COLLATERAL EFFECT: GLOBAL SHORTAGE, LOCAL IMPACT

Global cotton shortages and rising yarn prices are causing severe distress among Indian handloom weavers, necessitating a relief package to alleviate the problem

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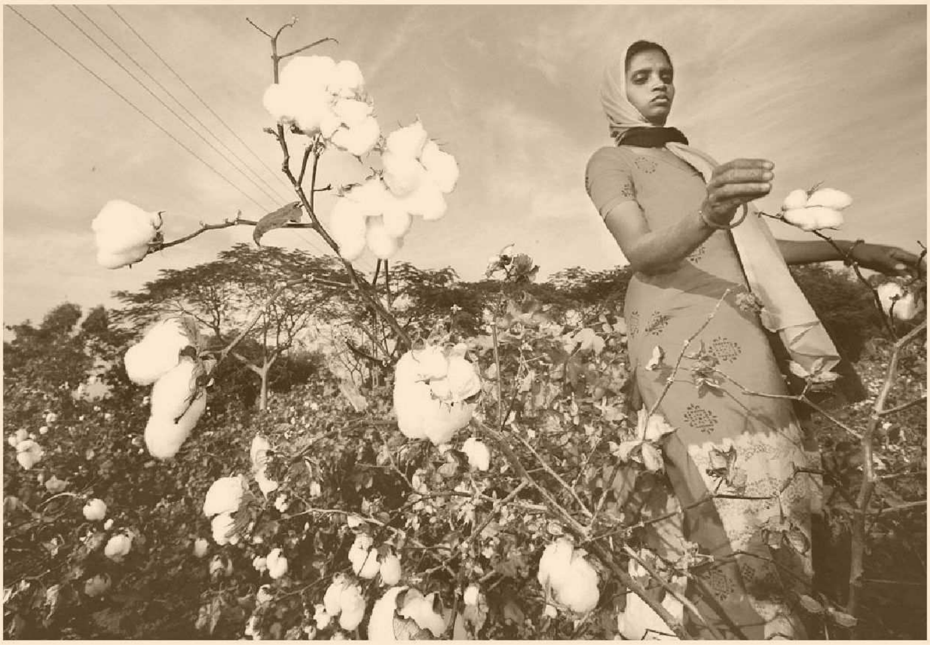


Domestic cotton output has risen substantially, but there has been a slump in global production

Far away from the prices of onions, far removed from the crisis of microfinance and even further away from the high net worth individuals scam is a crisis that is hitting a sector that provides large-scale livelihoods in rural india — handlooms. It has been a dream run for India's cotton production which reportedly is going up from 29.5 million bales in 2009-10 to an estimated 34.5 million bales this year (Cotton Association of India). At the same time, a slump in global production, due to reported crop failure in two of the largest production centres — China and Pakistan — has sent the prices of cotton soaring to an all-time high.

The average spot price has more than doubled in the last year and has gone up by more than 80 per cent in the last six months alone, as per the US Department of Agriculture market news. This impacts yarn prices and consequently the livelihoods of weavers. While the impact has not had a direct proportional relationship with the increase in the price of hank yarn used in handlooms, it has been substantial, as shown in the graph.

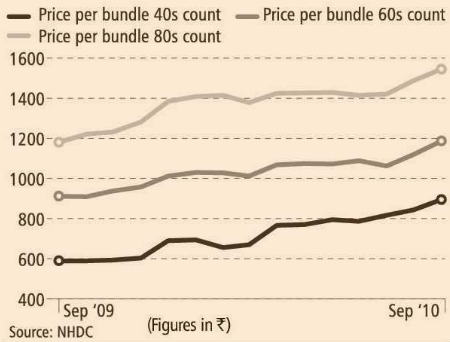
The fall in availability of cotton in the global markets should have made it party time for cultivators. However, the government has put a spanner in the works by making exports that much more difficult, by imposing registration requirements. On the one hand, farmers are not getting the full upside of the global supply situation. On the other, weavers are getting squeezed even with the current levels of exports — the result of a phenomenon totally out of their control. This has adversely affected the fundamental economics of handlooms.

The past five years have been good for spinning mills. They have recovered from losses and are making profits. This is linked to the de-regulation which encouraged exports of cotton yarn. This has continuously affected the handloom sector, irrespective of the current crisis. But now the increased demand for cotton from the international market has affected the supply of cotton to the domestic mills supplying yarn. The spinning industry has never been in sync with the handlooms and they have never appreciated the policy that requires them to supply 40 per cent of their production in hank form (used by the handlooms). In the light of the new census released in the last month, which shows a 33 per cent decline in number of handloom weavers, the mills have already demanded a withdrawal of the hank yarn obligation. They have complained about the extra cost in converting cones to hank.

In the light of the past stand, it is surprising that in a recent meeting with the minister of state for textiles in Hyderabad, some representatives of spinning mills demanded curbs on cotton exports, citing the plight of handloom weavers! It is not clear whether they would like a ban on yarn exports also, to show solidarity with weavers (which is highly unlikely). The government imposed registration requirements for exports of yarn also from April 2010, but that might not be sufficient. While it might be in the interests of handloom weavers that there are curbs on exports of both cotton and yarn, the government has to keep the specific requirements of the handloom sector in mind when it comes up with measures to alleviate the crisis due to non-availability and price rise, and intervene at the weaver level rather than the level of spinning mills.

From the perspective of livelihoods, 10.1 per cent of the rural labour force remained unemployed in 2009-10 (source: Labour ministry). Handlooms provide employment to 27.8 lakh weaver households (third handloom census, December 2010) across the country and would be a natural base of achieving improved employment opportunities. It makes better sense to secure existing skill-based livelihoods before embarking on the work of creating new livelihoods. In some pockets, the successful implementation of the National Rural Employment Guarantee Scheme (NREGS) has already put pressure on the economics of handlooms by pushing wage rates for support services higher and also making a non-skill based job (provided by NREGS) relatively more attractive. In this situation we will have to take a call on whether handlooms and weavers should be put on a par with tigers — a species that is going to be extinct in the foreseeable future.

HANK YARN PRICE MOVEMENT



Source: NHDC

While we need to have a longer-term debate on the fibre policy and its implications for the handloom sector, we need to deal with the immediate collateral effect of something that has happened elsewhere on the globe that is affecting the livelihoods of weavers in a big way. Increased input prices in the form of yarn are going to affect the economics of handlooms. While the premium segment of handlooms — those that find their way to boutiques — can absorb the increase in the price of inputs by passing it on to the consumer, the bulk of the consumers (of sarees, dhotis, towels, bedsheets and fabric) will not be able to absorb this price rise. The product range that weavers produce is not so specialised as to cater only to the elite segment. A large portion of the weavers' produce is consumed locally. Therefore, cotton handloom weavers have to operate in a situation where input costs are going up steeply, and output prices will not move in tandem.

The immediate response of the government would be to increase credit / scale of finance. This will only help in sorting out liquidity issues both for weavers and their collectives. This would be temporary and would increase the cost of input (finance) through increased interest payments, and therefore is not a comprehensive solution. Here, there cannot be a market-based solution. Intervention is needed to help the weavers cope with the immediate crisis. Even if we believe that this is a permanent upward shift in the price line, we still would need some policy intervention to ensure that the livelihoods of a large part of rural India are not adversely affected for extraneous reasons.

The situation is getting to be difficult for the weaving community. The last thing that the State would want to see is another crisis in the form of weaver suicides. It is important and urgent that the State intervene with a relief package for weavers. This is indeed a challenge for policy-making and, hopefully, the State will have an appropriate response.

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