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Govt lifts restrictions on cotton exports

New Delhi, July 31 (PTI) Amid abundant availability and a crash in prices, the government today removed restrictions on the export of cotton and permitted shipments under open general licences (OGL) for the remainder of the current season. The cotton season runs from October to September. Cotton exports for the remaining two months (August and September) have now been put under OGL, Commerce Secretary Rahul Khullar told PTI. "Now, exporters only have to register with the Directorate General of Foreign Trade (DGFT)," he said. The issue came in for review at a meeting of secretaries in the ministries of commerce, textiles and agriculture, convened by Commerce and Industry Minister Anand Sharma here last week. In October last year, the government had capped cotton exports at 55 lakh bales (170 kg each) to protect the domestic textiles industry in the face of rising raw material prices. An additional 10 lakh bales were permitted for export in June, after prices had corrected sharply. Prices have declined to about Rs 31,000 per candy (356 kg) now from the peak of Rs 62,500 per candy in March-end. The restrictions on cotton yarn were removed from April 1, after the manufacturers found themselves saddled with big inventories following the curbs on exports.

Besides the changing dynamics in the market, administering the restriction has proven to be "a big headache" for the Commerce Ministry, especially after the recent allocation of 10 lakh bales, as some exporters have taken the issue to different courts, sources told PTI. They said it was in this context that Sharma reviewed the situation with the three secretaries on the weekend.

According to the estimates of the Cotton Advisory Board (CAB), the cotton surplus at the end of the current season would be 52.5 lakh bales on account of lower industry demand. In February, the CAB had estimated it at 27.5 lakh bales. Likewise, the projection for domestic consumption of cotton this season has been lowered to 236 lakh bales, as against the earlier estimate of 265 lakh bales, on account of high inventories.

The cotton production projection, however, has been increased to 325 lakh bales for the current season.

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Cotton exporters back in market as cotton prices decline

Madhvi Sally, ET Bureau

29 Dec, 2011, Ahmedabad: Cotton exporters are making brisk purchases across Gujarat and Maharashtra as prices weaken to Rs 33,800 to Rs 34,000 a candy (of 356 kg each). Simultaneously, demand from local mills has begun flowing thanks to requirement from garment manufacturers. Cotton prices are still volatile with a movement of Rs 500-1,000 a candy a day, say traders. "Robust demand from China is expected to ensure cotton export of over 85 lakh bales (of 170 kg each) and more this year, similar to the 2007-08 figure. Our prices are the lowest in the international market," said Cotton Association of India president Dhiren N Sheth. Coimbatore-based cotton broking house JG Pujara and Sons owner Baldev Pujara said major buying was being done by Bhadresh Trading Corporation, Louis Dreyfus Commodities India, Gill & Co, Jaydeep Cotton Fibres, Olam Agro India, Cargill India and others. "Contracts of over 46-48 lakh bales have been signed while actual shipments are at 29 lakh bales. By January, we should export 50 lakh bales," he said. Owing to the delayed availability of cotton crop and with farmers holding the yield, exports have been slow this year and gradually picking up. "We will be able to achieve our export targets. But we must address the concerns of buyers over the low micronaire value -- a measure of fibre fineness and maturity -- and the mix of low and high variety cotton this year," he added. In the domestic market, ginners are getting orders and queries from Ludhiana, Kolkata, Tirupur and Coimbatore mills. "There is a movement in finished goods like fabrics and garments," said Saurashtra Ginners Association president Bharat Vala who added that demand from mills varied from 500 to 1000 bales. Ludhiana-based Vardhman Textile, a textile conglomerate, expects buoyancy in trade for the next few months. "There is improvement in yarn prices due to the increased offtake in export and domestic markets. Spinning mills have booked good orders and we expect the business to revive," said Vardhman group chairman SP Oswal, who is exporting 5,000 tonne yarn per month.

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India launches WTO cotton complaint against Turkey

Tom Miles, Reuters

GENEVA, Feb 14: India has launched a trade complaint against Turkey's policies on imports of cotton yarn, the World Trade Organization (WTO) said on its website on Tuesday. India is objecting to Turkey's use of "safeguard measures" to help its cotton industry, which one Indian official said could affect Indian exports worth around $600 million per year. Safeguard measures are temporary protectionist tariffs, permitted by WTO rules, to help a specific industry that is threatened by an unexpected surge of imports. India launched the complaint on Monday by "requesting consultations" with Turkey at the WTO, the last step to resolve a disagreement before entering a full-fledged legal dispute. India may ask the WTO to set up a dispute panel to adjudicate if consultations do not settle the matter within 60 days. By requesting consultations, India has also opened the door for other WTO members to join in if they are similarly unhappy with Turkey's treatment of cotton yarn imports. Turkey brought in the safeguard measures in 2008 for three years, but when the three years expired in July 2011, Turkey imposed provisional safeguard measures while it reviewed the case for an extension, the Indian official said. It later retroactively reimposed final safeguard measures. India previously requested consultations with Turkey over the issue in 2009, but the dispute did not go to a dispute panel at that time. India now argues that Turkey cannot extend the measures after they expired, nor can it impose provisional safeguard measures on a product which was already subject to final safeguard measures. India also says Turkey may not apply safeguard measures to cotton yarn for three years after the July 2011 expiry date. Turkey, a major producer of cotton, slapped extra import duties on imports of cotton yarn after recording a huge surge in imports of cotton yarn from 2005 onwards.

Instead of the maximum duty of 5 percent it had agreed with the WTO, it boosted import tariffs to 15-20 percent. Cotton yarn imports had risen 63.6 percent in 2005, 46.9 percent in 2006 and 119.7 percent in 2007, and in the first five months of 2008 were 32.1 percent higher than a year earlier, a document filed by Turkey at the WTO at the time showed. As a result, although total consumption of cotton yarn rose in the period, Turkish employment in the industry fell steadily and domestic production dropped in 2007, when the market share of imports reached 12.5 percent against 2.8 percent in 2004. While Turkey waived the safeguard tariff for many developing countries that are not significant suppliers of yarn, it did apply to India, one of its biggest sources.

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India drags Turkey, Egypt to WTO for import duties on Cotton yarn

Amiti Sen, ET Bureau

Feb 24, 2012,New Delhi: Striking against rising global protectionism, India has dragged both Turkey and Egypt to the World Trade Organisation for imposing special import duties on Indian cotton yarn, lowering competitiveness in these markets.

New Delhi has been criticising Turkey for violating WTO norms at several forums of the WTO for the past few months, but it has requested formal consultations on the issue for the first time, which is the first step towards filing a dispute.

Egypt, on the other hand, will be asked to explain reasons behind imposing similar duties on cotton yarn in December 2011.

Both countries have resorted to safeguard duties as such levies are easier to impose since a country only has to claim that rising imports were harming the domestic industry, a government official told ET.

Indian cotton yarn producers say that Egypt and Turkey, the fifth and sixth largest export destinations for the products, were growing markets and all attempts to check imports through unnecessary restrictions have to be opposed.

"We are concerned by the imposition of safeguard duties by both countries and hope the issue is resolved soon," said Siddharth Rajagopal, executive director, The Cotton Textiles Export Promotion Council or Texprocil.

Turkey imposed safeguard duties between 12% and 17% with effect from last July over and above the customs duty of 5% making prices of India's exports shoot up. Egypt, on the other hand, imposed a specific duty of 55 cents per kilogram of yarn in December. "In Turkey's case we have questioned its claim that adverse effect on the domestic industry due to higher imports was because of unforeseen developments and imposition of global trade rules," the official said.

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Govt says will review cotton export ban

Sanjay Jog & Sanjeeb Mukherjee, Business Standard

Mumbai/ New Delhi Mar 07, 2012: Amid severe opposition, the government on Tuesday called a Group of Ministers’ (GoM) meeting on Friday to review the decision to ban cotton export barely a day after it was effected. “The GoM will take into account all the views on this ban and take an appropriate decision,” textiles secretary Kiran Dhingra said.

Dhingra said the textiles ministry was of the view that given the sudden surge in export registrations, the ban was necessary or else the country would not have enough cotton to run its mills till October. Earlier, farmers in parts of Maharashtra and Andhra Pradesh were reported to have resorted to distress sale of cotton on Tuesday. Union Agriculture Minister Sharad Pawar said the decision was wrong, taken without asking him and must be revoked.

In some places, farmers were said to have sold at Rs 2,500-3,000 a quintal, far below the government’s minimum support price of Rs 3,300 a qtl for the long-staple variety. Against this backdrop, the Cotton Corporation of India (CCI) started direct procurement in Andhra Pradesh and issued instructions to officials to do it in Maharashtra if the prices of average quality cotton slipped below the MSP. Nearly 1,000 ginning mills in Gujarat would observe a two-day bandh from Wednesday in protest against the ban, news agency PTI reported.

Pawar said he took serious objection to the ban decision and had written to the Prime Minister. Pawar, head of the the Nationalist Congress Party, part of the ruling coalition, told Business Standard, “I was not consulted by the commerce ministry. I was kept in the dark on the issue. I came to know about this only after a notification was issued by DGFT (the directoate-general of foreign trade) yesterday. Such a decision, which would impact lakhs of farmers, should have been taken after proper consultations, either in the Cabinet Committee on Economic Affairs or the Cabinet Committee on Prices, like it is done in the case of wheat and sugar.”

Pawar said the decision was harmful, as growers in Gujarat, Andhra Pradesh and Madhya Pradesh were in great distress, with traders having stopped buying from them after the decision. "Now the issue is in the Prime Minister's court," he said.

Gujarat Chief Minister Narendra Modi (from the opposition Bharatiya Janata Party) also sent a letter to the PM. Modi said he was shocked and the decision would be disastrous for farmers.

N P Hirani, Chairman, The Maharashtra State Cooperative Cotton Growers' Marketing Federation, said the Centre needed to immediately lift the ban in the larger interest of growers. "As per the estimates by the Cotton Advisory Board, the country will have production of 34.5 million bales (a bale is 170 kg), against the demand for 24 million bales, in 2011-12. Therefore,

export of 10.5 million bales after meeting the country's requirement is possible, which will benefit farmers in particular," he said.

Shirish Shah, Partner, Bhaidas Cursondas & Co, said the ban was harmful for farmers, traders, ginners and spinners. "It should be lifted forthwith. At the same time, the Centre should allow export of 3.3 million bales already registered for export. Besides this, the registration of (another) 0.3 million bales has been contracted but not registered for export," he said.

Bhadresh Mehta, Additional Vice-President, Cotton Association of India, said farmers were expected to incur a total loss of Rs 2,500 crore from the decision. "The decision is a lose-lose situation for farmers, traders, ginners and spinners.

The government needs to come to the rescue of farmers on the lines of the Chinese government, which has increased its cotton support price by three per cent," he said.

“In mid-February, when a Committee of Secretaries (CoS) reviewed the export scenario, 8.3 million bales of cotton had been shipped out of the country, while registrations were for 10 million bales,” said Dhingra.

However, by early March, when the CoS again met, the registrations had surged to 12.5 million bales, which meant exporters had some inkling the government might clamp down on exports and started applying heavily for registration.

“We were already in a bad situation as the shipped quantity of cotton would pull down the carry-over stocks for the 2012-2013 season to 3.6 million bales against a requirement of five million bales,” Dhingra explained.

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Govt partially withdraws cotton export ban

BS Reporter

Allows outbound shipment of only those consignments that have already been registered

New Delhi Mar 13, 2012: Maintaining that ballooning cotton exports were used for stockpiling abroad, the commerce ministry today gave a partial relief to exporters by allowing outbound shipment of only those consignments that were already registered, and, only after revalidation of certificates.

No fresh registration certificates (RCs) would be issued till further orders, a much-awaited notification by the Directorate General of Foreign Trade (DGFT) said. But, the decision would be reviewed by a Group of Ministers, comprising of Finance Minister Pranab Mukherjee, Agriculture Minister Sharad Pawar and Minister for Commerce, Industry and Textiles Anand Sharma, within the next two weeks.

Sharma met MPs from Maharashtra, Gujarat and Andhra Pradesh to apprise them of the decision.

Of the total registration of 13 million bales (one bale weighs 170 kg) before the ban, 3.5 million bales are yet to be shipped. These will be revalidated, commerce secretary Rahul Khullar told reporters here.

“No new RCs will be issued until the exercise (of revalidation) gets completed, which means till we sort out what is going to be done with those 3.5 million bales,” he added.

Exporters fear that in the name of revalidation of certificates, scrutiny could be done about trade to sister-concerns abroad by companies operating in India.

India is the world’s second-largest cotton producer and its biggest customer is China.

“There was clear information that more than 85 per cent of actual shipments are going to China and there was also evidence of stockpiling abroad. On the back of this, the ban was imposed,” Khullar said.

Khullar said exports had already hit record levels of 9.5 million bales in just two weeks.

“There was madness to export, which could be seen from the fact that the RCs for export of 7.2 million bales were issued in January and February alone,” he added.

“Scrutiny and revalidation is to make sure there is no fictitious transaction,” he said. The parameters to check the veracity of RCs would be decided by the commerce and textile ministries.

Early last week, the textile ministry had said the ban was imposed after taking into account the trend of domestic consumption and depletion of domestic availability.

The commerce ministry had banned cotton exports suddenly on March 5 and announced lifting of the restriction yesterday after severe criticism from Pawar, who opposed the move and requested Prime Minister Manmohan Singh to revoke the ban. A statement issued by the commerce ministry said the first priority would be given to those consignments handed over to the Customs department.

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Ban on cotton exports to stay for a while: GoM

Business Standard Reporter

New Delhi April 10, 2012: A group of ministers on Monday decided to continue with the ban on cotton exports, even as the prohibition on outbound shipments had led to intense political pressure on the government.

"For the time being, there is no move to ease the export ban," said a senior official who participated in the meeting on Monday.

Traders said this could also mean no more exports in the current crop marketing year, as supplies would start falling in the coming months. The cotton season runs from October to September.

Before the ban on fresh registrations was imposed, around 9.5 million bales of cotton had been shipped out of the country.

The official said fresh registrations for exports would continue to be suspended. The group of ministers, chaired by finance minister Pranab Mukherjee, comprises agriculture minister Sharad Pawar and commerce, industry and textiles minister Anand Sharma.

The government had banned exports of cotton on March 5, but relaxed it partially within a week, following political pressure, both from within the United Progressive Alliance, as well as Gujarat chief minister Narendra Modi. Following this, farmers had resorted to agitation in some parts of the country.

The government then allowed exports of those quantities which had already been registered with the Directorate General of Foreign Trade, subject to revalidation by authorities.

The meeting of the panel of ministries on Monday reviewed the demand-supply situation in cotton and also whether more exports could be allowed. The commerce ministry felt allowing fresh exports would harm the interests of domestic mills. The agriculture ministry, however, said more exports could be allowed, as domestic production, at 34.08 million bales, was four per cent more than last year's.

Last week, as an interim measure, the textiles ministry had directed state-run Cotton Corporation of India (CCI) to build a 2.5-million bales cotton reserve this season to ensure the smooth supply of the raw-material to cash-starved textile mills.

To build the reserve, CCI would start procuring around a million bales at market rates from April. The purchase and the subsequent storage are expected to cost the government an additional subsidy of about Rs 4,000 crore.

Currently, cotton prices stand at about Rs 4,000 a quintal, higher than the government's minimum support price of Rs 3,100 a quintal. Output in the 2011-12 season is estimated at a record 34 million bales, with consumption at 21.6 million bales.

Meanwhile, cotton exporters whose registration certificates are being revalidated by the commerce ministry, allege a deliberate attempt to single out exporters with business operations abroad. Of the total 1.8 million bales of cotton sent for revalidation, just 500,000 bales had been cleared till Wednesday.

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US, EU cry foul over India's ban on cotton exports

Amiti Sen, Economic Times

April 18, 2012, NEW DELHI: India's ban on cotton exports has been questioned by US, EU and Canada at the World Trade Organisation, but India has said that its actions fully complied with multilateral trade rules that allowed temporary restrictions on imports.

The countries also raised concerns about the methodology used by India to classify marginal farmers and calculate domestic support to agriculture in a recent meeting of the WTO's committee on agriculture in Geneva.

India had imposed a ban on cotton exports on March 5 fearing a shortage in the domestic market, but lifted it on March 12 for export contracts that had been registered before the ban.

"India clarified that the ban on exports was only for a short period and exports of about 2 million bales of cotton registered with the government before the ban have been subsequently allowed," a government official told ET.

Indian officials also pointed out that the country had not bent any rules by banning cotton exports as temporary prohibitions or restrictions on exports to prevent or relieve critical shortages was allowed by the WTO.

US officials noted India's view that the restriction was in line with WTO rules, but said they were still not happy with the ban as the measure had an impact on the predictability and transparency of the market.

US and EU are among a few of the developed countries that have been trying to garner support for a global resolution to ban food export restrictions and limit taxation on food exports. Developing countries including India, China and Brazil opposed the resolution.

On the issue of the methodology used for calculating domestic support and classifying marginal farmers and error in data presented by India, a commerce department official said the department would re-look at the notification and hold consultations with other ministries and departments concerned.

US observed that some of the figures in India's notification do not correspond to the figures on the website that India cited in its reply in September, like, for instance, the definition of "marginal" land holdings.

Canada and US also asked India to clarify use of the term "marginal" and the basis for labelling of producers as low-income, resource-poor, marginal, small/semi-medium/medium landholders, etc, for a better understanding of who were the targets of India's development programmes and fertiliser subsidies.

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Turkey may withdraw duty on imports of Indian cotton yarn

Press Trust of India

India requested for consultation with WTO to resolve the imposition of import duties

New Delhi, April 23, 2012: Turkey has expressed its willingness to withdraw safeguard duty on imports of Indian cotton yarn within a year, provided India refrains from pursuing legal proceedings at the WTO, sources said.

An indication to this effect was given by Turkey in a draft submitted to the Commerce Ministry.

"The consultations (on the issue) were held (in) March following which a draft of agreement has been received from Turkish side. It provides for lifting of the current safeguard measures within one year, starting with the entry into force the agreement/MoU provided India shall not seek a DSU (dispute settlement unit) panel investigation," said a source. India had requested for consultations with Turkey under the dispute settlement system of the WTO to resolve the dispute over the imposition of special import duties on Indian cotton yarn. The request for consultations, filed on February 13, formally initiates a dispute in the WTO. Commerce and Industry Minister Anand Sharma has also raised concerns on the issue during his meeting with Minister of State in charge of foreign trade of Turkey Zafer Caglayan on April 19 at the sidelines of G-20 Trade Ministers' meeting in Mexico. The country has said that additional import duties imposed by Turkey "are very high and have affected exports of fabrics and garments from India. This sharp increase in duties could lead to high price rise and resistance from Turkish consumers," the source said. The duty by Turkey, a major producer of cotton, was imposed in 2008 for a period of three years. When the term expired in July 2011, the country re-imposed the duty. According to industry experts, the duty was increased to 15-20%. Indian cotton yarn producers have said that these markets are resorting to unnecessary restrictions. Consultations give the parties an opportunity to discuss the matter and to find a solution without proceeding further with litigation. After 60 days, if consultations fail to resolve the dispute, India may request adjudication by a panel. Bilateral trade between India and Turkey in 2011 was $4.51 billion.

Further, India has also asked Turkey to consider issuing longer duration business visas to Indian professionals if recommended by the respective apex chambers of industry and commerce.

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Government allows further export of cotton

Surojit Gupta, Times of India

April 30, 2012, NEW DELHI: Under pressure from the Congress party and some of its allies, the central government on Monday allowed fresh cotton exports. A panel of ministers will meet in three weeks to review the situation again. The government had been under pressure from the Congress party, the Nationalist Congress Party (NCP) to ease the ban on cotton exports. The directorate general of foreign trade (DGFT) had banned exports on March 5, but it was forced to partially permit registered consignments. The informal group of ministers met under the chairmanship of finance minister Pranab Mukherji on Monday to review the cotton export situation. The panel considered the estimates of the cotton advisory board and the third estimate of the ministry of agriculture. "After a comprehensive review it was decided that suspension of new registrations for cotton exports be revoked and exports be permitted," a government statement said. The Cotton Corporation of India has been asked to build a buffer stock of 10 lakh bales to meet any emergency during June, July and August. "It is true that some other members of the parliament had given their views that some cotton was still available. So we have, therefore, lifted the suspension of fresh registrations for exports and accordingly, the DGFT will take the necessary steps," commerce, industry and textiles minister Anand Sharma told reporters. He said efforts will be made to ensure that domestic industry needs are met. The textile sector directly or indirectly provides employment to 105 million people and the hand-loom sector also employs a large number of people. "Therefore, a balanced view had to be taken, the GOM will make a fresh assessment in three weeks, Sharma said. The meeting was attended by agriculture minister Sharad Pawar, commerce, industry and textile minister, Anand Sharma and chairman of the Prime Minister's economic advisory council C Rangarajan. Earlier, Pawar had slammed the curb on cotton exports and had shot off a letter to the prime minister saying "Indian cotton farmers should not be asked to bear the burden of subsidizing the textile mills." The cotton advisory board has revised cotton production estimates at 3.47 crore bales from 3.45 crore bales for the current season that ends in September. Domestic consumption has been estimated at 2.5 crore bales from 2.6 crore bales. The agriculture ministry had also revised upwards the estimate for cotton output in the third advance estimates of crop production.

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New procedure by DGFT to speed up cotton exports

Business Standard

Mumbai May 9, 2012: To speed applications from interested cotton exporters, the Directorate General of Foreign Trade (DGFT), under the Ministry of Commerce, has modified the procedure for obtaining registration certifications (RCs).

As against the earlier procedure of personal visits to the respective departments dealing in RCs, DGFT has mandated sending of all documents and associated papers through an e-mail. The purpose is to keep queries, if any, ready by the time an exporter sends hard copy of the applications and other relevant papers.

According to the current practice, an exporter applies with all valid documents in physical form. After these papers are assessed by DGFT, queries are raised. An RC takes weeks and, sometimes, months to obtain. With the new format of application, the RC can be issued within a couple of days.
The procedure is required to be speeded, especially when DGFT issued revised guidelines early this month for cotton exporters. In fact, DGFT clarified through a notification on May 4, that an exporter would be issued a second RC only on filing proof for executing at least 50 per cent of the quantity of exports mentioned in the first RC.

Generally, from the date of RC an exporter requires at least a month to physically ship the quantity of exports. The 50 per cent mandatory shipment clause, therefore, requires executing export orders fast to obtain another RC for the next consignment.

Welcoming the move, M B Lal, an industry veteran, said, “With the revised procedure, only genuine traders would be able to execute export orders fast.”

The price of the benchmark Shankar 6 variety remained stable at Rs 35,000 a candy (one candy = 356 kg) in the Ahmedabad spot market, despite exports being allowed by the government. So far, 16 million bales have been exported. By the end of this month, exporters expect this figure to move up to 20 million bales.

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Cotton may see gloomy days ahead

Rajesh Bhayani & Komal Amit Gera, Business Standard

Mumbai/ Chandigarh, May 16, 2012: The cotton controversy does not seem over yet, despite the decision at the beginning of this month to re-allow its export. Cotton prices in the domestic and global markets have fallen six to seven per cent. Exporters say they're selling at a loss due to individual ceilings imposed in the notification. Prices have fallen globally as well, due to expectations of high (global) ending stocks.

The real problem for consumers would start three months down the line, by when stocks at home would have dried up and the new crop might be lower, going by the expectations of a 10 per cent fall in area sown. Which is likely to mean prices begin to move up. Even before the government allowed free export a fortnight earlier, the Cotton Advisory Board (CAB) had estimated a closing stock of 2.51 million bales (a bale is 170 kg) after considering 11.5 million bales already shipped out. The closing stock estimated was already the lowest in a decade. It was four million bales in each of the past two years.

Exports have since been freed but traders are not as enthusiastic, though they feel 1.5 million bales might still be exported in the next three months, before the season ends. Exports will be limited on two counts. Several restrictions have been imposed by the government and the US department of agriculture (USDA) has said the current year's global closing stock is expected to be higher by 12 million bales, at 77 million bales. The reason: China, the largest importer of cotton, is expected to have huge cotton reserves and is not likely to purchase substantial quantities this year. Traders say China's new import quota, to be announced in the near future, may be close to 1.2 million tonnes (seven million bales) this year.

Govt caps, stocks

Explaining procedural difficulties in exports under the new notification, Rakesh Rathi, president of the North India Cotton Association, said the guidelines issued by the directorate general of foreign trade say an existing exporter can send only up to 10,000 bales and a novice 1,500 bales under one Registration Certificate (RC). A second RC would be issued only on filing proof of executing at least half the quantity of export mentioned in the first RC. This, he said, has undermined the prospects. Exporters who had contracted would now have to seek a new letter of credit (LC) from importers, which they are finding difficult as they had not been able to meet past commitments due to a sudden export ban.

On the other hand, even if only 1-1.5 million bales are exported in the next three months, the closing stock will fall to a little over a million bales, going by CAB estimates. D K Nair, director-general, Confederation on Indian Textile Industry, says: "The cotton crop may be lower than even CAB had estimated, as arrivals of new cotton are not that high at present." CAB had in its April meeting estimated 34.7 million bales.

This may lead to a crisis for cotton textile mills and spinning mills when the season comes to an end, as they will not get cotton till the new season crop arrives. "By then, prices should start rising and the benefit of higher prices will not accrue to farmers, as they would have sold all the cotton they have and traders will reap the benefits," said Nair.

Jagdish Joshi, a veteran cotton industry analyst, however said, "The scene may not be that bad, as CAB's estimates seem very conservative and India's total crop for 2011-12 may turn out to be 36.5 to 37 million bales."

Interestingly, several exporters who'd stored cotton expecting free export have started selling even at a loss in the domestic market, given the 10,000-bale cap on shipment abroad. This has lead to a slide in prices at home, as mentioned over the past week, of seven to eight per cent. In the Mumbai market, the Shankar-6 variety was selling at Rs 33,000 per candy (356 kg). After the latest USDA projections regarding high global ending stock, prices in the US market have also come down by eight per cent, to 76.71 cents per pound.

Cotton prices in China are 10 per cent higher but they are not eager to give more orders to Indian exporters, as the latter have not met past commitments due to the sudden ban imposed by the government.

Noting the drop in global cotton prices, spinning mills in India are also buying less. Summarised a Mumbai-based exporter: "Ever since government intervention started in cotton, the entire value chain has gone into a mess. Neither farmers nor traders have been rewarded with the recent decision on lifting of the ban on exports."

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US must fall in line on cotton subsidy

Ritesh Kumar Singh/Prerna Sharma, Hindu Business Line

25 May, 2012: With WTO's Doha Round negotiations stalled till the new US President assumes office, all hopes of a reduction in US cotton subsidy rest on the upcoming revision of current farm support legislation that expires on September 30, 2012.

Though the issue has not received much media attention in India, it has long-term implications for India's cotton and manmade fibre producers already suffering from unsold stocks and slowing demand.

The US Senate Committee of Agriculture has cleared the new farm bill, called ‘Agriculture Reform, Food and Jobs Act 2012'. The bill seeks to eliminate direct and counter cyclical payments to the farm sector.

However, it proposes increase in support to crop insurance, extension, and horticulture which can become contentious. Although cotton would be one among the list of commodities that would see the largest subsidy cut, there are indications that a subsidy cut on cotton would not be sufficient to completely remove trade distortions.

Among countries that should be watching the US farm bill deliberations is Brazil, which is embroiled in a long-drawn battle over US cotton subsidy at the WTO.

Another Grouping that is closely watching the developments are Cotton-4 (a consortium of four cotton producing African countries Benin, Burkina Faso, Chad and Mali). They had already submitted a proposal to the WTO calling for a global agreement to end all production-related support for cotton in all WTO member nations, but have not met with much success. It would be pertinent to revisit the Brazil-US WTO cotton subsidy dispute.

DISPUTE WITH BRAZIL

The origin of the dispute can be traced back to September 2002 when Brazil first took the US to the WTO over latter's trade-distorting subsidies for cotton. Later, Argentina, Australia, Benin, Canada, Chad, China, Chinese Taipei, European Union, India, New Zealand, Pakistan, Paraguay, Venezuela, Japan and Thailand joined the dispute as third parties.

After losing at WTO, the US made some changes in its cotton programme. For example, it abolished payments to induce purchase of relatively high priced US upland cotton (‘Step 2'), export credit guarantee programme (‘GSM-103'), the fee cap on another export credit guarantee programme (‘GSM-102') and supplier credit guarantee programme (SCGP). However, the US introduced some new subsidy schemes in its 2008 Farm Bill, such as countercyclical payments and provisions for marketing loans. Unhappy with the US actions, Brazil asked for a WTO compliance panel, which found that the US has not fully complied with the WTO rulings.

Subsequently, on March 3, 2009, Brazil claimed the right to take retaliatory trade measures. Disagreement over the nature and extent of the retaliation led to both parties requesting for an arbitration panel. The panel permitted Brazil to use countermeasures with respect to trade in goods. It also allowed relaxation in Brazil's commitment under TRIPS and GATS. This forced the US to come to the negotiating table.

As a result, Brazil agreed to postpone the retaliatory actions till the revision of US farm legislation, in return for an annual payment of $147.3 million in technical assistance and capacity-building aid to the Brazilian Cotton Institute.

EFFECTS OF US SUBSIDY

Thus, Brazil has somewhat been compensated, but other cotton producing countries have been left in cold. Such countries too can challenge the US cotton subsidy, but that could be expensive and time-consuming.

As per a recent estimate by the Congressional Research Service (CRS) between 1994-2008, US cotton subsidy averaged $5 billion and accounted for roughly one-fourth of its total farm support. Though the US is the third-largest producer of cotton, next to China and India, it is the largest cotton exporter and accounts for 30-40 per cent of the world export of cotton, despite being a relatively inefficient producer.

Of late, the US has been exporting an increasing share of its annual cotton production mainly because of the declining demand of domestic mills. Its exports of cotton as a share of total production have averaged 67 per cent since 2001, up from a 40 per cent average during the early 1990s. To be fair to the US, many other countries such as China or European Union also provide farm subsidies including that for cotton. India is no exception either; however, its subsidy is well within its WTO commitments.

High US subsidy on cotton keeps the international price of the cotton artificially low. This adversely affects the export competiveness of competing cotton-exporting countries, including India, which accounts for roughly 20 per cent of the world export of cotton, or Australia with 7 per cent, Brazil (6 per cent) and West Africa including C-4 countries (5 per cent). For C-4 countries cotton is the key export item. The low international price of cotton (on account of US subsidy) also depresses the demand for and price of other manmade fibres, in particular of viscose staple fibre which is blended with cotton to make yarn, fabric and garments.

When India is faced with a burgeoning trade deficit, every exportable item counts. However, continuing US subsidy on cotton, despite a series of adverse rulings by WTO, hurts India's exports of cotton as well as those of blending materials like viscose staple fibre, or in some cases, synthetic fibres. As if India's export curbs and policy flip flops are not enough, artificially suppressed price of cotton on account of US subsidy deprives the producers of cotton and manmade fibres from getting remunerative prices for their products.

Such market-distorting policies lead to sub-optimal allocation of resources and adversely affect the prospect of the cotton (and manmade fibres) sector that provides livelihood support to millions in India and other poor developing countries in Africa.

In the long run, it will also lead to less acreage being allocated to cotton farming that will jeopardise the steady supply of raw material to India's textile sector, and expose the sector to the fluctuations in international markets. It's time India engaged with US policymakers to get trade-distorting US cotton support substantially reduced or completely removed in this farm bill revision.

It should be noted that 80 per cent of the US cotton subsidy is appropriated by 10 per cent of the farms, hence there's not much justification for its continuance.

The US, being the staunchest proponent of free trade, needs to bring its farm support policy in compliance with its WTO commitments and strengthen the global trade regime.

(*Ritesh Kumar Singh is an international trade expert for a corporate house. Prerna Sharma is a research analyst — agri commodities. The views are personal.)*

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Turkey agrees to remove penal duties on Indian cotton yarn

Amiti Sen,Economic Times

June 8, 2012, New Delhi: Turkey has agreed to remove penal duties 'wrongfully' imposed on Indian cotton yarn, spelling victory for Delhi that is fighting growing protectionism in several countries against its products. The two countries are likely to sign a memorandum of understanding on the issue soon, following which India would withdraw its complaint against Turkey filed with the World Trade Organisation early this year, a commerce department official told ET. "Both countries have reached a satisfactory understanding on the penal duties," the official said. "As soon as the memorandum of understanding spelling details of duty removal is signed, India will withdraw its complaint." Global economic uncertainty has prompted a number of countries including the US, Egypt and Turkey to raise protectionist walls against imports from other countries including India to safeguard their domestic firms. Canada, too, has started investigations to impose penal duties against certain Indian steel products. "It is true that protectionism worldwide is growing. India does not have a problem with import restrictions as long as countries respect the rules framed by the WTO. But we will definitely fight against all violations," the official said. Delhi has filed official complaints against restrictive duties imposed by the US on steel products and Egypt and Turkey on cotton yarn at the WTO. "In the case of Turkey, we are happy that the issue is being amicably settled without the need for a dispute settlement panel," the official said. Egypt and Turkey are the fifth and sixth largest export destinations for Indian cotton. Industry body Texprocil, which has been working with the government on the legal aspects of the penal levies imposed by Turkey and Egypt on Indian cotton yarn, says all wrongful attempts to block exports have to be severely discouraged. "If we do not take action against illegal measures adopted by another country to curb imports, we are in a way encouraging other countries to follow suit," a Texprocil representative had earlier told ET. Turkey imposed safeguard duties between 12% and 17% over and above the customs duty of 5% with effect from July 2011. This made Indian exports to the country costlier.

Egypt, on the other hand, imposed a specific duty of 55 cents per kilogram of yarn in December 2011. Safeguard duties are import levies imposed over and above the existing duties to protect domestic industry against a surge in imports. India contested Turkey's decision to extend safeguard duties after they expired last year, without carrying out a review to the WTO committee on subsidies and countervailing duties.

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Southern spinners import cotton

Sharleen D'Souza, Business Standard

Mumbai, June 30, 2012: As the fall in cotton prices in the international markets has been much sharper than in India, spinners in south India are now looking to import cotton. Moreover, spinners have the choice of making payments within six months without paying any interest, after which they will have to pay a nominal interest of below three per cent per annum.
From 85.7 cents per pound in the beginning of May, international prices of cotton have slid 20 per cent to 70.52 cents per pound now. But the rupee has fallen during the period, making imports costlier. Consequently, the fall works out to 5.06 per cent.

The price of cotton in the Indian market, however, has remained stable. It traded at around Rs 9,200 per quintal on Friday.

The price of imported cotton, similar to Shankar 6, is 75 cents per point while Indian cotton is being exported at 80 cents per pound.

South India-based spinners are currently importing from Africa, as it is cheaper.

So far, mills in the south have imported 70,500 bales (one bale = 170 kg) of cotton, according to indenting agents. The import cost is Rs 34,000 per candy. This, while Gujarat cotton is available in Coimbatore at Rs 37,000 and Andhra Pradesh's version at Rs 38,000.

“We are getting orders from spinners from the south to import cotton. They fear the delay in monsoon will cause cotton acreage to shrink, which will eventually cause prices to go up in the coming cotton year," said Umang Kapasi, joint managing director of Comibatore-based Shri Vardhaman Cotton Corporation, which also operates as an indenting agent. He said the only issue is it takes 40 days for imports to arrive.

Since May, export orders for cotton have remained almost stagnant. During October-May, 11 million bales were exported. However, since then, only one million bales were exported.

Since the fall in international prices has been much sharper than in India, exports have almost stagnated. Demand usually arises from China, but that country has already created a buffer stock by heavily importing from the US, the largest producer of cotton in the world.

Even Bangladesh, which procures cotton from India, has not been importing in the last few weeks. "There is very little demand from Bangladesh and China for cotton," said M B Lal, a Mumbai-based cotton exporter.

Even after India threw open its exports after the ban, exports in the month of May stood at only one million bales.

Domestic demand has also taken a hit as many mills have resorted to need-based buying. Traders are not selling to mills on credit, as they are not sure if the latter will be in a position to pay back later, due to overall weakness in demand.

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Govt lifts restrictions on cotton exports

New Delhi, July 31 (PTI) Amid abundant availability and a crash in prices, the government today removed restrictions on the export of cotton and permitted shipments under open general licences (OGL) for the remainder of the current season. The cotton season runs from October to September. Cotton exports for the remaining two months (August and September) have now been put under OGL, Commerce Secretary Rahul Khullar told PTI. "Now, exporters only have to register with the Directorate General of Foreign Trade (DGFT)," he said. The issue came in for review at a meeting of secretaries in the ministries of commerce, textiles and agriculture, convened by Commerce and Industry Minister Anand Sharma here last week. In October last year, the government had capped cotton exports at 55 lakh bales (170 kg each) to protect the domestic textiles industry in the face of rising raw material prices. An additional 10 lakh bales were permitted for export in June, after prices had corrected sharply. Prices have declined to about Rs 31,000 per candy (356 kg) now from the peak of Rs 62,500 per candy in March-end. The restrictions on cotton yarn were removed from April 1, after the manufacturers found themselves saddled with big inventories following the curbs on exports.

Besides the changing dynamics in the market, administering the restriction has proven to be "a big headache" for the Commerce Ministry, especially after the recent allocation of 10 lakh bales, as some exporters have taken the issue to different courts, sources told PTI. They said it was in this context that Sharma reviewed the situation with the three secretaries on the weekend.

According to the estimates of the Cotton Advisory Board (CAB), the cotton surplus at the end of the current season would be 52.5 lakh bales on account of lower industry demand. In February, the CAB had estimated it at 27.5 lakh bales. Likewise, the projection for domestic consumption of cotton this season has been lowered to 236 lakh bales, as against the earlier estimate of 265 lakh bales, on account of high inventories.

The cotton production projection, however, has been increased to 325 lakh bales for the current season.

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European Union whines despite India agreeing to halve import duty on its wines

Amiti Sen,ET Bureau

22 Mar, 2012,New Delhi: India has proposed to halve import duties on wines and spirits bought from the European Union under the bilateral free trade agreement being negotiated between the two, but the 27-country union is demanding steeper cuts. Last month, EU officials argued liquor imported from the region would become affordable for Indian customers only if there are 'meaningful' cuts in duties. "They said that state taxes on liquor were extremely high in some cases which raised the incidence of duty on foreign liquor to very high levels. Customs duty on liquor, therefore, needed to be reduced substantially," an official familiar with the talks said. India imposes 150% customs duty on wines and spirits, which it has now proposed to cut to about 75% for the EU countries. New Delhi has also offered to reduce duties further to about 40% on some categories of alcohol over the next four years after implementation of the FTA. The EU has demanded an immediate reduction in import duties to about 30% so that there is a substantial dent in the total incidence of taxes, an official said. EU trade commissioner Karel De Gucht had last month expressed his unhappiness with India's offers. Due to high taxes imposed by states, incidence of taxes on foreign liquor was as high as 200%-790% of the sale price, depending on the type of liquor and its price and also the state in which it is being sold, an EU report had noted. India's import of alcoholic beverages went up 55% in the first three quarters of the fiscal to 593 crore, compared to 382 crore in the same period last year, according to figures compiled by the commerce department. Given these imports, India is reluctant to make steeper cuts as its domestic industry is still in its nascent stage and slashing tariffs is a politically sensitive issue. "We have insulated the liquor sector from all free trade agreements we have signed so far. Although we are ready to cut duties on both wines and spirits for the EU, it cannot expect us to be insensitive to the demands of our industry," the official said. These offers are, of course, linked to EU's readiness to open markets for items such as textiles and fisheries and substantially liberalise its services sector. Both sides hope to implement the FTA in goods, services and investments, later this year.

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Scotch, European wines to get cheaper after FTA

Amiti Sen, Economic Times

16 July, New Delhi: Prices of Scotch whisky and exotic European wines may almost halve in the country after India and the European Union sign a bilateral free-trade deal currently being negotiated. New Delhi has expressed its willingness to reduce duties from 150% to 40% on whiskies priced more than $7 per litre and wines above $4 per litre if the European Union gives more access to Indian services industry and labour-intensive goods, a government official told ET. This will make them 44% cheaper. "We are ready to open our markets wider for European liquor. But the duty cuts will be above the stipulated threshold levels to avoid competition from the cheaply priced variety," the official said. The offer, however, is contingent upon India getting its due in the area of services where it sees great opportunities in Europe, and gets more access for labour-intensive goods such as textiles and leather. While European liquor, like all other domestic and imported alcohol sold in the country, will continue to attract state taxes-which ranges from 30% to over 100%-the incidence will be less as the taxes are mostly applied on landed price of alcohol in states, said analysts. "Most state government levy taxes on alcohol on the price at which they land in the states, which also includes the import duties. So, if import duties are slashed the incidence of state taxes will also go down," said S Madhavan, partner affairs in charge at PwC India. For instance, the landed price of a bottle of French wine priced $4 per litre is $10 after levy of 150% import duty. If a particular state imposes 100% state duties on it, the price that the consumer pays for the brand is $20 per bottle, or about Rs 1,100. Now, if India slashes import duties to 40%, then the landed price of the same wine will be $5.6. After levying 100% state duty it will be available to the customer at $11.2, or about Rs. 616, which is 44% less than the current prices. This will also make it comparable with several Indian wine brands. While lowering of duties could give some competition to the country's wine producers, industry sources say that imported whisky from Europe will not impact local whisky producers as they cater to different segments. "There is a wide gap between the most expensive Indian whisky and a standard Scotch whisky," a spokesperson of the Indian unit of Pernod Ricard, world's second-largest spirits maker, said. "For instance, a 12-year Scotch Whisky is priced at Rs 3,400 in Delhi vis a vis the most expensive Indian whisky at Rs 800. Even if the duty comes down, the Scotch whisky will be priced at more than Rs 2,500," the person said. Of the total 240 million cases of alcohol sold in India, just about a million cases are imported.

Both India and the EU are keen to sign the FTA, formally known as the bilateral investment and trade agreement, by the end of this year. But for that to happen, a number of contentious issues including visas for professionals, recognition of India as a data secure country and easing of government procurement rules in India have to be ironed out.

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