Revised Cotton Policy

THE chief feature of the cotton policy for the year, 1952-53, is the confidence it exudes of adequacy of supply. It has been found possible to penult trading to start in both delivery and ready contracts at the same time in all varieties. A decision on hedge trading remains to be announced but there is little doubt in trade, circles that, hedge trading will be permitted.

Ceilings are" no longer what the trade is worried about. Floor prices are more important today. Just when sowing was to commence, the Government announced in the first fortnight of July an increase of Rs 55 per candy in floors for all varieties of cotton for which floors had been prescribed before. This was in order to assure cotton growers of better ' support ' none had been needed last year — in view of the heavy fail in prices in February and March. Earlier for the season 1951-52. ceilings and not floors had been raised. The emphasis has now shifted.

Following representations to stop the down drift in cotton Prices, the Government gave a reassurance in March that it would support the market at the floor prices fixed for the year. This commitment was implicit in the fixation of a floor price but there had been no occasion before to call upon the Government to implement it. A reciveration of the Government's intention, however, would have been enough to steady the market. The announcement of higher floor prices in such circumstances, particularly its timing, was doubly effective. Trade circles estimate that it has resulted in an additional 1 ,350,000 acres being put under cotton during the current season.

For a time, the condition of the crop in Madhya Pradesh, Saurashtra and Khandesh caused some anxiety on account of the absence of rain between August-end and mid-September. Prices were highest after the February-March low levels about this time, although still well below ceilings. Later rains, however, have improved the outlook considerably and the latest indications are that the crop will be better than last year's. How much better, remains to be seen.

With this favourable situation, cotton control naturally called for some modifications. The. overall control remains. The classes of licencees for trading in cotton have been reduced from three to two. This by itself does not mean much of a change because in the later months of the past season, considerable modifications had been effected in the licensing system, which have been carried a step further this year. There will be complete freedom of trading between the, two classes of licencees, A ' class who are permitted to operate all over the country and ' G ' class who trade only in their local areas. These changes have been dictated by convenience of administration and do not mark a significant departure from past policy.

Allocation to mills, however, will no longer be regulated according to their consumption in a basic year. They can have as much cotton as they consumed in the past season, a third of it immediately. Easier supplies have encouraged greater liberality in allocations; purchases made by the mills during the six weeks from the end of the season up to October 15 will not be deducted from the allocations for the new season. The new policy has also raised the target: stocks with mills carried over from the last season will be treated as reserve.

COTTON CONSUMPTION 1951-52 & 1950-51

(in lakh bales of 392 lbs each)

	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Sept to July	Stocks at end of July	No. of months for which July end stocks would last.*
Total of all cotton:														
1951-52	3.17	3.19	3.25	3.39	3.40	3.23	3.28	3.42	3.33	3.32	3.83	36.94	17.11	
1950-51	2.26	2.49	2.73	3.09	3.16	2.93	3.13	3.18	3.21	3.19	3.26	32.92	15.79	
Indian:														
1951-52	2.17	2.34	2.44	2.57	2.47	2.28	2.27	2.56	2.53	2.53	2.87	27.11	12.89	5 1/5
1950-51	1.60	1.67	1.94	2.07	2.13	2.03	2.25	2.25	2.31	2.25	2.28	22.89	12.47	6
Total of Foreign:														
1951-52	0.99	0.85	0.81	0.83	0.94	0.95	1.01	0.85	0.81	0.79	0.96	9.83	4.22	4¾
1950-51	0.65	0.82	0.79	1.01	1.03	0.90	0.88	0.93	0.90	0.94	0.98	10.03	3.32	3⅝
US:														
1951-52	0.39	0.34	0.31	0.40	0.56	0.65	0.75	0.63	0.56	0.52	0.74	6.04	3.25	6
1950-51	0.22	0.33	0.46	0.42	0.43	0.37	0.38	0.40	0.33	0.34	0.38	4.05	1.53	4⅛
Egyptian:														
1951-52	0.27	0.16	0.11	0.10	0.14	0.15	0.15	0.11	0.11	0.09	0.09	1.48	0.37	2¾
1950-51	0.19	0.18	0.30	0.21	0.21	0.22	0.25	0.29	0.34	0.35	0.32	2.75	0.71	2 4/5
East African:														
1951-52	0.21	0.25	0.27	0.24	0.16	0.09	0.05	0.05	0.05	0.56	0.10	1.51	0.41	3
1950-51	0.16	0.21	0.22	0.25	0.24	0.20	0.17	0.16	0.15	0.17	0.17	2.08	0.71	3¾

* At the average rate of consumption of the eleven months to July.

The system of quality control which was introduced last year, however, will not only he retained, but extended. It will continue to he administered through the agency of the East India Cotton Association and a few more types of cotton like Punjab 216 F and 320 F and Cambodia. Co 4 (popularly known as Rajapalayam) of staple length above one inch, which had been left out last year, will be brought under quality control and therefore, under price control also.

The figures of mill consumption of different varieties of cotton are available only for the eleven months to July. Compared with the corresponding period of the previous season, the total consumption increased from 32.92 lakh bales to 36.94 lakh bales. Consumption of Indian cotton increased from 22.89 to 27. 11 lakh bales while that of foreign cotton of all descriptions declined from 10.03 to 9.83 lakh bales. This decline occurred, inspite of a substantial increase in the consumption of US cotton from 4,05 to 6.04 lakh bales. This was because the consumption of Egyptian cotton was drastically cut down from 2.75 to 1.48 lakh bales. There was also a moderate decline in that of East African cotton from 2.08 to 1.51 lakh bales.

These figures indicate a growing preference for indigenous cotton in spite of larger availability of other cottons. The pattern of consumption is set by the trend of prices in the cloth market. The increase in the consumption of US cotton last year, however, was largely caused by the conditions of" licensing for its import, special arrangements having been made by the Government. It will be recalled that following the February-March slump in commodity prices, representations were made to the Government that importers should be relieved of their binding to import of US cotton to the full extent of the quotas issued to them. This the Government declined, but it offered a guarantee to the scheduled banks to assist importers to take delivery. This special assistance, however, was not availed of as it was found unnecessary eventually.

Prices of American cotton have also been coining down lately as indeed of all other cottons. Egypt is having a problem of surplus as also Pakistan. Indeed, the state of the cloth market is reflected in the cotton market. In general; superior quality cotton is not attractive because fine cloth being costlier is difficult to sell. Mills are thus likely to continue to prefer indigenous cotton. Relaxation of control, therefore, can be thought of. if only there is assurance of larger availability.

It seems agreed on ail hands that there is this assurance. According to trade estimates, the new crop is expected to be 2 lakh bales higher. Stocks held with mills at the end of July were 12.88 lakh bales compared with 12.47 lakh bales at the same lime in the previous season. With a larger crop in prospect, even if cloth production is only maintained at last season's level, there should be no difficulty about finding the necessary cotton. Stocks of foreign cottons with the mills are also larger. Availability both of Indian and foreign styles would thus appear to be no longer a problem. Hut selling cloth is what with consumers' resistance to prices and increasing competition in the export trade, the Buxton Conference having failed to reach an agreement on sharing a shrinking market—and may become increasingly so. Cotton prices have also been on the average lower in recent months compared to last season.

Hut unles cloth prices can be maintained at remunerative levels, fixation of ' floors ' for cotton higher than what they were earlier in an admittedly inflationary situation, imposes a heavy responsibility on the Government. Although a system of integrated farm prices is not the settled policy of the Government, it is difficult to find the justification for raising cotton floors. Minimum prices for sugarcane have been lowered for the 1952-53 season. In some respects the. problems of the two industries are similar. There is a surplus of sugar today, there may be a surplus of cloth also. Other cash crops have also been fetching lower prices than last year. They have no ' floors ' to support them. Has the Government worked out the changes in the price parities of the different commercial crops between last year and now, and found the need for special support for cotton? When there is reason to believe that the mere reaffirmation in May of the Government's commitment to support, the market at ' floors ' already laid down would have been enough to give strength to the market, the case for higher ' floors ' for the new crop needs to be argued out.