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# India

# Cotton and Products Update

# August 2011

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**Report Highlights:**
While planting in some areas was delayed by a few weeks, good monsoon rains and record planted area are expected to result in a record 2011/12 Indian cotton harvest of 27.3 million 480 lb bales. While the Government of India recently lifted its quota restriction on cotton exports through the end of the 2010/11 local marketing year (October/September), the export policy for 2011/12 has not yet been announced. However, a number of factors point to the possibility of a less regulated export policy during 2011/12 and exports are forecast at 6.2 million 480 lb bales.

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## On Track for Record Area and Production

India's 2011/12 (August/July) cotton production and area are forecast at 35 million 170 kg Indian bales (27.3 million 480 lb) and 12.5 million hectares respectively, unchanged from the previous FAS India forecast, but slightly higher than the forecast adopted by Washington-based USDA analysts. After a slow start in some cotton growing areas, the monsoon has brought adequate and well-distributed rains to major producing areas. Despite declining cotton prices at planting, farmers appear to have expanded area significantly. Supplies of seeds were generally good and competitive cotton prices relative to some other monsoon crop options, coupled with the more predictable yields of the widely adopted Bt cotton (biotech cotton), helped to spur the area increase. Area and production in northern India, where a significant portion of the crop is irrigated, are expected to be significantly higher than a year ago. Similarly, area and production in the top cotton producing state of Gujarat are expected to be higher. Andhra Pradesh, where seed sales were reportedly quite high, continues to emerge as a significant cotton producing state. High temperatures and delayed rains at planting time in Maharashtra reportedly caused some farmers to turn to other crops or delay planting.

Opinions vary over the degree to which the upcoming harvest will be delayed, but there seems to be a general consensus that the onset of harvest will be about two weeks later than expected based on historical patterns. The bulk of India's cotton harvest stretches over several months and regions with multiple pickings. The long harvest period can result in damage from late season rains, cooler temperatures and winds that can affect yields and quality. The expected delay in the onset of harvest could make the 2011 crop more susceptible to less than ideal weather conditions. The current forecast of 35 million 170 kg bales (27.3 million 480 lb bales) assumes "normal" or average weather conditions over the next four to five months. Good conditions could push the crop higher; conversely, late rains or heavy winds could result in a lower crop than currently forecast.

## Consumption Picture is Complex

India's ginning, trading and spinning industries are working to recover from the steep drop (prices dropped as much as 50 percent) in cotton prices over the past few months. The price decline resulted in a significant number of contract issues between buyers and sellers who are now working to reach negotiated settlements. The full extent of industry losses is still to be determined, but it appears that some firms are strapped for funds and/or face higher borrowing costs. The reduced access to capital, coupled with what are reported to be significant stocks of yarn, much of which were produced with high-priced cotton, could lead to weak domestic cotton demand during the early part of the 2011/12 (August/July) marketing year.

While there are nascent indications that foreign interest in Indian yarn is improving, which could be a signal that market conditions will start to improve, industry observers continue to be concerned about the potential effects of the global economic situation on demand for Indian yarn and the amount of time it will take for the industry to recover financially. Currently, it is assumed that a larger crop, cheaper cotton, the likelihood that mills will seek to cover variable costs and an eventual strengthening of yarn demand, after current yarn stocks are sold, will support stronger domestic demand for cotton as the marketing year progresses. In an effort to bring some relief to the industry, on August 4, 2011, the Government of India reinstated the Duty Exemption Passbook Scheme for both cotton and cotton yarn, the program enables exporters to earn credits based on a percentage of their export earnings that they can sell to importers who can then apply for duty free imports of products (not necessarily cotton or textiles). Marketing year 2011/12 (August /July) consumption is forecast at a 25.5 million 170 kg bales (19.9 million 480 lb bales), down only slightly from the current marketing year.

Consumption of cotton by mills from August through March of 2010/11 had reached 16.9 million 170 kg bales, an average of 2.1 million bales per month. It is estimated that monthly consumption has dropped in recent months. Assuming average monthly consumption o f 1.7 million bales from April through July, plus an annual estimate of 2.0 million bales of non-mill use, 2010/11 consumption is estimated at 25.6 million 170 kg bales (20 million 480 lb bales).

The USDA Washington estimate of 2009/10 consumption has been adjusted to more accurately reflect official mill use statistics as published by the Textile Commissioner. The estimate reflects mill consumption of 23.5 million 170 kg bales (18.3 million 480 lb bales) and approximately 2.0 million 170 kg bales of non-mill use, resulting in a total consumption estimate of 25.4 million 170 kg bales (19.8 million 480 lb bales).

**What will India's 2011/12 cotton export policy be?**

After two years of efforts to ration and control exports, it is not clear what India's cotton export policy will be during the Indian 2011/12 (October/September) marketing year. During marketing year 2010/11 (October/September), the Government of India first established an export quota of 5.5 million 170 kg bales and subsequently increased the quota to 6.5 million 170 kg bales on June 9, 2011. It is estimated that exporters shipped the entire 6.5 million bales under the quota before August 1, the start of the USDA 2011/12 marketing year.

On August 2, 2011, the Government of India lifted its quantitative restriction on the export of cotton through September 30, 2011. On August 4, 2011, the Government of India announced the requirements for obtaining a "registration certificate" to export cotton. Several of the requirements serve to hinder the flow of exports. For example, exporters are required to submit a 2.5 percent performance guarantee, a capital intensive requirement for multiple shipments. Exporters are also required to submit a letter of credit, or proof of 100 percent advance payment, or proof of 25 percent advance payment with the balance due in cash against documents. In addition, exporters were only allowed to apply for one export registration certificate at a time and could not apply for another certificate until after their registered cotton had been shipped. The latter requirement was lifted on August 18, 2011, enabling exporters to register more than one shipment at a time, a change that should facilitate exports through September 30, 2011 when the Indian marketing year ends.

In addition to the 6.5 million 170 kg bales of quota exports, exports of an additional 500,000 170 kg bales (390,000 480 lb bales) are expected before the end of the Indian 2010/11 (October/September) marketing year.  These exports are reflected in the forecast of the 2011/12 (August/July) USDA marketing year.   Exporters report that they are receiving orders, but demand appears to be relatively weak with new crop cotton expected soon in India and Pakistan.

Determining export levels beyond October 1, will depend in large part on whether the Government of India again decides to control the pace and volume of exports.  The next meeting of India's Cotton Advisory Board is expected around mid-September and officials will likely wait until they have an updated estimate of the 2011 crop before making a decision.  While the export situation is uncertain, there are several factors that point to the possibility of a less restrictive approach to cotton exports during 2011/12.

- With a large Indian crop and larger crops expected in most other exporting countries, there will likely be additional downward pressure on farm prices in India if cotton supplies are not moved off of the domestic market through exports.  While Indian cotton prices tend to move in harmony with international prices, a restrictive export policy could again serve to discount Indian cotton relative to competing origins, reducing returns for farmers.

- The Government of India establishes a minimum support price for cotton.  If market prices fall to minimum support price levels, the government-run Cotton Corporation of India (CCI) will be called upon to initiate procurement operations.  It is possible that officials will seek to avoid a situation where the CCI is required to procure large volumes of cotton and run the risk of selling at a loss.  A less restrictive export policy could help to minimize or at least reduce CCI operations in the event that market prices drop to the support level.

- Given the fiscal difficulties of the past few months, lower cotton prices and expected adequate cotton supplies, the yarn industry may be less likely to press for export controls.  With significant stocks of yarn that were produced with high-priced cotton, the industry may see higher cotton exports as a way to push yarn prices up and improve the returns from the sale of their current stocks.

- Cotton prices have increased about 15 percent since export restrictions were lifted in early August, lending support to the expectation that fewer export restrictions help to support prices.

- India will likely face competition from other suppliers for markets such as China and Bangladesh.  A restrictive export policy could leave India with large stocks of cotton at the end of the marketing year if export policies are unclear or overly restrictive.

There are myriad 2011/12 export policy possibilities, ranging from keeping the current export policy in place to again establishing an export quota with the intent of examining harvest and market conditions before increasing the quota or lifting quantitative restrictions.  In summary, while there is considerable uncertainty concerning the parameters of the marketing year 2011/12 export policy; it seems likely that requirements will be less restrictive than during the past two years.   However, India is also likely to face competition from other suppliers who also have larger crops.  Consequently, marketing year 2011/12 (August/July) exports are forecast at 8.0 million 170 kg bales (6.2 million 480 lb bales).  This forecast includes an estimate of exports of 500,000 170 kg bales of exports during August and July under the current export policy.

## STATISTICAL TABLES:

## Table 1: Commodity, Cotton (480 lb bales), PSD

| Cotton India | 2009/2010 Market Year Begin: Aug 2009 | | 2010/2011 Market Year Begin: Aug 2010 | | 2011/2012 Market Year Begin: Aug 2011 | |
|---|---|---|---|---|---|---|
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Planted | 0 | | 0 | | 0 | |
| Area Harvested | 10,310 | 10,310 | 11,160 | 11,160 | 12,000 | 12,500 |
| Beginning Stocks | 8,919 | 8,919 | 6,399 | 5,996 | 7,249 | 6,746 |
| Production | 23,000 | 23,000 | 25,400 | 25,400 | 27,000 | 27,300 |
| Imports | 480 | 480 | 450 | 450 | 500 | 500 |
| MY Imports from U.S. | 0 | 0 | 0 | | 0 | |
| Total Supply | 32,399 | 32,399 | 32,249 | 31,846 | 34,749 | 34,546 |
| Exports | 6,550 | 6,550 | 5,000 | 5,100 | 5,000 | 6,200 |
| Use | 19,450 | 19,853 | 20,000 | 20,000 | 20,500 | 19,900 |
| Loss | 0 | | 0 | | 0 | |
| Total Dom. Cons. | 19,450 | 19,853 | 20,000 | 20,000 | 20,500 | 19,900 |
| Ending Stocks | 6,399 | 5,996 | 7,249 | 6,746 | 9,249 | 8,446 |
| Total Distribution | 32,399 | 32,399 | 32,249 | 31,846 | 34,749 | 34,546 |
| Stock to Use % | 25 | 23 | 29 | 27 | 36 | 32 |
| Yield | 486. | 486. | 496. | 496. | 490. | 476. |
| TS=TD | | 0 | | 0 | | 0 |