

HIGH COTTON PRICES

Govt meets stakeholders today as industry seeks ban on exports

SANJEEB MUKHERJEE AND SHINE JACOB

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As the government once again sits with stakeholders on Wednesday to find a way out of high cotton prices and the impact they are having on downstream industries, here is a look at the major issues surrounding them despite import without duty.

What has been the price spike?

The price of cotton has more than doubled to around ₹95,000 per candy (356 kg), up from about ₹48,000 during the beginning of this season in October. Farm gate raw cotton prices have risen by a sizable amount.

Why did the price spike?

A lower than estimated domestic harvest, increased international rates, rise in demand from yarn makers due to the addition of new spindles, etc.

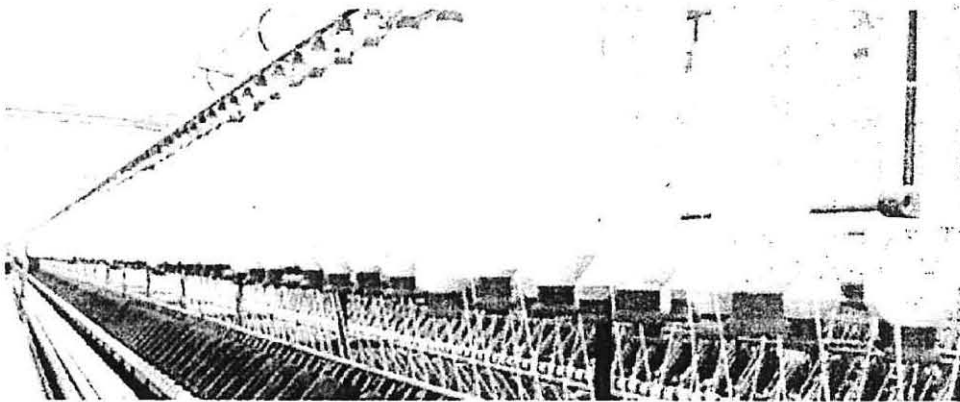
The Centre had initially estimated cotton production in 2021-22 to be around 36.25 million bales (1 bale = 170 kg), while traders were estimating it to be much lower at 33-34 million bales because of rain and pest attacks.

In its second advance estimate, the figure 31 million bales was put out.

Demand and supply

Cotton consumption this year is expected to be around 35 million bales, though some traders said it could be around 33.5 million bales.

Then the cotton closing stock at the end of the current season is expected to be around 1.5 million bales after



accounting for 4 million bales of export.

This is lower than the minimum of 4.5 million bales required at the end of any cotton season and thus puts further pressure on prices. However, by March 2022, the pipeline stocks had further declined and prices flared up due to fears of supply disruption on account of the Russia-Ukraine war.

Globally too, the US Department of Agriculture has lowered estimates of world cotton production and also India's. That apart, international cotton prices are high also due to a mismatch in demand and supply. The benchmark ICE cotton contract has consistently stayed above 100 cents per pound for several months.

How did the government respond?

The Centre in April 2022 waived customs duty on cotton till September 30. However, there was little respite as cotton yarn manufacturers raised prices by ₹40 per kg for various categories of the commodity.

The international market too factored in the duty cut and raised prices,

thereby negating the impact.

Garment units in Tirupur have decided to go on strike for six days between May 16 and 21 due to the rise in cotton yarn rates.

What has been the impact on downstream industries?

According to the Spinners Association (Gujarat) and industry players in Tamil Nadu, mills have reduced cotton consumption and yarn output by 30-40 per cent. According to industry players, spinners in some parts of the country are making a loss of ₹30-40 per kg.

The finance minister assures help

The finance minister on Monday said due to the higher prices of cotton and cotton yarn, the government was looking at the option of Cotton Corporation of India selling the cotton it procured directly to textile mills.

There has been a demand for a ban on export of cotton from India.