

27th January 2015

Subject: Record of Discussions of the meeting on cotton related issues.

A meeting on the issues related to cotton was chaired by Shri J.S. Deepak, Additional Secretary, Department of Commerce at 1500 hrs on 20 January 2015. The list of participants and the issues discussed are at Annex- I and II respectively.

2. Opening the discussions, the Chair informed the participants about the general cotton scenario and need for a forward looking policy that is sustainable and compliant with India's international commitments. He asked the participants to give a briefing on the status of the cotton production and consumption, identify the problems with a view to find solutions which include support from the government. He also pointed out the need for understanding the reason for the glut in the cotton sector. Ruling out any export subsidy due to India's obligations under the WTO laws, he sought to know the way in which the sector could be supported.
3. Shri Dhiren N. Sheth, President, Cotton Association of India apprised the gathering about the present status of the cotton production and procurement. He informed that against the estimated production of 4.2 crore bales, 20 lac bales have been sold so far. It was informed that though domestic consumption has not gone down, the policies of China may have its impact on the exports as a surplus of approx 35 lakh bales is expected by the year end.
4. Shri Sheth also informed that China had been building huge reserves, which will take a long time to get liquidated. China has now decided to reduce imports to liquidate the stocks to meet its weaker demand and procurement has been lowered to 1 part of import against 4 parts of domestic procurement. It was informed that the massive stocks that China has will take at least five years to get liquidated. The glut in the market therefore is likely to continue for another four to five years.
5. On a question from the Chair, it was informed that China presently holds around 8 crore bales in reserves and they are now not only reducing subsidies significantly but have also switched over to direct payments.
6. On the question of consumption pattern of cotton in India, Shri D. K Nair, Secretary General Confederation of Indian Textile Industry (CITI) informed that in a scenario when the cotton prices go down, yarn prices also go down and contrary to the perception that consumption will go up due to falling prices, buyers wait for prices to go further down in a declining market.
7. Additional Commissioner (Crops) DAC informed that the prices are at around the Minimum Support Price. The prices, though are around 25% lower than last year's prices. He also informed that there has been a decline in the area under cultivation from 190 lakh hectare to around 130 lakh hectare.
8. AS(TPD) wanted to know about the procurement under the MSP operations and if farmers will be under distress. Shri Sheth informed that the procurement under the MSP was not much in the preceding years due to high international and domestic prices. However, this

will not be the case during the current year. It was also brought out that there is no reason for the farmers to be under distress as the state would be making procurement at MSP and Cotton Corporation of India has adequate headroom.

9. JS, M/O Textile also informed the chair that though there is a declining demand in China, the demand in countries like Bangladesh will still be there. It was informed that the shortfall in export may be to the tune of 40 to 50 lakh bales during the current year.

10. Shri Nair opined that the downward trend in prices will not continue in the short term due to adjustments in the production pattern. Addl. Commissioner (Crops), DAC confirmed, citing reports that production is likely be lower in the Southern Hemisphere due to the current and estimated future demand, thus narrowing the gap between demand and supply.

11. On the issue of MSP operations, JS, M/O Textiles opined that **instead of raising procurement at MSP which is inefficient**, a better alternative would be provision of cheaper working capital, **higher working capital limits** and reduction of the margin money limits by the banks **so that textile mills could procure and stock more cotton**. The Chair stated that **though presently** the only system being followed is MSP, **direct benefit transfer** and interest subvention could be the alteranatives. Shri Nair emphasised on the need **for an effective MSP mechanism**. On a statement by JS, M/O Textiles regarding the need to **reduce the cost of procurment**, Shri Nair replied that we should not go the China way and that the market forces will take care of the issue of over production.

12. The Chair raised the issue of the possible means to deal with the glut since we do not have the option of export subsidies. Subsidies being provided to the cotton sector can be made more efficient, targetted and **at the same time remain** WTO compliant. Addl Commissioner (Crops), DAC informed that apart from MSP, no significant subsidies are provided to the producers. The seed subsidies are almost nil with the farmers sourcing seeds privately. JS, Ministry of Textiles stated that there is a need to improve productivity as India stands at 2/3rd of the world average in this regard. He also raised the issue of crop contamination and emphasised the need for variety control and appropriate labelling in order to make Indian cotton more export worthy. The Chair stated that there was a need to transfer the seed based to irrigation **subsidies**, with only 35 % of area under cotton crops being irrigated.

13. The Chair requested the exporters point of view and was informed by Shri Nair that cotton yarn which used to be under the Focus Market Scheme of the government till a few years back needs to be brought back in the list of products under the scheme. He stated that Peru and Morrocco were among the countries to which cotton yarn was exported under the scheme. It was also stated that India is the largest exporter of cotton yarn. Chair raised the issue of increasing the capacity for producing cotton yarn and was informed that investment in capacity building in the area has been increasing, whereas the same was on the decline in China. This has impacted our exports , a part of which can still be directed towards Vietnam and Bangladesh.

14. In conclusion, it came out that there was no distress situation though the current trend in the cotton sector will continue for the next four/five years. It was also felt that as CCI would need to procure in the event of prices falling below MSP, the mills should be encouraged to procure cotton and produce yarn.

The Chair thanked the participants and requested them to provide information as mentioned at Annex II.

Annex I

S. No	Name and Designation	Department/ Organization
1.	Shri Sujit Gulati, Joint Secretary	Ministry of Textiles
2.	Shri A K Tripathy, Joint Secretary	EP(Agri), Department of Commerce
3.	Shri Anil Pratap Singh, Additional Commissioner	Commercial Crops, Department of Agriculture and Cooperation
4.	Shri Ganesh Singh, Under Secretary (Trade)	Department of Agriculture and Cooperation
5.	Shri P C Jena	DAC
6.	Shri Sachin Sharma	IIFT, Centre for WTO Studies, Indian Institute of Foreign Trade
7.	Shri A. Ravi Kumar, Deputy Director	The Cotton Textiles Export Promotion Council (CTEPC)
8.	Shri Dhiren N. Sheth, President	Cotton Association of India, Mumbai
9.	Shri D. K Nair, Secretary General	Confederation of Indian Textile Industry (CITI)
10.	Shri K. Raju, Regional Officer	The Cotton Textiles Export Promotion Council, Texprocil
11.	Shri J Sarin, Regional Executive	Cotton Association of India
12.	Shri Rishabh Shah	Cotton Association of India
13.	Shri B K Mishra, CMD	Cotton Corporation of India
14.	Shri Vijay Mathur, Additional Secretary General	Apparel Export Promotion Council
15.	Ms. Anu P Mathai, Director	Trade Policy Division, Department of Commerce
16.	Shri Narayan Prasad, Under Secretary	Trade Policy Division, Department of Commerce
17.	Shri S.S.Bhoria, Consultant	Trade Policy Division, Department of Commerce

Department of Commerce
Trade Policy Division

Suggested Discussion Points for the meeting: 20 January 2015

- What is the position of cotton availability in the country?
 - Current and projected production
 - Stocks
 - Imports
- What is the global scenario?
 - Other Big Players in the cotton trade.
- What is the world demand for the cotton?
- What are the traditional destinations of Indian exports and what is the demand there?
 - China's import of raw cotton
 - India's share in China's imports
- What is the support available to cotton sector?
 - Raw Cotton
 - Cotton yarn
- Procurement
 - MSP and market prices
 - Procurement under MSP operations -- Modus operandi
 - Percentage of production procured under MSP during last few years
 - Disposal of the cotton procured under MSP
- Is there any support available for cotton exports through Centre or States?
- What can be done to diversify exports?
 - Possible alternative export destinations
 - Issues involved
- What can be done to increase demand domestically?
 - Increase in processing facilities
 - Competition in the form of artificial yarn
- WTO provisions
 - Domestic support: De minimis upto 10% of the value of production in a year.
 - Export subsidies: Not available
 - Procurement under MSP + related expenses counted towards subsidies as per the WTO rules (recent proposal for CCEA)
- Way forward
 - What are the options available for supporting the cotton sector
 - Stage at which support could be provided