



Untangling cotton yarn

Summary

“Cotton yarn” conjures up myriad pictures of a handloom weaver working on a large loom to a politician in a white garb to mammoth-sized mills. Cotton yarn has political and economic connotations that influence the survival of handloom industry and is marked by balancing the conflicting interests of the different actors mentioned above. This article explores the intervention points in the problem chain of cotton yarn.

Cotton yarn constitutes 50% of the cost of the handloom cloth and thus plays a decisive role in changing the economics of cloth production and livelihood of weavers. Currently, there are more than 6.5 million handloom weavers in India and 90% of them are cotton handloom weavers. The power loom sector employs another 4.8 million weavers across the country.

The key issues of concern in cotton yarn sector specifically related to handloom weavers are: price distortions, dependence on the middlemen for supply and quality and accessibility of the yarn to supplying institutions. Price distortion adversely affects the handloom weavers who depend on intermediaries like traders, master weavers for the supply of yarn.

Since the demand for handlooms is highly price sensitive, especially for lower and middle-class customers, any increase in the yarn price is passed on to the weavers as wage deduction, by the master weavers. Compounding these problems are the subsidy-oriented government interventions that encourage malpractices. To untangle the problems in yarn for handloom weavers, the interventions have to consistently focus on price, technology, channel of supply, institutional structure and government policies

The knots

Policies, technology, supply-chain issues that lead to price distortions/volatility have mainly contributed to the existing scenario in the handloom sub-sector.

Policies

While cone yarn produced by spinning mills has demand across globe, hank yarn, used for handlooms, has only domestic demand. Hank yarn obligation forces the spinning mills to earmark 40% of the yarn produced for handloom. This obligation affects business interest of spinning mills, as they have to incur higher cost for reeling the cone-yarn into hank and considering its local and limited demand, it does not lead to economy of scale. Counter to hank yarn obligation, there is another order, which directs the spinning mills to export 8 times the subsidy availed for importing machinery. The mills are obliged to export due to this rule, though it is also more profitable due to higher margins. Hence, on the one hand through hank yarn obligation, government is endeavouring to direct yarn flows in handloom sector, and on the other, it is encouraging exports. Hence, the un-tangling of the yarn has to start from the government policy level.

Technology

Yarn meant for cone and hank is separated at the initial stages itself. The spinning mills invest in reeling machines to unwind the cone yarn into hank yarn. Though the mills say that there is extra cost involved in reeling cone into hank, in reality the costs work out to be lower as the quality of yarn used for making hank yarn is inferior than “for export” cone yarn. Though the tax exemptions on hank yarn make it attractive, the technology mismatch leads to illegal practices by spinners declaring cone yarn as hank.

Spinning mills require a minimum investment of Rs. 12 crores for 12,000 spindle capacity. Hank yarn is produced on an order basis in some of the small-scale mills. Each automatic spinning machine costs Rs. 1 crore with 64 cones capacity. There is more demand for automatic spinning machines where the breakages in the yarn are smoothed and hence the yarn is of superior quality. Local variety of spinning machines are available at lower costs, i.e. Rs.35, 000 but are manually operated. The problem lies in forcing the mills that are scale-sensitive and are meant for different yarn production to supply to handlooms.

Prices

A study by The South India Textile Research Association (SITRA) says that for the past five years (except in one quarter in 2004), the prices of cotton yarn have remained unchanged. However, the hank yarn prices have fluctuated widely in these years. Secondly, the price of hank yarn has not moved in tandem with cone yarn indicating supply chain distortions and a demand-supply mismatch. The price of yarn has two core components - cost of production and supply chain distortions. Cost of production is predominantly influenced by the price of cotton and the technology that is being used. The current technology, as described above, is mostly suited for large-scale, export-oriented mill production. In the coming years it is predicted that the export of cotton is going to increase with no complementary increase in cotton yields. This will further squeeze the domestic yarn supply and prices, eventually affecting the weavers.

Supply-chain

The spinning mills tie-up with private traders and give them area rights in turn for “monopoly ” deposits. These deposits can run up to Rs. 10 lakhs based on the quantum of business transacted by the trader. Many of the large spinning mills do not directly deal with the individual weavers. The monopoly rights of the traders lead to exploitation of the weavers/institutions through price and information distortions. Thus, correcting the supply chain link calls for removing the trader, abolishing the mill nexus while exploring the possibility of tying-up with mills directly.

Untying

The pointers for the solution have to be integrated such that changes in the spheres of technology, financing the weavers, correcting the supply channel and appropriate institutional structure have to be dovetailed to arrive at market-oriented, equity based solution for all the actors involved in yarn production.

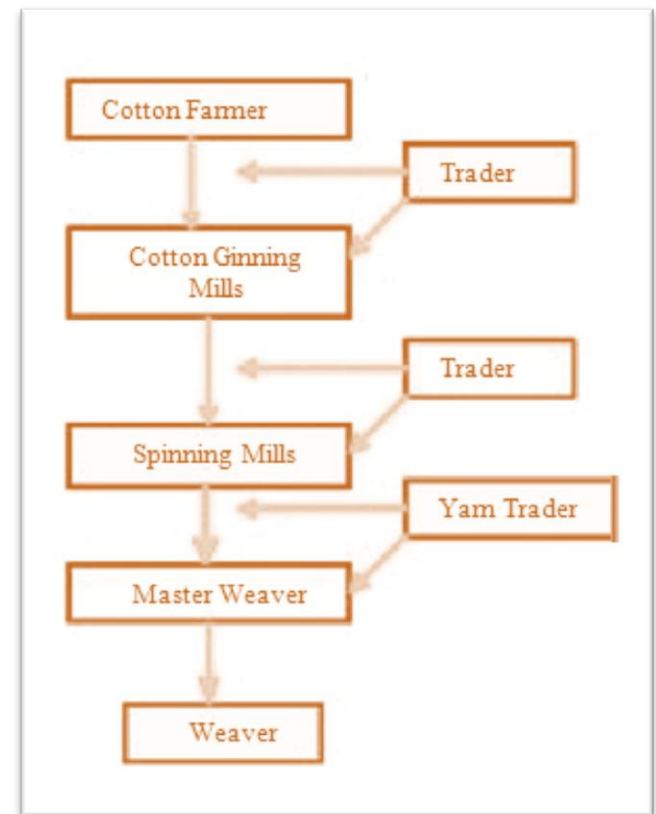
- De-scaling the technology to suit decentralized handloom weaving
- Community owned reeling technology can be explored after thorough cost-benefit analysis
- Developing market-information systems to enable weavers/weaver institutions to have access to yarn price and availability details

- Developing risk management instruments for mitigating price volatility in cotton yarn
- Strengthening conventional systems like yarn banks to build a cushion against price and access risks
- Improving the access to finance for improving the holding capacity of the weavers/weaver institutions
- Government policies to be tuned to address the raw material needs of the weavers outside cooperative structure
- Building the stake of weavers/weaver institutions in the mills
- Any intervention aimed at correcting the anomalies in the hank yarn supply to handloom weavers should be non-regimental, tweaked to suite market-realities, involve structural changes and treat weavers as market actors and not beneficiaries.

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1 “Compendium of Textile Statistics”, 2005, Ministry of Textiles

2 Spinning mills produce yarn for power looms or for weaving on machines and for exports. The quality, production process, demand and margin for yarn required for handlooms and mechanized weaving or for exports are different. Traditionally yarn required for khadi (hand-spun & handwoven) was produced locally on Charkas. With industrialization, spinning was centralized and cotton varieties were standardized to suit mechanized spinning resulting in loss of cotton suitable for handlooms (machine spun & hand woven) & Khadi. Government introduced Hank Yarn Obligation to enable weavers/institutions to have access to cotton yarn.

3 As told by spinners in Andhra Pradesh

4 The results of the initiative on decentralized spinning are not yet clear and public. If the results are encouraging, such an initiative can at least solve the problem of accessibility.

5 Monopoly deposits are the amount given as surety by the trader to the mills for agency-ship. Sometimes the arrangements are formal in the form of dealership whereas most of the times there is a tacit understanding between spinner and traders and also between traders not to tread in each other’s business regions by directly dealing with the end customer