Government has decided in principle that only exportable surplus should be shipped out. The industry is in total agreement with export of exportable surplus. But the timing of exports is crucial. Large exports in the present situation, when arrivals are slow, will be totally ill-timed. There will be exportable surplus only after cotton starts arriving in the market in sufficient quantities and the mills are able to buy their requirements. Because of excessive rains in the production centres, cotton arrival is being delayed and this will pick up only by November. We would therefore request that the following steps may be implemented immediately to avoid a serious catastrophe during the coming months in the textile and clothing industry and, in fact, in the economy as a whole:

- i. Cotton exports against contracts already registered with Textile Commissioner should be delayed up to 1st January 2011;
- ii. Shipment of the quantity of 55 lakh bales should be staggered over the months by stipulating a monthly cap of 10 lakh bales from January 2011 onwards;
- iii. It is obvious that many of the applications for registration of export contracts are speculative. Therefore, no extension of time may be allowed for those who fail to ship within the stipulated time and further applications for registration may not be accepted from them.
- iv. An export incentive of 1.5% is given by government on cotton exports, by way of DEPB. Having provided for an export duty on cotton, the export incentive may be withdrawn and export duty put into operation at the earliest.

This would ensure a healthy balance between consumption by domestic mills and exports against genuine contracts.

Yours sincerely,



(SHISHIR JAIPURIA)
CHAIRMAN