Weekly Publication of

Cotton Association of India

Cotton Exchange Building, 2nd Floor,
Cotton Green, Mumbai - 400 033
Phone: 30063400 Fax: 2370 0337
Email: cai@caionline.in
www.caionline.in

COTTON STATISTICS & NEWS

Edited & Published by Amar Singh

2013 • No. 10 • 04/06/2013

Published every Tuesday

Marine Insurance

Shri Rajendra Ganatra, M.A.,M.Com., LL.M., F.I.I.I., D.M.M.T is a leading Insurance Consultant and trainer. He has a vast experience of over 35 years in General Insurance, 20 years as faculty on Marine Insurance at Banks, Financial Institutions, Insurance Companies and Colleges.

Every 1st week of the month, Shri Rajendra Ganatra will share with readers his thoughts on various kinds of Insurance that are relevant to the cotton industry in our experts column beginning from this issue)

Insurance is the greatest invention of mankind- Albert Einstein

WHAT IS INSURANCE? HOW IT WORKS?

Insurance is a system of sharing losses of few over a large number of persons.

People who are exposed to the same or similar risks come together form a group and agree that if any of them suffers a loss, others will contribute to share that person's loss and try to make good his loss. In earlier days the system was to collect from the members agreed contribution towards loss, when any person suffered loss but now it is collected in advance. This share of contribution is called "Premium". It is not possible to determine in advance which person of the group will suffer loss, but due to statistical principle of probability it is possible to decide in advance as to how much losses are likely to be suffered by a particular group and how much should be the contribution for members of that group. Now, the 'groups' are managed by professionals called insurers or insurance companies and members are called Insureds.

EXAMPLE

All exporters who export cargo of cotton bales by ships are exposed to the same risks of water damage, fire onboard ship, sinking of ship, piracy etc., Under present system, to become a member of a 'group' they have to take a marine insurance policy with any of the insurance companies who act as "group managers'; if any person suffers loss/ damage to cargo of cotton bales in transit , the insurance company (insurer) will pay for his loss. Others whose cargo is safe they receive peace of mind and their money is used by insurer to pay for the loss.

How much premium? Different groups (insurers) operating in any market charge premiums differently because they decide the quantum of premium to be charged to the members (insureds) depending upon their past loss experience of similar cargo, their future expectation of loss on that cargo depending upon their statistical analysis, their management expenses, provision for contingency that their assumption about the likely losses may go wrong, and a small profit element. Depending upon the present experience and the market conditions the future premium is adjusted- increased/ decreased for future risks.

Let us see this arithmetically to understand the concept:

During a period an insurer has insured export of cotton bales worth Rs 10,00,00,000/-, losses paid by them for transit losses Rs 4,00,000/- their administrative expenses Rs 50,000/- expected profits Rs 25,000/- and provision for contingencies Rs 25,000/- = Rs 5,00,000/-. They will charge a rate of 0.050% 5,00,000/10,00,00,000) on the future transits of cotton bales they insured.

OR

On import of ginning machinery worth Rs 20,00,00,000/- losses Rs 1,00,000/- administrative expenses Rs 50,000/- profit Rs 25,000/- and provision for contingencies Rs 25,000/- Total Rs 2,00,000/- the rate for future imports will be 0.10.% (2,00,000/20,00,00,000) and so on for other commodities.

In practice longer periods say minimum 5 years are taken and huge amounts are considered to arrive at future rates.

MARINE INSURANCE

What is Marine Insurance?

The term 'Marine' is having historical and legal as well as technical meaning.

Historically insurance in the world started with marine insurance some 3000 years before. Other insurances are more recent. At that time water was the only recognized mode of transport and the word 'Marine' originated from the water mode of transport. Even when the other modes of transports like railways, roadways and aviation developed the name still remained the same 'Marine Insurance' initially the insurance cover was available only during sea (water) transportation on 'Port to Port' basis. Subsequently when other modes of transportation developed which were used as supplementary to water transportation the cover became 'Warehouse to Warehouse". Presently, we are in the era of Warehouse to Warehouse insurance.

Legally or technically the term 'Marine Insurance' originates out of Marine Insurance Act 1963 and Insurance Act 1938. Both these terms have defined the term. If we combine the definitions "Marine Insurance" covers the following:

a) Insurance of goods in transit by all modes of transport i.e. by rail, road, sea, air, post, courier- whether singly or in form of multimodal. This also includes storage risks during transits.

b) Insurance of ships which are plying on water (water only) e.g. merchant ships, fishing vessels, sand dredgers, yachts, etc.

c) Insurance of ships during construction – the ships which are going to ply on water.

d) Insurance of ships which were plying on water during their breakage.- ship breakage.

e) Insurance of freight.

f) Insurance of insurance premium.

g) Insurance of profits on maritime transactions.

h) Insurance of liabilities occurring on water and related risks - collision liabilities, charters' liability, ship repairers' liability, etc.

i) Insurance of incidental charges- expenses related to running of ships, connected with imports etc.

BRANCHES OF MARINE INSURANCE

a) Cargo Insurance – covers goods in transit and related risks.

b) Hull Insurance – Ships and related risks.

In this and future articles on the subject we will confine our discussion only to a) Cargo insurance.

METHODS OF TAKING CARGO INSURANCE

a) Specific Policy Method -

For every dispatch of a cargo a separate insurance is arranged. E.g export of 500 cotton bales from Dharangdhra to USA via Mumbai Port. Take policy for this transaction by paying premium in advance and arranging of insurance in advance before commence of transit from Dharangdhra.

For next dispatch, another policy is to be taken. Here everything is on case to case basis. There is no commitment from either client (insured) or insurer about having long term relationship. Insured can change insurer every time and insurer may also be selective every time. He may refuse to insure certain consignments or for certain consignment he may ask for more premium.

b) **Open Policy/ Open cover Method -**

Insured and insurer form an understanding in form of open policy/cover and agree for insurance over a period of time say one year. During this period, insurer undertakes to provide covers for all the despatches of the insured at fixed terms. Similarly, insured also undertakes to insure during that period only with that insurer all the despatches. In this method as the insurance is arranged in advance in general terms, the need of informing insurers about the dispatch before commencement of transit and arranging for insurance of the consignment is dispensed with.

The insured has to inform insurer periodically (as agreed) about the dispatches made during the period say weekly, fortnightly, monthly, etc. However, in this method, sufficient premium balance is to be maintained with the insurer to take care of despatches – at the time of dispatch there should be a positive balance to cover the shipments to be made. This premium deposit is to be replenished when it goes down and to be maintained at sufficient level to cover future despatches. There may be some restrictive conditions like putting a cap on value of goods that can be sent during a particular dispatch (Per Sending Limit) or accumulation of stock limit at any location (Location Limit) etc. Very important aspect of this method is that there is no selection available to insure only a few consignments. All consignments coming within the scope of the insurance policy must be declared whether they have reached safe or in damaged condition.

Glut in Hybrid Cotton Seed - Report

According to a press report, there is a glut in Bt cotton seeds which is said to have triggered serious price competition among various brands in States such as Punjab and Haryana where planting of cotton for the 2013-14 crop has commenced. Seed companies, amidst intensifying competition, are reportedly under pressure to slash prices of Bt hybrids, having regard to the huge surplus in the market.

The press report adds that against the requirement of around four crore packets of 400 gm each for the season across the country, the supplies of Bt cotton seed for the current season are estimated at nine crore packets. Against the maximum retail price (MRP) of Rs.1,000 a packet in Punjab, the Bollgard II seeds are being sold at Rs.800-850, the press report claims quoting trade sources. Similarly, the Bollgard I seeds are being sold at around Rs.750 a packet against the MRP of Rs.825. The trade circles are said to be of the view that the State-fixed MRPs will help only a few large players, creating a sort of monopoly in the market.

As for the cotton crop, it is claimed that although prospects look better than last year in the northern States as farmers are seen coming back to the fibre crop, planting is yet to pick up. The delay in harvesting of wheat appears to be one of the main reasons for this. Planting is, however, stated to have started in areas where mustard was planted last rabi.

Farmers across the country have a choice of buying Bt cotton seeds from over 1000 hybrid brands from over 50 companies in kharif 2013, trade sources are quoted to have claimed. Seed companies are stated to attribute the glut situation in seeds to the huge stocks carried forward from the past two years, when they faced a drop in demand as farmers had switched over to other crops such as guar and soyabean among others. Some of the companies are said to be adopting promotional schemes and planning to reach out to more customers.

(Source: Business Line - 06.05.2013)

Cotton Area to See a Drop in 2013-14 ?

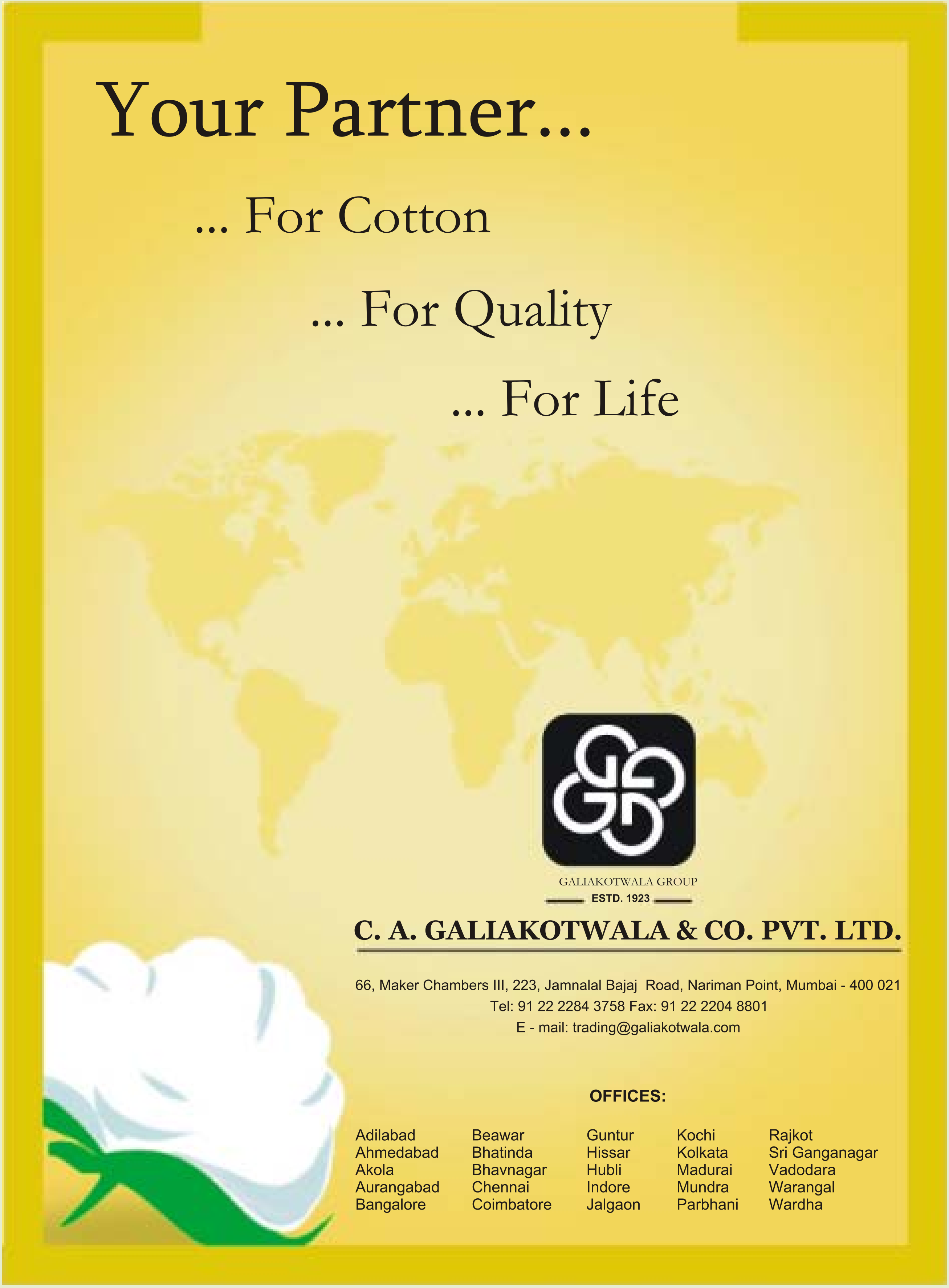
According to a recent report in the press; cotton farmers are slowly losing their fancy towards the fibre crop. It is stated that lower yield and reduced net returns are likely to see them shift to other crops during the impending kharif season. It is claimed that there may be a drop in the sowing of cotton. The report goes on to state that according to the projections given by the Textile Commissioner, the area under cotton cultivation is likely to be aroound 117.7 lakh hectares in 2012-13 as against 121.78 lakh hectares in 2011-12.

It is stated that this year the area under cotton cultivation will drop as more farmers will shift to other crops like groundnut. Apart from low yield, cotton prices are also said to be lower than last year. In some States like Andhra Pradesh, the market prices are stated to have fallen below the support prices in April. Later on, they rebounded with the procurement of cotton by the Cotton Corporation.

Prospects for export of cotton are also said to be dim which exert downward pressure on prices and discourage farmers from growing cotton instead of other competing crops. It would appear that export prospects have dimmed mainly because buying by China has stopped and no further export is taking place. It would appear that importers in China have been told that if they import, they would have to buy three times that amount from the Chinese Government reserve. This has obviously hit the cotton exporters in India, particularly as imports by China account for about 60 per cent of exports by India. The second highest importer of Indian cotton, viz. Bangladesh, is also stated to have cut down imports. Pakistan is also claimed to have turned to Australia and African countries for cheaper cotton.

It is stated that there was sufficient demand from spinning mills last year which checked the possibility of over supply in the market and downward drift in prices. This year, the demand from mills is said to be quite weak due to global economic conditions. Also, the mills are stated to have imported cotton as it is cheaper compared to domestically sourced cotton. Farmers, it is stated, are thus left with no option but to sell the kapas below the support prices as they are in need of cash to buy seeds for the impending kharif season. It would appear that in Maharashtra and Andhra Pradesh, CCI and NAFED (National Agricultural Cooperative Marketing Federation) have intervened and have managed to increase the price of kapas. The overall scenario is stated to be bleak for cotton at the moment on the domestic market as well as international market.

(Source: Business Standard 23.05.2013)


Your Partner...
... For Cotton
... For Quality
... For Life
GALIAKOTWALA GROUP
ESTD. 1923
C. A. GALIAKOTWALA & CO. PVT. LTD.
66, Maker Chambers III, 223, Jamnalal Bajaj Road, Nariman Point, Mumbai - 400 021
Tel: 91 22 2284 3758 Fax: 91 22 2204 8801
E - mail: trading@galiakotwala.com
OFFICES:
Adilabad
Ahmedabad
Akola
Aurangabad
Bangalore
Beawar
Bhatinda
Bhavnagar
Chennai
Coimbatore
Guntur
Hissar
Hubli
Indore
Jalgaon
Kochi
Kolkata
Madurai
Mundra
Parbhani
Rajkot
Sri Ganganagar
Vadodara
Warangal
Wardha

Cotton Prices Weaken in May

Domestic cotton prices moved down in the case of all growths during May. However, the drop was only quite marginal. The average spot rates of some representative growths during the last three months are given below:

Avg. Spot Rate (Rs./Quintal)

Growths	March 13	April 13	May 13
ICS-202 (P/H/R)	10,660	10,383	10,255
ICS-105 (M/M/A)	10,580	10,552	10,360
ICS-105 (GUJ)	10,764	10,732	10,608
ICS-105 (M/M/A/K/T/O)	10,999	11,114	11,013
ICS-107 (M(P)/K/T)	13,439	13,687	13,633

The decline has been maximum at Rs.162 per quintal in the case of ICS-105 (M/M/A). The next in order was ICS-202 (P/H/R) with a fall of Rs.128 per quintal and was closely followed by ICS-105 (GUJ) at Rs.124 per quintal. The lowest drop at Rs.54 per quintal was in the case of ICS-107 (M(P)/K/T). In the case of ICS-105 (M/M/A/K/T/O) the decline was Rs.101 per quintal.

After touching a high in August compared to the previous months, prices had turned weak in September and October. Prices were marginally up in November and they further hardened in the case of most growths. The uptrend was maintained in January except in the case of ICS-107 (M(P)/K/T) the price of which declined. Prices moved up in February and escalated further in March but turned weak in April. And now in May, prices have continued the slide.

The decline in prices, although marginally, was a reaction to the rising supply with fresh market arrivals without any corresponding increase in demand from spinning mills or exporters. Cotton exports have slowed down considerably mainly owing to the sharp fall in imports by China which has already built up its national reserve. Further, imports are now required to buy three times the intended quantity from the government reserve.

Coming to the seasonal average prices, the prices of all growths barring ICS-105 (GUJ) were higher in the first eight months of 2012-13 compared to the averages during the corresponding period of 2011-12. The comparative data in this regard are given below:

Seasonal (Oct-May) Avg. Spot Rates (Rs/Qtl.)

Growths	2011-12	2012-13	Diff.
ICS-202 (P/H/R)	8,989	9,652	+ 663
ICS-105 (M/M/A)	9,469	9,766	+ 297
ICS-105 (GUJ)	10,039	9,974	- 65
ICS-105 (M/M/A/K/T/O)	10,130	10,228	+ 98
ICS-107 (M(P)/K/T)	13,047	13,106	+ 59

UPCOUNTRY SPOT RATES

(₹\Quintal)

May 2013

2012-13 Crop

Growth	P/H/R	P/H/R	GUJ	KAR	M/M	P/H/R	M/M/A	M/M/A	P/H/R	M/M/A	M/M/A	P/H/R	M/M/A	GUJ	M/M/A/K	GUJ	M/M/A/K	M/M/A/K/T/O	K/A/T/O	M/P/K/T
G.Standard	ICS-101	ICS-201	ICS-102	ICS-103	ICS-104	ICS-202	ICS-105	ICS-105	ICS-105	ICS-105	ICS-105	ICS-105	ICS-105	ICS-105	ICS-105	ICS-105	ICS-105	ICS-105	ICS-106	ICS-107
Grade	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine	Fine
Staple	22mm	22mm	22mm	23mm	24mm	26mm	26mm	26mm	27mm	27mm	27mm	28mm	28mm	28mm	29mm	29mm	30mm	31mm	32mm	34mm
Micronaire	5.0-7.0	5.0-7.0	4.0-6.0	4.0-5.5	4.0-5.5	3.5-4.9	3.0-3.4	3.5-4.9	3.5-4.9	3.0-3.4	3.5-4.9	3.5-4.9	3.5-4.9	3.5-4.9	3.5-4.9	3.5-4.9	3.5-4.9	3.5-4.9	3.5-4.9	3.0-3.8
Strength/GPT	15	15	20	21	23	26	25	25	26	26	26	27	27	27	28	28	29	30	31	33
1	...		...		...		HOLIDAY				...		...		...					
2	9476	9729	7480	8942	9589	10179	9448	9673	10320	9673	9898	10517	10151	10236	10348	10404	10629	10882	11135	13498
3	9476	9729	7536	8942	9589	10264	9505	9729	10404	9729	9954	10601	10236	10320	10432	10489	10714	10967	11220	13638
4	9505	9758	7536	8942	9589	10292	9588	9786	10432	9786	10039	10629	10320	10404	10489	10545	10770	10995	11248	13638
6	9476	9729	7536	8942	9589	10348	9588	9786	10489	9786	10039	10629	10320	10404	10489	10545	10770	10995	11248	13638
7	9476	9729	7536	8942	9589	10236	9588	9786	10376	9786	10039	10517	10320	10404	10489	10545	10770	10995	11248	13638
8	9476	9729	7536	8942	9589	10151	9505	9786	10292	9701	9954	10432	10320	10404	10489	10545	10770	10939	11248	13638
9	9476	9729	7536	8942	9589	10151	9420	9729	10264	9617	9954	10432	10320	10404	10489	10545	10714	10939	11248	13638
10	9476	9729	7536	8661	9589	10208	9420	9729	10320	9617	9954	10461	10320	10461	10545	10601	10714	10939	11248	13638
11	9476	9729	7536	8661	9589	10208	9420	9729	10320	9617	9954	10461	10320	10461	10545	10601	10714	10939	11248	13638
13	9476	9729	7536	8661	9589	10208	9420	9729	10320	9617	9954	10461	10320	10461	10545	10601	10714	10939	11248	13638
14	9476	9729	7452	8661	9589	10151	9420	9729	10264	9561	9898	10404	10264	10404	10489	10545	10657	10939	11248	13638
15	9476	9729	7396	8661	9589	10151	9420	9729	10264	9561	9898	10404	10264	10404	10489	10545	10657	10939	11248	13638
16	9476	9729	7396	8661	9561	10123	9392	9701	10236	9533	9870	10376	10236	10376	10461	10517	10657	10939	11248	13638
17	9476	9729	7396	8661	9561	10095	9392	9701	10208	9533	9898	10348	10264	10404	10489	10545	10686	10967	11248	13638
18	9476	9729	7396	8661	9561	10095	9392	9701	10208	9533	9898	10348	10264	10404	10489	10545	10686	10967	11248	13638
20	9476	9729	7396	8577	9561	10151	9392	9701	10264	9589	9954	10404	10320	10404	10489	10545	10686	10967	11304	13638
21	9476	9758	7396	8577	9561	10236	9448	9786	10376	9617	10011	10489	10348	10461	10517	10601	10742	11023	11332	13638
22	9617	9898	7396	8577	9561	10208	9476	9814	10404	9645	10039	10517	10376	10489	10545	10629	10770	11051	11360	13638
23	9729	10011	7424	8577	9589	10320	9505	9842	10489	9673	10067	10601	10404	10517	10573	10657	10798	11079	11389	13638
24	9729	10011	7452	8605	9617	10404	9561	9898	10573	9729	10123	10686	10461	10573	10629	10714	10854	11135	11445	13638
25	9729	10011	7396	8577	9589	10432	9533	9870	10601	9701	10095	10714	10432	10545	10601	10686	10826	11107	11417	13638
27	9842	10095	7255	8520	9533	10348	9533	9870	10489	9701	10039	10601	10432	10545	10601	10686	10882	11107	11417	13638
28	9842	10095	7283	8520	9533	10348	9617	9983	10489	9786	10151	10601	10489	10601	10629	10714	10911	11135	11417	13638
29	9842	10095	7311	8548	9561	10376	9645	10011	10545	9842	10208	10657	10573	10657	10686	10770	10911	11135	11417	13638
30	9842	10095	7311	8548	9589	10432	9673	10039	10601	9870	10264	10714	10629	10714	10742	10826	10939	11164	11445	13638
31	9926	10179	7367	8548	9589	10517	9673	10039	10686	9898	10320	10798	10657	10742	10770	10854	10967	11164	11445	13638
H	9926	10179	7536	8942	9617	10517	9673	10039	10686	9898	10320	10798	10657	10742	10770	10854	10967	11164	11445	13638
L	9476	9729	7255	8520	9532	10095	9392	9673	10208	9533	9870	10348	10151	10236	10348	10404	10629	10882	11135	13498
A	9585	9844	7436	8694	9578	10255	9499	9803	10394	9681	10018	10531	10360	10469	10541	10608	10766	11013	11306	13633

H = Highest L = Lowest A = Average

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) 2012-13 Crop May – June 2013					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	27th	28th	29th	30th	31st	1st
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 – 7.0	15	9842 (35000)	9842 (35000)	9842 (35000)	9842 (35000)	9926 (35300)	10011 (35600)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0 – 7.0	15	10095 (35900)	10095 (35900)	10095 (35900)	10095 (35900)	10179 (36200)	10264 (36500)
3	GUJ	ICS-102	Fine	22mm	4.0 – 6.0	20	7255 (25800)	7283 (25900)	7311 (26000)	7311 (26000)	7367 (26200)	7311 (26000)
4	KAR	ICS-103	Fine	23mm	4.0 – 5.5	21	8520 (30300)	8520 (30300)	8548 (30400)	8548 (30400)	8548 (30400)	8548 (30400)
5	M/M	ICS-104	Fine	24mm	4.0 – 5.5	23	9533 (33900)	9533 (33900)	9561 (34000)	9589 (34100)	9589 (34100)	9589 (34100)
6	P/H/R	ICS-202	Fine	26mm	3.5 – 4.9	26	10348 (36800)	10348 (36800)	10376 (36900)	10432 (37100)	10517 (37400)	10432 (37100)
7	M/M/A	ICS-105	Fine	26mm	3.0 – 3.4	25	9533 (33900)	9617 (34200)	9645 (34300)	9673 (34400)	9673 (34400)	9673 (34400)
8	M/M/A	ICS-105	Fine	26mm	3.5 – 4.9	25	9870 (35100)	9983 (35500)	10011 (35600)	10039 (35700)	10039 (35700)	10039 (35700)
9	P/H/R	ICS-105	Fine	27mm	3.5 – 4.9	26	10489 (37300)	10489 (37300)	10545 (37500)	10601 (37700)	10686 (38000)	10629 (37800)
10	M/M/A	ICS-105	Fine	27mm	3.0 – 3.4	26	9701 (34500)	9786 (34800)	9842 (35000)	9870 (35100)	9898 (35200)	9898 (35200)
11	M/M/A	ICS-105	Fine	27mm	3.5 – 4.9	26	10039 (35700)	10151 (36100)	10208 (36300)	10264 (36500)	10320 (36700)	10320 (36700)
12	P/H/R	ICS-105	Fine	28mm	3.5 – 4.9	27	10601 (37700)	10601 (37700)	10657 (37900)	10714 (38100)	10798 (38400)	10742 (38200)
13	M/M/A	ICS-105	Fine	28mm	3.5 – 4.9	27	10432 (37100)	10489 (37300)	10573 (37600)	10629 (37800)	10657 (37900)	10657 (37900)
14	GUJ	ICS-105	Fine	28mm	3.5 – 4.9	27	10545 (37500)	10601 (37700)	10657 (37900)	10714 (38100)	10742 (38200)	10742 (38200)
15	M/M/A/K	ICS-105	Fine	29mm	3.5 – 4.9	28	10601 (37700)	10629 (37800)	10686 (38000)	10742 (38200)	10770 (38300)	10742 (38200)
16	GUJ	ICS-105	Fine	29mm	3.5 – 4.9	28	10686 (38000)	10714 (38100)	10770 (38300)	10826 (38500)	10854 (38600)	10826 (38500)
17	M/M/A/K	ICS-105	Fine	30mm	3.5 – 4.9	29	10882 (38700)	10911 (38800)	10911 (38800)	10939 (38900)	10967 (39000)	10939 (38900)
18	M/M/A/ K/T/O	ICS-105	Fine	31mm	3.5 – 4.9	30	11107 (39500)	11135 (39600)	11135 (39600)	11164 (39700)	11164 (39700)	11135 (39600)
19	K/A/T/O	ICS-106	Fine	32mm	3.5 – 4.9	31	11417 (40600)	11417 (40600)	11417 (40600)	11445 (40700)	11445 (40700)	11417 (40600)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0 - 3.8	33	13638 (48500)	13638 (48500)	13638 (48500)	13638 (48500)	13638 (48500)	13638 (48500)

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