Cotton Concerns

Shishir Jaipuria, Chairman, CITI

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Cotton Economy

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Second highest Cotton Production in World

- India’s cotton area represents 25% of the global area, with 94 lakh hectares of acreage during 2008-09 – the highest in the World.
- India accounts for 21 % of the world cotton production - 5 Million tones out of 23.4 Million tones of world production during 2008-09.
- Cotton yield has increased from 227 kg/hectare to 567 kg/hectare during 2000-01 to 2007-08.
- India’s production of 290 lakh bales (of 170 kg) in 2008-09 was the second highest in the world, after China.

Cotton Textiles Industry

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- The ratio of cotton-to-manmade fibers and filament yarns used by the textile sector is 60:40, unique position in world textiles.
- Cotton dominates both the high-end clothing & textile and low-end products.
- The Indian cotton textile sector has achieved huge expansion of capacity in recent years.

Cotton Production & Yield

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Area, Production and productivity of cotton in India during last six decades			
Year	Area in lakh hectares	Production in lakh bales of 170 kgs	Yield kgs per hectare
1950-51	56.48	30.62	92
1960-61	76.78	56.41	124
1970-71	76.05	47.63	106
1980-81	78.24	78.6	170
1990-91	74.39	117	267
2000-01	85.76	140	278
2006-07	91.44	280	521
2007-08	94.39	315	567
2008-09	93.73	290	526

Source: CAB

Cotton is the only exception to stagnant crop yields in India

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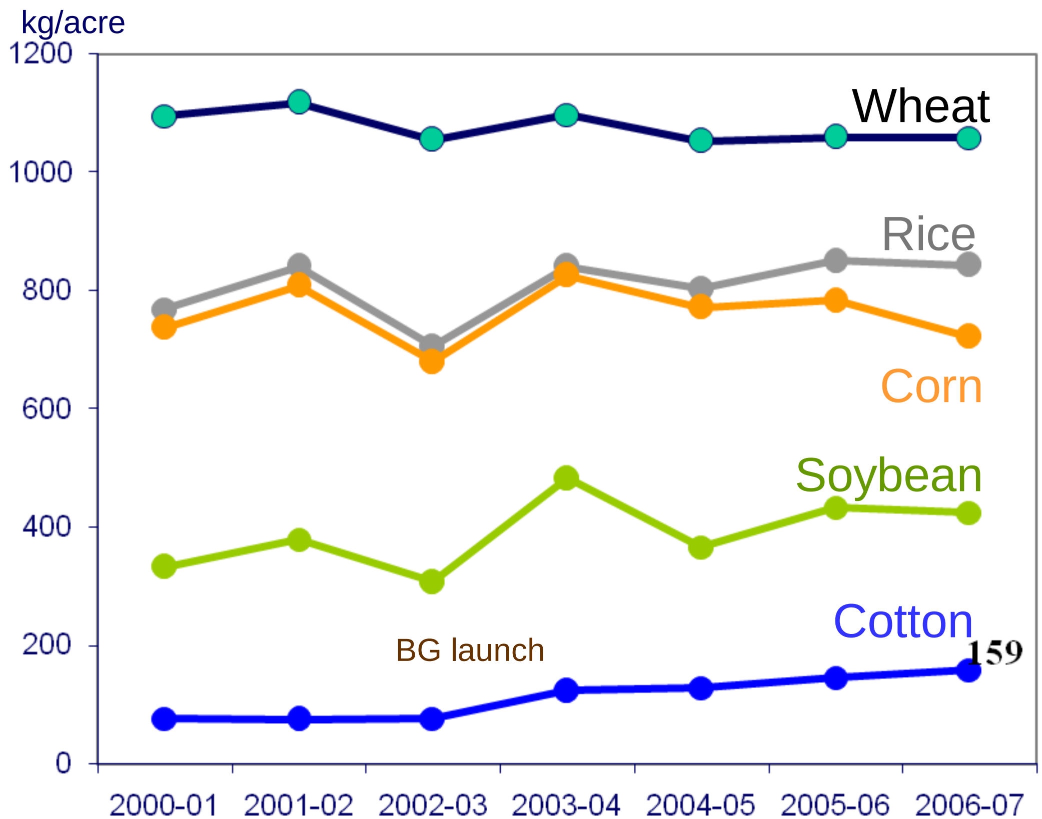

	CAGR %	World average
Wheat	(0.6%)	1,125
Rice	1.5%	1,603
Corn	(0.4%)	1,368
Soybean	4.2%	1,327
Cotton	12.8%	293

Source: Ministry of Agriculture, Agricultural Statistics 2006-07

- Other than wheat, India is nowhere near world average
- However, increasing yield in Cotton makes it for hopeful case

Year 2008-09 : Deformed Cotton Balance Sheet

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- Crop productivity declined to 526 kgs per hectare in 2008-09 from the level of 567 kgs per hectare in 2007-08.

- Mills were forced to import more cottons due significant increases in domestic cotton prices.
- Exports declined steeply because of uncompetitive prices.

COTTON BALANCE SHEET DRAWN BY C.A.B
(In lakh bales of 170 kg each, cotton year Oct –Sept)

	SUPPLY			TOTAL SUPPLY	DEMAND				TOTAL DEMAND	CLOSING STOCK
ITEM	Opening Stock	Crop	Import		Mill Consumption	Non – Mill Consumption	Small spinners Consumption (SSI)	Exports		
2006-07	52	280	5.53	337.5	194.9	15.9	21.3	58	290.0	47.5
2007-08	47.5	307	6.38	360.9	195.7	19.2	22.1	88.5	325.4	35.5
2008-09	35.5	290	10	335.5	190	19	20	35	264.0	71.5

Source :CAB, India

Cotton Trade

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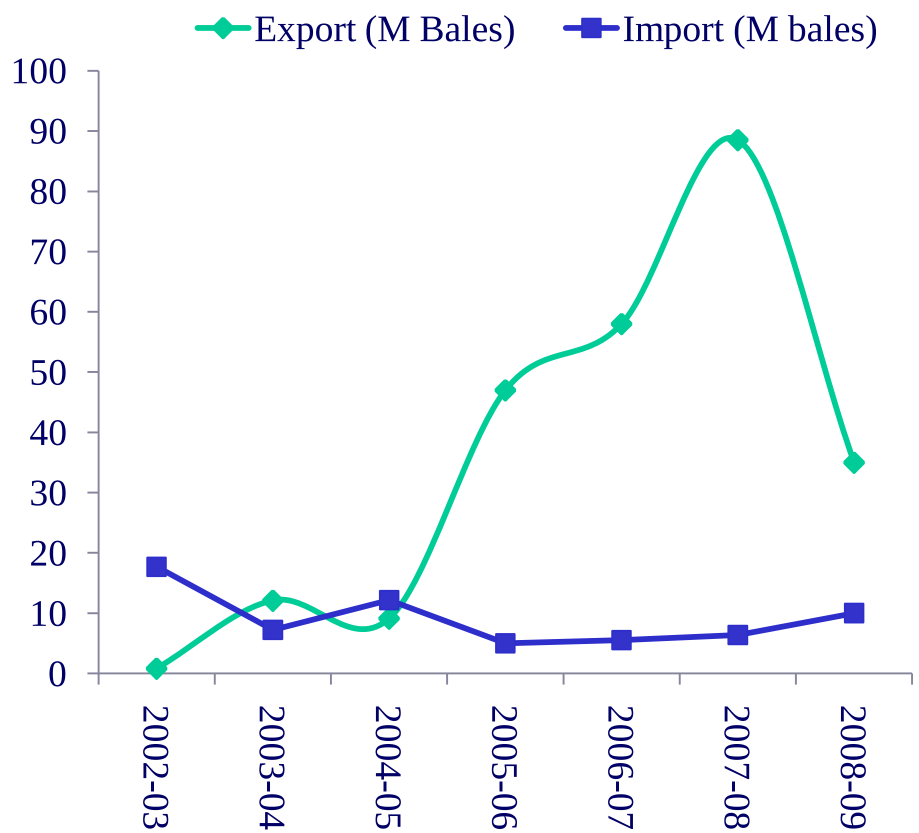
• **Post MFA net exporter of Cotton.**

•**Exports increased from a meager 0.5 lakh bales in 2001-02 to 85 lakh bales in 2007-08.**

• **In 2008-09, the uncompetitive domestic prices pulled down exports to 35 lakh bales.**



Source: CAB

World Cotton Availability

- World cotton production is projected at 23.1 million tons in 2009/10, 1% lower than in 2008/09.
- Cotton mill use is expected to recover by 2% in 2009/10, to 23.6 million tons, based on a small recovery in world economic growth.
- Based on an expected lower stocks-to-mill use ratio in the World-less-China in 2009/10, the ICAC Price Model 2007 forecasts a season-average Cotlook A Index of 64 U.S. cents/lb in 2009/10.

World Cotton Supply & Distribution (Million Tons)			
	2007-08	**2008-09**	**2009-10**
Production	**26.03**	**23.4**	**23.1**
Consumption	**26.4**	**23.1**	**23.6**
Exports	**8.36**	**6.6**	**6.9**
Closing Stocks	**12.12**	**12.3**	**11.8**
Cotllok A Index	**72.9**	**61.2**	**64**

Source :ICAC

Policy Pitfalls : Cotton

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- An increase of 43 percent in MSP for raw cotton in 2008-09.
- 5% export incentive for raw cotton.
- Discounts offer by CCI on bulk purchases went against the mills, particularly for small mills and unduly favoured the domestic and international cotton traders.
- Deep discounts offered, together with the 5 percent export incentive have made Indian cotton available to our neighbouring countries and competitors at substantially lower prices.

Policy Intervention Required

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For more transparent and improved function of cotton procurement operations

- In order to bring greater transparency and accountability, representatives from ginners and textile industry need to be inducted on the Boards of CCI and NAFED.
- CCI and NAFED should be directed to sell cotton at Cotlook A index minus 4 cents, the 4 cents being the cost of logistics included in Cotlook A index. On a daily basis, they should post the stocks in every location in a transparent manner in their web sites.
- The practice of suspending sales periodically should be discontinued by procurement agencies.

Policy Intervention Required

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For more transparent and improved function of cotton procurement operations

- Discontinue the discount scheme.
- Regulate cotton exports during peak season.
- Don't Incentivise Cotton Exports.

Policy Intervention Required

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To sustain the competitiveness of the Indian Cotton Textile Industry

- Announce suitable staggered quota for cotton exports during November-March, after fully ascertaining the domestic market requirement.
- Expedite opening of cotton depots across the country in all major textile clusters for CCI cotton sales so as to enable SMEs to regain their competitiveness.
- CAB meetings once in a month required to monitor the cotton situation during November-March.

Policy Intervention Required

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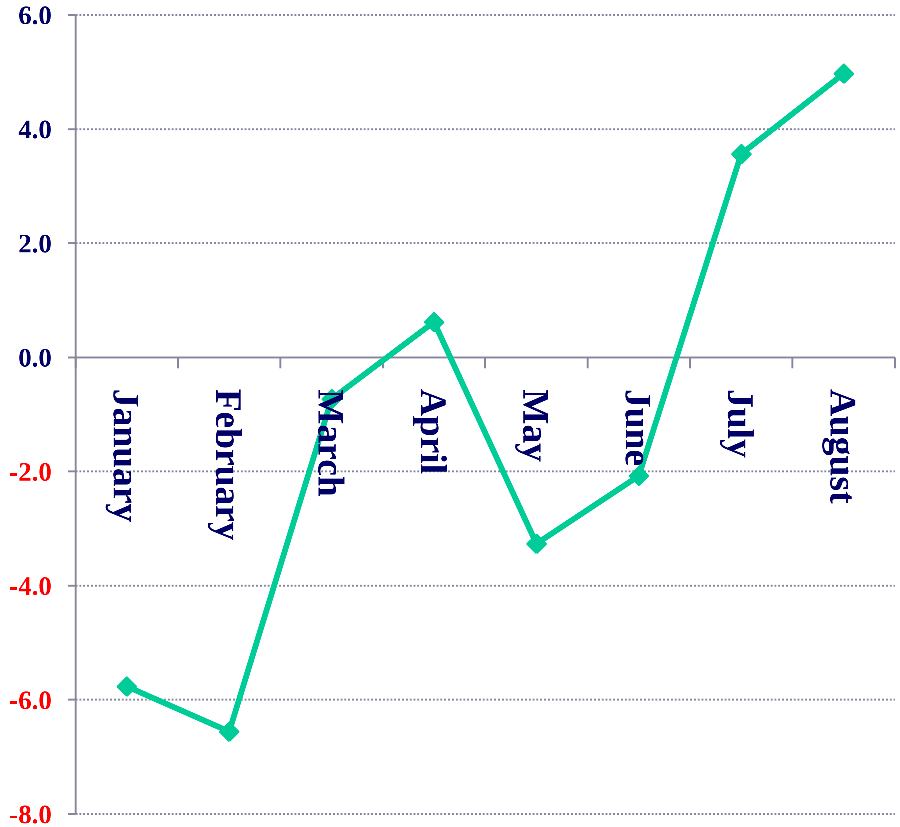
Measures needed for 2009-10

- Consumption will increase, since textiles production is picking up.
- Cotton production will decline to 280 lakh bales because of floods in major crop regions.
- International prices will increase due to lower world production and higher consumption (Source:ICAC).

Production Index Growth (% Y-O-Y) for Cotton Textiles in 2009



Source : CSO Data

Policy Intervention Required

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Measures needed for 2009-10

- Large exports and price spiral in domestic markets are likely.
- Domestic Value addition in cotton will lead to higher employment and high foreign exchange realization from cotton textiles exports.
- Cotton exports need to be regulated through controlling registration of contracts, at least for exports during November-march season.
- Interest of farmers is fully protected by MSP. After procurement , the interests of textile industry should be protected rather than that of traders.

THANK YOU

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