

INJURY TO NATIONAL ECONOMIES FROM LOW COTTON PRICES

Cotton occupies a prominent position in Indian economy. It provides employment to millions of farmers. It is the primary raw material for the huge domestic textile industry and makes substantial contribution to the country's foreign exchange earnings.

2. Trend of area under cotton cultivation and production & productivity during the last few years are as under: -

YEAR (Oct. – Sept.)	AREA (Million Hectare)	PRODUCTION		YIELD per Hectare In Kg.
		Million Ton	Million Bales of 170 Kg each.	
1996-97	9.17	3.01	17.79	330
1997-98	8.90	2.69	15.80	302
1998-99	9.29	2.80	16.50	302
1999-2000	8.73	2.65	15.60	304
2000-2001	8.58	2.38	14.00	277
2001-2002 (Prov.)	8.73	2.63	15.45	301

3. As may be seen in the above table, production of cotton in India was the highest in year 1996-97 and since then production has come down. Similarly, the highest area under cotton cultivation was recorded in year 1998-99 and thereafter it has declined. Yield per hectare was the highest in year 1996-97 and since then it is hovering around 300 kg. lint per hectare. The average production is around 16 million bales (2.75 MMT) and average area under cultivation is around 9 million hectare.

LOSS DUE TO LOW PRODUCTION

4. As mentioned above, the production declined after recording the highest in the year 1996-97. One of the reasons for decline in production is decrease in world cotton prices as a result of direct/indirect Government subsidies in many cotton-producing countries. The loss in income due to loss in production is calculated taking the production of 17.79 million bales in the year 1996-97 as the base production.

YEAR	(decrease in production with reference to 'base year' * price for that year)	LOSS (Million US\$)
<i>1996-97</i>	<i>Assumed production of 17.79 million bales as the 'base'</i>	<i>Base year</i>
1997-98	(17.79-15.80) * 5.25 * 2198	618.64
1998-99	(17.79-16.50) * 5.25 * 2091	336.53

1999-2000	(17.79-15.60) * 5.25 * 1969	523.07
2000-01	(17.79-14.00) * 5.25 * 2231	973.28
2001-02 (Prov.)	(17.79-15.45) * 5.25 * 1848	483.04

N.B. (i) One bale of lint has been assumed equivalent to 5.25 quintals of seed cotton.

(ii) US\$ @ Rs.35.47, Rs 37.12, Rs42.08, Rs.43.28, Rs. 45.61 and Rs.47 in the years 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 respectively.

LOSS DUE TO LOW PRICE

5. The Government announces minimum support price (MSP) for seed cotton every year taking into account the costs of all inputs of cultivation. The MSP is the barest minimum for the sustenance of the growers. The growers expect a reasonable increase in returns considering the general escalation in cost of living, inflation etc. However, the cotton prices in markets never upto such expectations except inn year 1997-98. Therefore, the loss in income due to low price has been calculated taking the difference in the market price for a year with reference to the index price for that year. The following table shows the market price and index price for that year.

Price: In Rs.per quintal						
	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Index price	Base year for price	2117	2288	2465	2531	2585
Price		2198	2091	1969	2231	1848
Difference		- 81	197	496	300	737

6. The loss in income due to price with respect the base price for hat year during last five years is as under:

YEAR	(production * decrease in price with reference to index price)	LOSS (Million US\$)
1996-97	Base year	Base year
1997-98	Price was higher than index price	NIL
1998-99	16.5 * 5.25 * 197	405.54
1999-2000	15.6 * 5.25 * 496	938.60
2000-01	14.0 * 5.25 * 300	483.45
2001-02 (Prov.)	15.45 * 5.25 * 737	1271.91

N.B. (i) One bale of lint has been assumed equivalent to 5.25 quintals of seed cotton.

(ii) US\$ @ Rs.35.47, Rs 37.12, Rs42.08, Rs.43.28, Rs. 45.61 and Rs.47 in the years 1996- 97, 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 respectively.

LOSS TO RELATED INDUSTRY DUE TO LOW PRODUCTION

7. The loss in production has direct affect on the ginning industry as well as the transport industry. The loss to these industries are of two types viz. (i) Revenue loss as a whole to the nation and (ii) Loss on profit directly to the respective industry.

(A) LOSS TO GINNING & PRESSING INDUSTRY

YEAR	CALCULATION (less production * price for that year)	LOSS (Million US\$)
1996-97	<i>Base year</i>	<i>NIL</i>
1997-98	(17.79-15.80) * 400	21.44 (3.22)
1998-99	(17.79-16.50) * 400	12.26 (1.84)
1999-2000	(17.79-15.60) * 415	21.00 (3.15)
2000-01	(17.79-14.00) * 415	34.49 (5.17)
2001-02 (Prov.)	(17.79-15.45) * 425	21.16 (3.17)

N.B.(i)The average ginning & pressing charges for 1997-98, 1998-99, 1999-2000, 2000-01 & 2001-02 are Rs.400, Rs. 400, Rs.415, Rs.415 & Rs.425 per bale respectively.

(ii)Loss on profit to the ginning & pressing industries has been assumed @ 15% of the loss on revenue and the figures are given in bracket.

(iii)US\$ @ Rs.35.47, Rs 37.12, Rs42.08, Rs.43.28, Rs. 45.61 and Rs.47 in the years 1996- 97, 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 respectively.

(B) A number of ginning & pressing factories have come up in anticipation of normal growth in production. However, the production instead of showing a growth trend of say about 3% annually has infact negative. Consequently, the ginning industry as a whole is losing revenue to the extent of US\$ 6 Million per annum.

(C) LOSS TO TRANSPORT INDUSTRY

YEAR	CALCULATION (less production * price for that year)	LOSS (Million US\$)
1996-97	<i>Base year</i>	<i>NIL</i>
1997-98	(17.79-15.80) * 200	10.72 (2.15)
1998-99	(17.79-16.50) * 210	6.44 (1.29)
1999-2000	(17.79-15.60) * 220	11.13 (2.23)
2000-01	(17.79-14.00) * 240	19.94 (3.99)
2001-02 (Prov.)	(17.79-15.45) * 250	12.45 (2.49)

N.B. (i) The average transportation charges for 1997-98, 1998-99, 1999-2000, 2000-01 & 2001-02 are Rs.200, Rs.210, Rs.220, Rs.240 & Rs.250 per bale respectively.

(ii) Loss on profit to the transport industry has been assumed @ 20% of the loss on revenue and the figures are given in bracket.

(iii) US\$ @ Rs.35.47, Rs 37.12, Rs42.08, Rs.43.28, Rs.45.61 and Rs.47 in the years 1996- 97, 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 respectively.

EMPLOYMENT LOSS (DIRECT / INDIRECT)

8. Cotton farming in India is basically a family profession where members of the same family or their relations are engaged. The loss of employment including those employed for picking among the labour and farmer's own family due to lower cotton production is difficult to be quantified. Production loss has an adverse impact on self-employment as most of the small and marginal farmers employed their own family members for their own farming. There is also impact on employment of labour particularly during picking seasons as less labour would be required on account of low production. Further, there is an assessed loss in employment in the marketing and processing sectors due to lower cotton arrivals in the market.

TRADE BALANCE

9. Due to distorted low international prices, cotton trade balance during the last 3-4 years is against India as there was substantial imports and negligible exports, as given in the following table:

	(Million US\$)	
Year (Oct.-Sept.)	Import	Export
1998-99	137.87	20.08
1999-2000	377.64	9.08
2000-01	294.52	11.28

N.B.: - US\$ @ Rs.35.47, Rs 37.12, Rs42.08, Rs.43.28, Rs. 45.61 and Rs.47 in the years 1996-97, 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 respectively.

GOVERNMENT EXPENSES DUE TO LOW PRICES

10. As prevailed in USA and China, in India there is no system of direct subsidy, to encourage the cotton farmers or to ensure higher prices. However, the Government announces Minimum Support Price (MSP) to ensure sustained interests of the farmers in cotton cultivation. During the current cotton year the domestic cotton prices have touched the MSP level due to low world prices. Consequently, the Government had to increase its deficit by Rs.150 crore (US\$ 500 million) due to market support to the growers.

LOSS DUE TO LARGE STOCK

11. Large scale import and negligible export due to price disparity have contributed to accumulating stocks which has had an adverse impact on transportation, trade and other related activities. Large stocks contribute to higher expenses on carrying charges, bank borrowings, insurance charges etc. and these contribute as indirect losses.

CONCLUSION

12. One of the primary reasons for sharp fall in world cotton prices is that cotton production in some countries is heavily subsidized and therefore, the market prices do not reflect the actual production cost and farmers' profitability margin. This artificial distortion in prices has adversely affected the farmers in several countries including India. The loss of production, loss of income unfavourable trade balance, avoidable expenses due to accumulating stocks are injury to the cotton economy. Thus, the ICAC need to stress on member countries like USA to stop such trade distorting subsidies in the larger interests of the world cotton economy.
