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Cotton Trade of India: A Brief Time Series Analysis

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Cotton is one of the most important commercial crops and plays a significant role in the country's economy providing substantial employment, raw material for the textile industry and contribution to export earnings. Since Independence, India has achieved significant qualitative and quantitative improvement in cotton production due to well calibrated government programmes and introduction of potentially promising technologies such as Bt cotton. With these dynamic shifts, demand for Indian cotton was on a continuous spur over the years, internationally, especially from neighbouring countries like China, Pakistan, Bangladesh and other Far Eastern countries. As a result, India has emerged as the second largest exporter of cotton after USA. From the "net-importer"

of cotton, India has promoted itself to "net-exporter" with the exclusion of only imports of Extra Long Staple cotton from USA, Pakistan, Egypt and West Africa, due to inadequate domestic production of ELS.



GUEST COLUMN

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Opening up of borders to international trade, specialisation of production to reap comparative advantages and the resultant interdependence to other countries for economically less advantageous commodities, removal of tariff barriers and trade distorting tariff/subsidies post-WTO, foreign trade has not only assumed immense importance to any

country, but has also become a necessary evil for the survival of economies of any country. India is seldom excluded to the above reality which has witnessed a balance of payments crisis in the early 90s, This drove the country towards scores of immediate goal-post shifts such as careful but yet transparent exposure to international trade by opening its border for international trade and investment, deregulation and privatisation of various sectors that offer huge potentials, slew of tax reforms that corroborates with international

regime, etc. Numerous policy changes were also introduced in India post-1990. You can visibly see that the cotton production in the country has been on the continuous rise, and that even after meeting the domestic requirements, there has been sizeable exportable surplus.

On the back drop of these dynamic changes, it assumes importance for analysing the growth performance of cotton exports, imports and mill consumption of cotton. An analysis on historical trend in Mill consumption, Exports and Imports of cotton during the Pre-Liberalisation period (1978-79 to 1989-90), Post-Liberalisation (Pre-Bt cotton) period (1990-91 to 2001-02) and Post Liberalisation (Bt cotton era) period (2002-03 to 2017-18) was thus, attempted.

Growth Trends of Mill Consumption, Exports and Imports

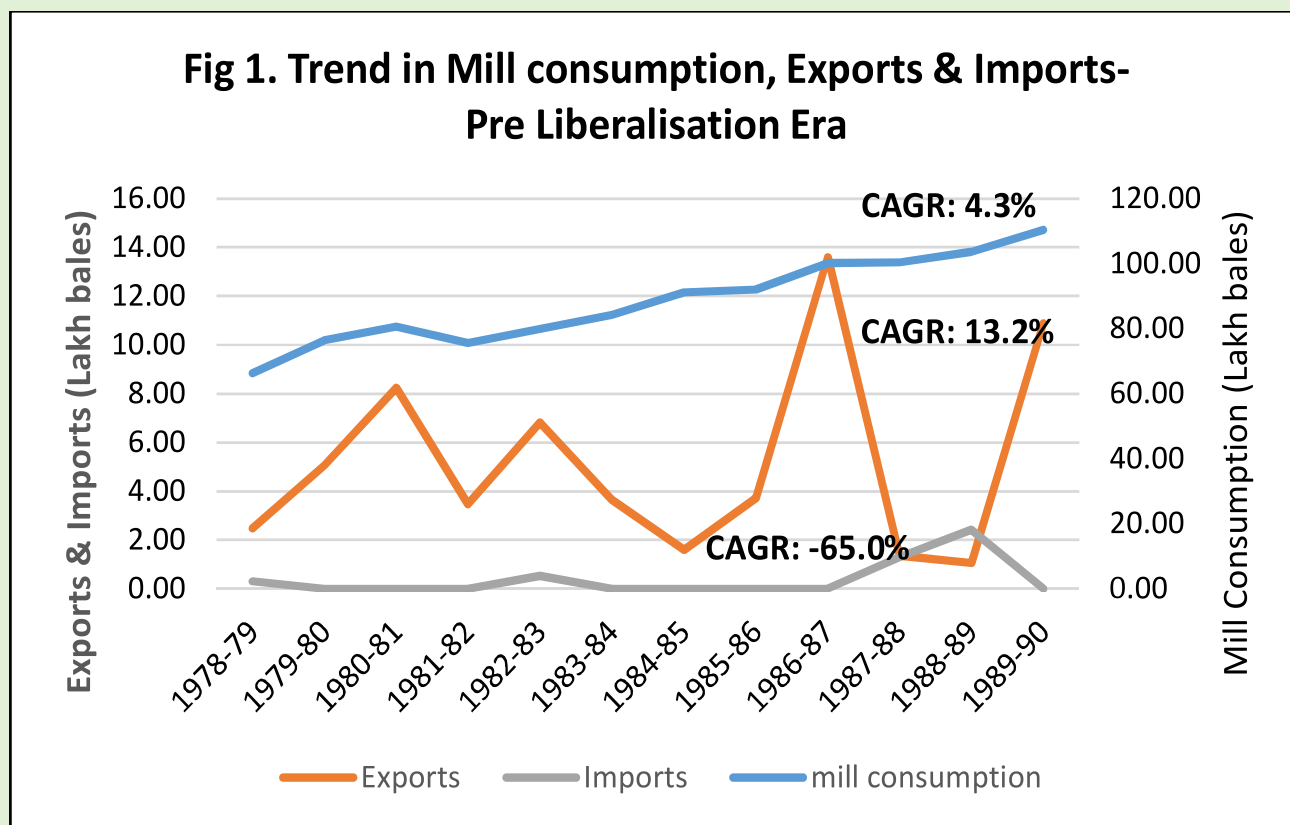
Mill Consumption:

During the Pre-Liberalisation and Pre-Bt cotton era (1978 to 1990), the mill consumption rose from 66.29 lakh bales in the year 1978-79 to 110.35 lakh bales in the year 1989-90, with an compound annual growth of (+)4.3% (Fig1). In the Post-Liberalisation era and Pre-Bt cotton era,

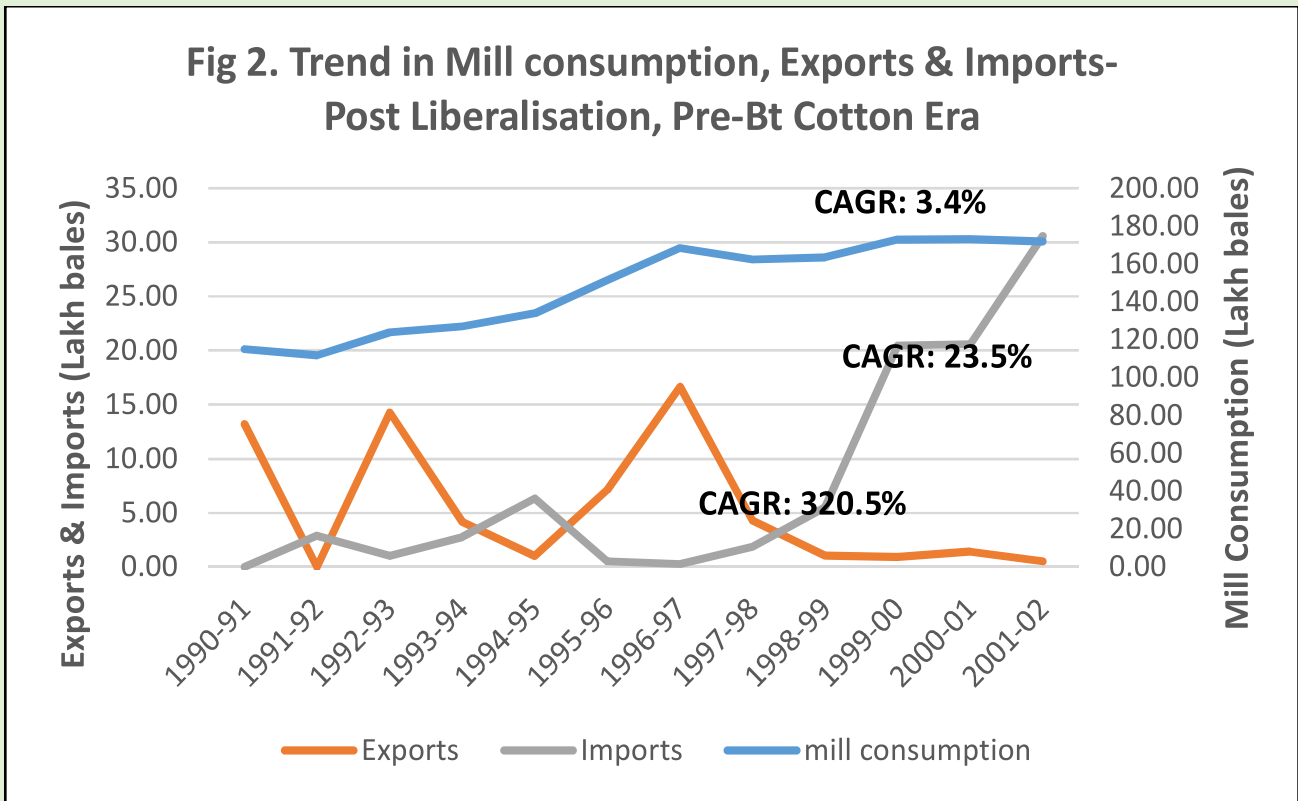
the mill consumption rose from 115.18 lakh bales in the year 1990-91 to 172.0 lakh bales in the year 2001-02, with a compound annual growth of (+) 3.4% (Fig 2). After the introduction of Bt cotton, the mill consumption in the post-liberalisation era rose from 169.29 lakh bales in the year 2001-02 to 311.88 lakh bales with a compound annual growth of (+)3.9% (Fig 3). In all the three phases, barring a few years, the mill consumption has witnessed a steady increase due to the increase in production, fuelled by encouraging capital investment, both private and public on mission mode through technology mission on cotton and the increased demand from textile industry that leveraged its potential by diversification of cotton based commodities.

Exports and Imports:

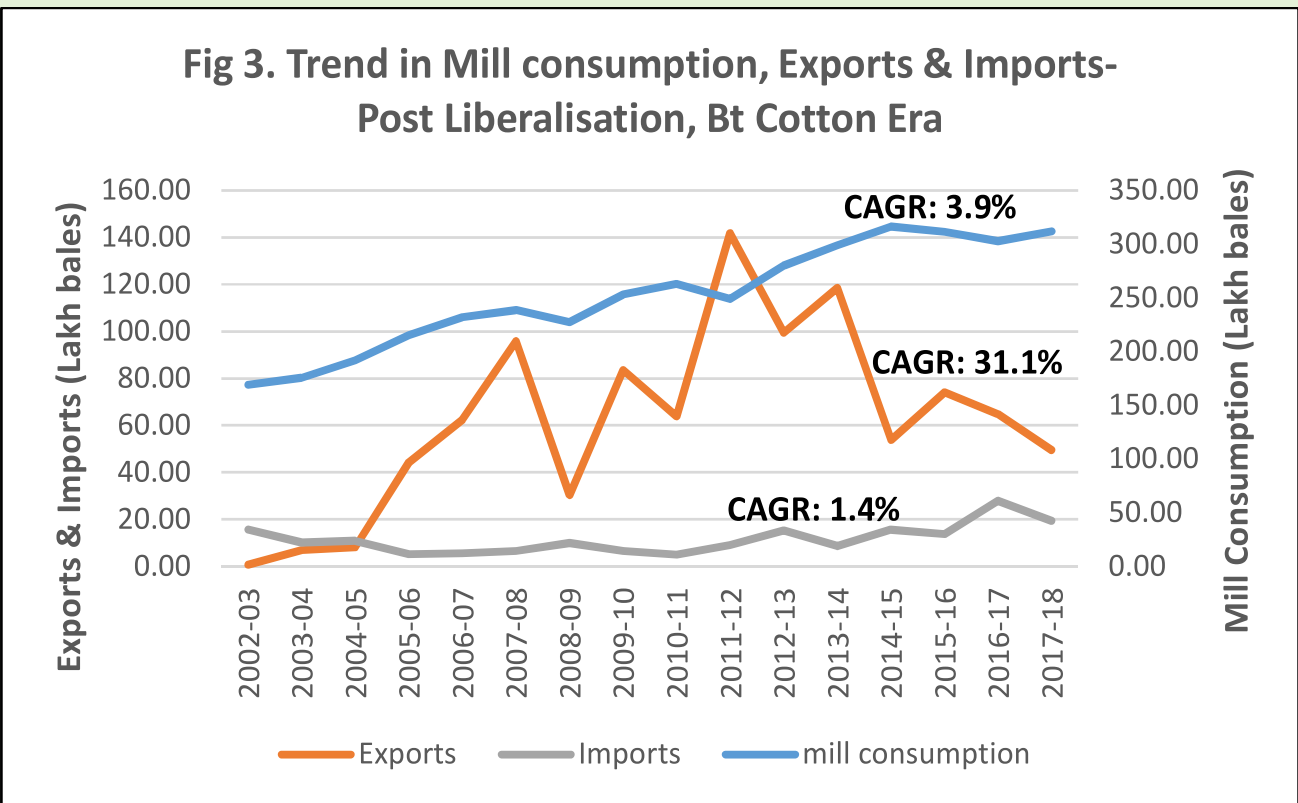
Since 1991, India has undergone a major transformation in the cotton industry as it stepped in from “controlled/regulated regime” to “regime of transparency/liberalisation or openness” fuelled by the four Ds - Delicensing, Decontrolling, Decentralising and Diversifying, in order to stay fit in the international trade regime. After the elimination of multi-fibre agreement (MFA) quotas on textile and compliance to WTO agreement on cotton, Indian



Source: ICAC, Cotton World Statistic



Source: ICAC, Cotton World Statistic



Source: ICAC, Cotton World Statistic

cotton industries, particularly the apparel section has had to face huge challenges to stay competitive in the international trade regime. USA losing its feet in WTO dispute settlement

for its cotton subsidies and its resultant US farm bill (2008), Doha agenda - to multilaterally reduce cotton subsidies and tariffs across cotton textiles and processing industries are bound

to affect India's stake while exploring the possibilities of comparative advantages.

Exports in the Pre-Liberalisation and Pre-Bt cotton era, witnessed a close to "cyclical pattern" with sharp rise in the year 1986-87 and 1989-90. Exports in this period rose from 2.47 lakh bales in 1978-79 to 10.88 lakh bales in 1989-90 with a compound annual growth of 13.2%. Sharp deflection in the trend in exports of cotton was witnessed in Post-Liberalisation and Pre-Bt era where the exports, barring three years, did not witness double digit figures. Growth in exports during this period was at rock bottom, growing at the compound annual growth of (-)23.5% between 1990-91 and 2001-02. This could be attributed to supply bottlenecks caused by crop failures, shifting cropping pattern, uncertain policy changes and incremental demand due to the average Indian's per capita income rise. The decelerating trend however witnessed a reversal during the Post-Liberalisation and Bt cotton era, which grew at an average annual rate of (+)31.1%. The growth in exports of cotton was the highest in the Bt cotton era, which was due to higher yield and more area under cotton under Bt hybrid varieties as well as relatively favorable market price for the Indian cotton products and liberal export policy. Demand for Indian cotton over the years has been increasing especially from neighbouring countries like China, Pakistan, Bangladesh and other far eastern countries. India has emerged as the second largest exporter of cotton after USA

In contrast to the exports, imports of cotton during Pre-Liberalisation and Pre-Bt cotton era was almost nil or insignificant. Imports during this phase had decelerated at an average annual rate of (-) 65.0%. During Post-Liberalisation and Pre-Bt era, it had however witnessed a steep uptrend from 1999-2000. Overall growth witnessed during this era was (+) 320.5% which is well understood from the fact of relatively lesser growth in mill consumption and negative growth in Exports during this period. During Post-Liberalisation and Bt cotton era, imports witnessed a nominal growth of 1.4% per annum as the corresponding exports grew at a surpassing 31.1% per annum. Imports of cotton have drastically reduced and currently most of the imports are Extra Long Staple cotton from USA, Pakistan, Egypt and West Africa due to inadequate domestic production of ELS.

Conclusion:

India is the largest producer of cotton and bestowed with the highest area under cotton production. However, the productivity is below par than the global average which is a cause of concern. While the domestic demand is on the continuous rise due to rise in per capita income of the average Indian, increased collaboration between Indian and foreign companies such as Levi Strauss, Benetton, Armani, etc. that brings wide spectrum of choice and diversified products. Demand for Indian cotton outside is also growing particularly, from neighbouring countries like China, Pakistan, Bangladesh and other far eastern countries.

This requires great impetus in enhancing productivity of cotton in leaps to meet the growing internal and international demands. Research into the feasibility of introducing long staple cottons in geographically receptive regions is absolute necessary as this will go a long way in meeting long staple cotton requirement. In addition, pest control, irrigation management and its geo-spatial spread such as the drip irrigation system, which many farmers are now shifting to especially in dry regions. High yielding varieties require innovative methods which is the prime domain of research institutes and agricultural universities. A stable export policy and production strategies will ensure India reaps advantages in global exports.

The Government's recent thrust on expeditious clearance of GST refunds, bringing in greater clarity on various export incentives and the recent rupee depreciation, offers huge advantages to Indian exporters. India has to pilot and mastermind its strategy in tackling the US's concern of India's continued admission of export incentives scheme at WTO, in addition to exploring possibilities for enhancing its productivity. The growing global demand in textile and apparel especially from the USA and EU that accounts for more than 40% trade, offers a huge potential for India's cotton industries, given the cheap labour.

(The views expressed in this column are of the author and not that of Cotton Association of India)

Sanctity of Confirmation

With a family background of three generations in the cotton broking business, Shri. Girish Uttamchand Nagsee did the Cotton Classification and Grading Course – CIRCOT (1997) and from Ginning Trading Centre (1998).

He joined the cotton broking business in 1988 as a registered broker with the Maharashtra State Co-operative Cotton Growers Marketing Federation. Well versed with all the growth of cotton varieties in Maharashtra, he started his own office at Jalgaon in 2006, and gradually extended the business to other regions like Amravati and Parbhani. He is majorly into canvassing cotton for spinning mills.

Cotton is one of the largest traded high value commodities in the world market. India's success in production and export of cotton is well known.

Brokerages are an integral part of the cotton supply chain. A significant part of the trade is conducted by brokerages. A broker is a person who acts as a middleman between two parties - seller and buyer - and helps the parties to the contract and close the deal successfully.

The role of the broker is one of trust. He must enjoy the trust of the parties he represents. It is his ethical and moral duty to provide objective guidance to his customers. Also, he must do everything possible to ensure smooth and timely performance of the contract.

Importantly, a broker should be purely in broking business in the sense that he should not indulge in proprietary trade. It would be unethical for a broker to do proprietary trade, especially when done without the knowledge of his customers.

To achieve professional success and gain the confidence of his customers, a broker may go beyond his traditional activity of helping strike a deal between sellers and buyers. A broker must have sufficient product knowledge and market knowledge. Importantly, he should have insights about quality parameters. He must keep track of global and domestic market developments including changes in currency value, tariffs, government policies and so on.

To build reputation and earn clientele, a good

broker must endeavour to provide value added services to his customers. The value-added service may include for instance periodic market reports covering various developments and outlook.

A broker plays an important role by acting as a mediator in the physical or futures trading of cotton. At times the buyers and sellers may know each other due to the long business relations but at times if new buyers or sellers have to be introduced to each other, a broker acts as an important link between them as there lies a level of trust by both the parties in the broker.

After the initial verbal deal is done, a broker sends a sale note or confirmation to both the buyer and the seller in which terms and conditions of the deal (known as sauda) are clearly mentioned. This sale note or confirmation being accepted, along with all the terms and conditions mentioned, is the evidence or proof of contract between the buyer and the seller.

The Indian Contract Act defines a Contract as – 'an agreement enforceable by law'. Once a contract is accepted, it becomes an obligation on both the parties to fulfill the requirements of the said contract.

Drawing inferences to the sanctity of a contract which is established in the eyes of the law, it can be said that a sale note or a confirmation also is an enforceable contract. After acceptance of sale note or confirmation it becomes a broker's responsibility that both the parties honour the deal till its fulfillment.

It is also the broker's moral duty to mediate between the parties in case any dispute arises and settle the matter amicably or refer it to arbitration with a proper agency for resolution, if needed. It is the job of a broker to ensure that until the deal has been concluded the sanctity of the confirmation, which binds the parties to a deal, be always maintained.

Today all the confirmation notes which are being made are being made keeping in mind the bye laws of the Cotton Association of India. With their help, we can formulate a predefined confirmation note which will ensure a standard in the confirmation being tended to the parties and also help in a stronger establishment of the sanctity of a confirmation.

*Courtesy: Cotton India 2018 (Domestic)
(The views expressed in this column are of the author
and not that of Cotton Association of India)*



GUEST COLUMN

Shri. Girish Nagsee
Proprietor, Hameer Cotton

COTTON EXCHANGE MARCHES AHEAD

Madhoo Pavaskar, Rama Pavaskar

Chapter 10 Looking Ahead

(Continued from Issue No. 8 dated 21st May, 2019)

Choice of Fibres

With the anticipated cotton production of 22.5 million bales in A.D. 2010-11 and 30 million in 2021-22, it appears that at least 20 million and 27.5 million bales of cotton will be utilised by the textile industry in the respective two years. The rest of the production may be expected to find its way into exports and non-mill uses.

Based on the likely consumption of cotton for the spinning units, the share of cotton in the total fibre (excluding wool and silk) use by the textile industry seems slated to slide to slightly less than 55 per cent by A.D. 2010-11 from nearly 60 per cent at the close of the last millennium, and still more steeply to less than 50 per cent in the Centenary Year of the Cotton Exchange. But if the country succeeds in bringing cultivable waste land under plough in the coming Years (which is not unlikely), especially with corporate and contract farming introduced to some extent in cotton as envisaged by the National Agricultural Policy, some more land may also be sown with cotton than at present. Corporate and contract farming may also help to improve the yields. Therefore, assuming the aggregate expansion in area under cotton to just 10 million hectares from the current level of 9 million, one need not be surprised if cotton were to account for 55 per cent, or even more, of the total consumption of all fibres by the textile industry in 2021-22.

But whether the cotton acreage increases or not, one thing appears certain. Though cotton may lose further ground to man-made fibres, particularly polyester, its reign as "King" amongst different apparel fibres will still continue when the Cotton Exchange celebrates its Centenary. Nevertheless, it should be conceded that since fabric yield of man-made fibres is almost 50 per cent higher than that of cotton, the share of cotton cloth in the total cloth production (excluding wool and silk) may shrink to just about a third.

Crowning Glory

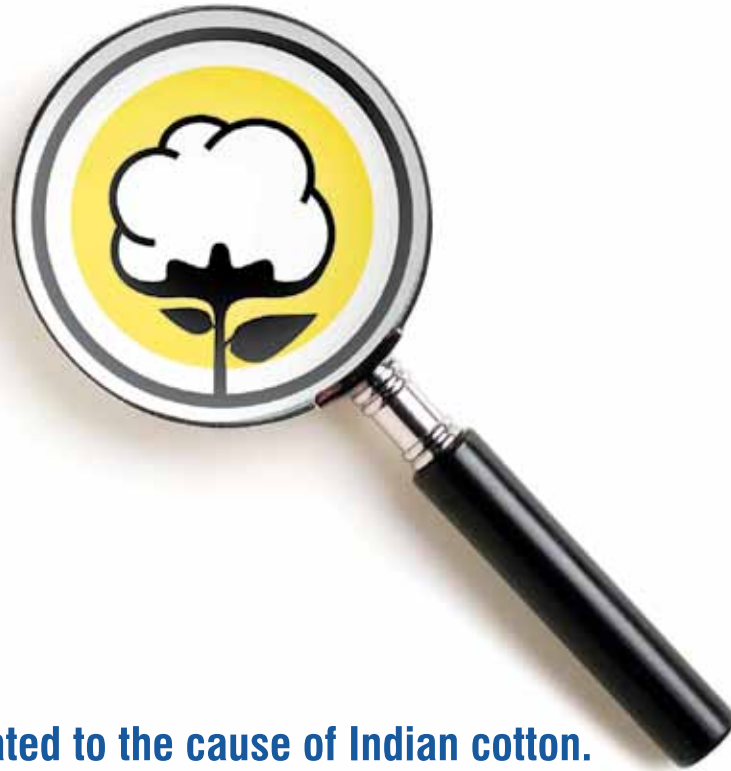
Clearly, cotton will have to wage a fierce defensive war with man-made fibres for its survival during the next two decades. The East India

Cotton Association must therefore plan for itself a major role in defence of King Cotton to fortify his competitiveness. Its present efforts at improving the cotton productivity and quality need to be strengthened vigorously. The futures contracts of the Association must be designed in such a way as to give impetus to improvement in cotton varieties, ginning, pressing, warehousing and transport. For that purpose, the contract descriptions must serve as precursors to improving the quality grades in cotton, albeit gradually. The contracts specifications and terms should also be framed in a manner to perform effectively and efficiently the economic functions of risk management and price discoveries so as to improve the competitiveness of cotton against man-made fibres in terms of both price and quality.



Fortunately, cotton has innate advantages over man-made fibres. For one thing, in a warm country like India, cotton apparels are more comfortable to wear than those made from man-made fibre fabrics. For the other, unlike man-made fibres, most of which are based on petro-chemical products dependent on exhaustible crude oil resources, cotton is a renewable resource. It is also more environmental friendly, especially organic cotton for which preference is growing rapidly. Hence, although cotton may yield ground to man-made fibres, in the end King Cotton is destined to prove invincible, and even with a reduced share in the fabric production, he will undoubtedly occupy a pride of place in the textile world.

Meanwhile, with the abolition of export controls and quotas, India's exports of cotton may rise, albeit slowly, to at least 1 million bales by A.D. 2010-11 and 2 million by 2021-22. With the State intervention in cotton marketing vanishing gradually over the coming years, cotton merchants will be trading most of the country's cotton production in both the domestic and international markets in the present century. And with an active futures market functioning under its aegis, the Cotton Exchange will not only regain its lost glory, but may also reach a new pinnacle in its Centenary Year to crown King Cotton once again on its throne with great pomp and splendor.



Since 1921,
we are dedicated to the cause of Indian cotton.
 Just one of the reasons, you should use our Laboratory Testing Services.

The Cotton Association of India (CAI) is respected as the chief trade body in the hierarchy of the Indian cotton economy. Since its origin in 1921, CAI's contribution has been unparalleled in the development of cotton across India.

The CAI is setting benchmarks across a wide spectrum of services targeting the entire cotton value chain. These range from research and development at the grass root level to education, providing an arbitration mechanism, maintaining Indian cotton grade standards, issuing Certificates of Origin to collecting and disseminating statistics and information. Moreover, CAI is an autonomous organization portraying professionalism and reliability in cotton testing.

The CAI's network of independent cotton testing & research laboratories are strategically spread across major cotton centres in India and are equipped with:

- State-of-the-art technology & world-class Premier and MAG cotton testing machines
- HVI test mode with trash% tested gravimetrically

LABORATORY LOCATIONS

Current locations : • Maharashtra : Mumbai; Yavatmal; Aurangabad • Gujarat : Rajkot; Kadi; Ahmedabad • Andhra Pradesh : Adoni
 • Madhya Pradesh : Khargone • Karnataka : Hubli • Punjab : Bathinda • Telangana: Warangal, Adilabad

UPCOMING LOCATIONS

• Telangana: Mahbubnagar



COTTON ASSOCIATION OF INDIA

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UPCOUNTRY SPOT RATES (Rs./Qtl)												
Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]							Spot Rate (Upcountry) 2018-19 Crop May 2019					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPI	20th	21st	22nd	23rd	24th	25th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	11557 (41100)	11642 (41400)	11445 (40700)	11445 (40700)	11445 (40700)	11557 (41100)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	11698 (41600)	11782 (41900)	11585 (41200)	11585 (41200)	11585 (41200)	11698 (41600)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	9701 (34500)	9701 (34500)	9673 (34400)	9673 (34400)	9701 (34500)	9701 (34500)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	10798 (38400)	10798 (38400)	10770 (38300)	10770 (38300)	10826 (38500)	10882 (38700)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	11332 (40300)	11332 (40300)	11332 (40300)	11332 (40300)	11389 (40500)	11445 (40700)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	12682 (45100)	12766 (45400)	12766 (45400)	12851 (45700)	12963 (46100)	13048 (46400)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	11360 (40400)	11417 (40600)	11389 (40500)	11389 (40500)	11445 (40700)	11529 (41000)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	11642 (41400)	11698 (41600)	11670 (41500)	11670 (41500)	11726 (41700)	11810 (42000)
9	P/H/R	ICS-105	Fine	27mm	3.5-4.9	26	12766 (45400)	12851 (45700)	12963 (46100)	13048 (46400)	13160 (46800)	13244 (47100)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	11642 (41400)	11642 (41400)	11585 (41200)	11585 (41200)	11642 (41400)	11726 (41700)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	11923 (42400)	11923 (42400)	11867 (42200)	11867 (42200)	11923 (42400)	12007 (42700)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	12823 (45600)	12907 (45900)	13020 (46300)	13104 (46600)	13216 (47000)	13301 (47300)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	12232 (43500)	12232 (43500)	12176 (43300)	12176 (43300)	12232 (43500)	12317 (43800)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	12260 (43600)	12345 (43900)	12345 (43900)	12345 (43900)	12401 (44100)	12485 (44400)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	12513 (44500)	12598 (44800)	12541 (44600)	12541 (44600)	12598 (44800)	12682 (45100)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	12485 (44400)	12570 (44700)	12541 (44600)	12541 (44600)	12598 (44800)	12654 (45000)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	12907 (45900)	12963 (46100)	12907 (45900)	12907 (45900)	12963 (46100)	13048 (46400)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	13188 (46900)	13244 (47100)	13188 (46900)	13188 (46900)	13273 (47200)	13329 (47400)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	13469 (47900)	13498 (48000)	13441 (47800)	13441 (47800)	13498 (48000)	13554 (48200)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	15353 (54600)	15466 (55000)	15466 (55000)	15466 (55000)	15522 (55200)	15522 (55200)

(Note: Figures in bracket indicate prices in Rs./Candy)