



Duty exemption on import of extra-long staple cotton

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Textiles

Government fully exempts custom duty on import of extra-long staple cotton

The government, vide CBIC notification dated 19 February 2024, has fully exempted custom duty on import of extra-long staple (ELS) cotton ‘Other: of staple length exceeding 32.0mm’ covered under ‘HS 5201 00 25’. The import duty on cotton of <32mm fiber length may continue as earlier at 5% plus agricultural infrastructural and development cess and surcharge, taking the total to 11%.

Background

The government introduced import duty on cotton in the Budget of February 2021. In April 2022, due to demand-supply mismatch in Indian cotton, the government temporarily exempted import of cotton (all varieties) till September 2022. Introduction of import duty has been detrimental to the prospects of Indian Textile Industry as it severely hit the entire value chain. This was more dire in periods when Indian cotton was expensive than international cotton. The industry has since then demanded to pare import duty on entire cotton imports and on ELS cotton to the minimum.

Our view

This notification pertains to the import of ELS variety of cotton. US Pima and Egyptian Giza, which are premium cotton, come under this variety. ELS fiber is largely used for value-added products such as high-end cotton garments and bed sheets.

This exemption may benefit exporters the most as generally customers require their products to be made from premium cotton such as US PIMA or Egyptian GIZA. In such cases, import duty on cotton is adjusted against the export benefits received by the exporter and hence, results in lower accrual of benefit to them. With this exemption in custom duty, exporters may be in a position to use the export benefit fully. This may result in improved competitiveness of Indian exporters for premium products, resulting in higher volume of premium products. It could also result in slight margin improvement for exporters (the share of premium products is lower in overall sales). India has sufficient cotton in staple length <32mm and hence, imports are almost insignificant in those varieties.

Impact on companies

Ambika Cotton, Himatsingka Seide, Indo Count Industries, Welspun Living, Indo Count Industries, and Trident among others are likely to benefit. Directionally, this may be positive for spinners and the entire value chain, though the journey is long as regards removal of import duty on all varieties.

Exhibit 1: American PIMA export sales to India declined in 2023-24

Particulars (thousand bales)	2019-20	2020-21	2021-22	2022-23	2023-24
World	603	843.7	479.9	336.9	227.6
Asia	495	694.2	376.9	285.8	198.4
India	191.1	300.6	192	125.9	63.8
Asia's share (%)	82.1	82.3	78.5	84.8	87.2
India's share (%)	31.7	35.6	40.0	37.4	28.0

Source: Supima Research, USDA, Elara Securities Research

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