EXPERT'S INSIGHT - INDIA

The Indian cotton market has a particular annual rhythm influenced by the growing techniques adopted by smallholder farmers.

The seed cotton that starts to come into the markets from mid September onwards to mid October is mainly from those farmers having access to irrigation and therefore engaged in early sowing (March-May), this is almost always conventional cotton (more often than not GM/ Bt cotton). The majority of seed cotton in India starts to flow into the markets from the end of October and until end December and when traders (ginners + input suppliers) are most active. The ginning industry needs to keep its machinery in operation from the end of September and up until March to break even and /or make any profits.

Since the season of 2009-10, the ginning industry, as well as cotton traders, has been eager to take maximum advantage of the duty free export markets opened up by the Government of India. This, for the current season/year (2010-11) is for a maximum of 5.5 million bales of lint/fiber as declared by the GOI. This has led to the traders/ginners registering or booking quantities in advance for export and then going on a buying spree to ensure supplies; the volume involved is almost 1/6th of the total cotton production in India. It is possible that another 2.0 million bales could go into unregulated export markets, mainly because of the rising demand for Indian cotton fiber from countries like China, Vietnam, Bangladesh, and Sri Lanka.

Because the Indian government has not engaged in a consultative process of fixing a clear Minimum Selling Price for cotton based on costs like living costs, cost of production, etc., the MSP declared by the government tends to be at least 35 percent lower than the prices offered by the local ginners/traders to the farmers at local level (based on export demand). This is evident not only from a demand and supply logic, but also to ensure that the buyers (ginners & local traders) ultimately fulfil their statutory obligations without suffering any penalties.

Nevertheless, these dynamics have ensured that small scale conventional cotton farmers in rainfed regions are not only in a position to receive better prices without hassle (from middleman or certification), but they are also engaged in a supply-driven environment.

On top of this, the production of cotton in the US and China is going down each year for various reasons and these are positive signals for India. The crop failure in Pakistan and North of India (Punjab) as recently as Oct 2010 is also a reason for the price escalation.

However, it is assumed that once the flow of cotton volumes start to increase (say from mid November), the prices will stabilise or fall. The halt of yarn exports by GOI was expected to contribute to lowering of the cost of seed cotton. Yet, the trend does not indicate so. The demand for short staple cotton is significant and is predicted to increase.

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