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COTTON STATISTICS & NEWS

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Experts' Column

Marine Insurance - 2



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*The views expressed in this column are his own and not that of
Cotton Association of India*

INCOTERMS & MARINE INSURANCE

In Insurance, along with the Contract Act provisions - offer, acceptance, considerations, capacity of parties, consensus etc., certain other principles are also applicable. One of this major principle is Insurable Interest which is defined as "direct relationship with property or person of such a nature that if that property or persons suffer some loss or prejudice, holder of insurable interest loses financially". If there is no insurable interest in the transaction it becomes gambling agreement and is not enforceable -(Void) e.g Petroleum imported by Government of India is insured by actual users who are in nowhere connected with the product directly but only fear that if product is lost the prices will go up. In Marine cargo insurance insurable interest is required at the time of loss. At the time of taking the insurance insured may or may not have insurable interest. If there is no

insurable interest at the time of loss, the contract is void and insurers can not pay any claim to the insured.

In international transactions, buyers and seller enter into contract of sale and purchase. These contracts may be in any form but if they are not in the form which is acceptable to both the parties there may be many disputes and main purpose of doing the business may be lost. As such generally the standard forms of contracts are entered into. These contracts are in form of INCOTERMS - international commerce terms. The latest version is 2010, which is in force from 1st January 2011. If INCO Terms are used then the contract is written only in three letters and obligations of buyer and seller along with price formation is decided by the term selected. The interpretation of obligations is as per brochure of International Chambers of Commerce (ICC) France who have drafted the terms. However, in case of any dispute the matter is to be decided by the courts and not by ICC. There were 13 Incoterms in 2000 set while there are only 11 in 2010 set.

While interpreting Incoterms, it is important to understand passing of the risk, which is connected with the movement of the goods and affect Insurable Interest aspect. Whosoever, either buyer or seller is having the risk in the goods is said to have insurable interest in the goods. Any loss taking place during the duration of risk of the insured is recoverable under the marine policy subject to terms of cover.

Strictly speaking, the marine policy covers insured's insurable interest in the goods in transit and not the goods. Under warehouse to warehouse policy, goods are insured for full duration of transit but the cover is available to insured only during the duration when the goods are at his risk. By default, marine policy is on Warehouse to Warehouse basis but it's validity can be restricted by the incoterms. Example in case of FOB sale, policy will get over on loading of cargo in the overseas vessel at load port though the policy may have been taken up to buyer's warehouse.

EXW- Ex Works, Ex warehouse, Ex factory etc.:

In this term the seller's responsibility is to prepare the goods as per specification and pack the same and keep ready for delivery at his warehouse gate. Buyer has to arrange for taking delivery from seller's warehouse and on his taking delivery the seller's risk is over. During transit from seller's warehouse to buyer's warehouse the goods are at buyer's risk. Moreover, the buyer has to bear all the expenses of transportation etc., in carriage of goods up to his warehouse. The sale price quoted by seller includes his cost, packing charges and profit, so generally it is low. In this term, transit insurance is to be taken by the buyer from seller's warehouse to buyer's warehouse. If seller takes marine insurance policy, it is of no use and any claim in transit will not be payable thereunder.

FOB: Free On Board

Here the responsibility of seller is from his warehouse till loading of the cargo in the ship. If the goods are lost or damaged before becoming FOB, the seller has to replace the goods. It is advisable to take insurance up to FOB point (FOB Insurance policy) but it is not compulsory for him to insure.



FCA: Free Carrier

The seller's responsibility is to deliver goods to carriers place at agreed location. Thereafter, it is buyer's responsibility. Though insurance is not compulsory, the seller can insure up to agreed place and buyer can take policy for subsequent transit.

CFR: Cost & Freight

For insurance purpose, this is like FOB as the seller's responsibility is only up to Ship's rails. The difference being in the price. CFR value consists of sea freight also as the seller undertakes to arrange for services of shipment up to destination port also.

CIF: Cost Insurance & Freight

Contrary to normal belief, the seller's responsibility is only up to FOB point and thereafter, it is buyer's responsibility. However, under this term, seller is supposed to give one more service and that is to arrange for insurance. If contract is silent, the policy is required to be taken up to final port only for minimum cover i.e ICC (C) only. In case of loss or damage to goods when they are rejected by the buyer or on his refusal to pay, insurable interest reverts to the seller who can claim in his own name under the policy. In this term, the seller has to take policy in his own name and transfer to buyer (assignment). The assignment can be done by seller by endorsement and delivery and there is no need of approaching insurance company for the purpose like it is required in case of other policies.

DDP: Delivered to Duty Paid

DDP is reverse of Ex works. For seller, it is door delivery contract, his responsibility does not cease till he delivers the good to buyer's nominated place in buyer's country. Seller is advised to take insurance on warehouse to warehouse basis but it is not compulsory. Buyer will not take insurance as he does not have any insurable interest during transit of goods.

DAP: Delivered At Place

This is the new term, which is introduced in 2010 set of 11 terms. The seller is responsible for delivery of the goods to nominated place. Seller will take insurance up to nominated place and buyer will take thereafter (if required).

The other terms like FCA (Free Carrier), CPT (Carriage Paid to), CIP (Carriage & Insurance Paid to), DAT (Delivered At Terminal) & FAS (Free

Alongside Ship) are not so popular but if used can be interpreted likewise.

EXAMPLES: (Sales)

- EXW Dharangdhra – seller will not take marine insurance.
- FOB Mumbai- seller has to take marine insurance policy only up to Mumbai port and loading on the ship thereat.
- CIF London – seller will take policy only up to London Port.

EXAMPLES: (Buy)

- CFR Nhava Sheva (coming from London) Buyer will take insurance from London to final Place in India.
- CIF Kandla- Buyer will take insurance from Kandla to final place in India.
- FOB Manchester- buyer will take cover from Manchester to final place in India.

LOCAL TERMS/COTTON TRADE

In India, many local terms are used which do not have any defined meaning and so create confusions and disputes. In my experience and in discussion with veterans in cotton trade, I understand that the

traders also follow similar practice and use terms like SPOT- which is said to be equivalent to Ex W, SPOT Built Cut- equivalent to FCA or FOR (Road) up to gate of buyer which is said to be equivalent to CIF. However, the use is not supported by any commercial or legal base and in the event of any dispute or in the event of any insurance claim, it can create major unresolvable problem. Even if they are to be used, full description of responsibilities of both the seller and buyer have to be spelt out which is very difficult and once again any ambiguity in writing will create problems of legal interpretations. Traders feel that the Incoterms are only for international trade and can be used only for sea transit . It is not so. The Incoterms are designed by International Chambers of Commerce taking in to consideration all modes of transport. Out of 11 terms at least 7 terms (EX W, FCA, CPT, CIP, DAT, DAP, DDP) are useable for all modes of transport and for clarity of the contract and transparency, it is advisable to use any of these terms in inland trade.

USE INCOTERMS IN LOCAL TRADE ALSO. THE CONTRACT WILL BE ONLY IN THREE LETTERS, TRANSPARENT AND FREE FROM AMBIGUITY. JUST WRITE THE TERM WITH BRACKET (INCOTERMS 2010).



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Update on Cotton Acreage (as on 27.06.2013)

Sl. No	States	Normal of Year*	Normal on Week**	Area Sown (During the corresponding week in)	
				2013	2012
1	2	3	4	5	6
1	Andhra Pradesh	20.09	4.08	7.72	6.53
2	Gujarat	26.97	4.20	11.26	3.83
3	Haryana	5.82	5.19	4.86	5.15
4	Karnataka	5.28	1.23	2.26	1.06
5	Madhya Pradesh	6.55	1.48	4.64	0.80
6	Maharashtra	40.71	3.41	16.51	5.46
7	Orissa	0.98	0.09	0.41	0.24
8	Punjab	5.24	5.50	5.03	5.16
9	Rajasthan	4.18	2.40	2.75	2.80
10	Tamil Nadu	1.28	0.07	0.10	0.05
11	Uttar Pradesh	0	0.25	0.23	0.30
12	West Bengal	0	0	0	0
13	Others	0.43	0	0	0
Total		117.53	27.90	55.76	31.38

* Normal area mentioned above is average of last three years ** It is average of last three years
(Source: Directorate of Cotton Development, Mumbai)



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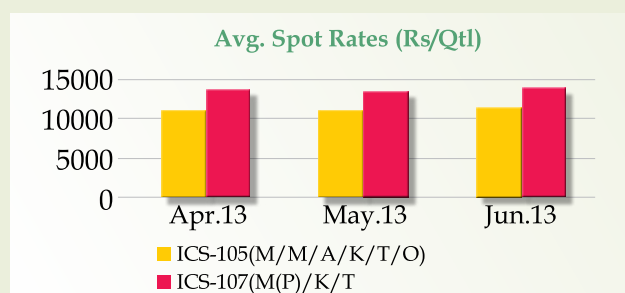
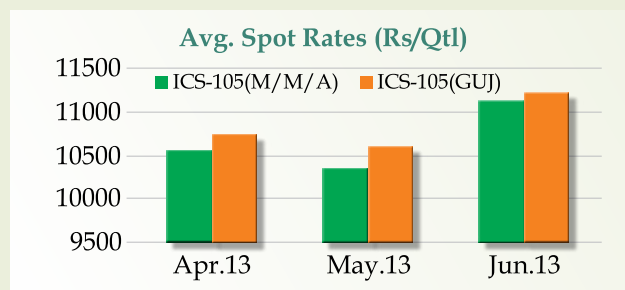
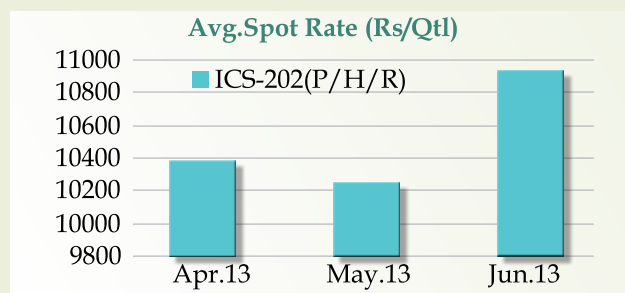
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Cotton Prices Escalate in June

Prices of all cotton growths escalated in June as compared to May prices. The average spot rates of five representative cotton growths during the last three months are given below:

Avg. Spot Rate (Rs./Quintal)			
Growth	April 13	May 13	June 13
ICS-202 (P/H/R)	10,383	10,255	10,940
ICS-105 (M/M/A)	10,552	10,360	11,133
ICS-105 (GUJ)	10,732	10,608	11,218
ICS-105 (M/M/A/K/T/O)	11,114	11,013	11,455
ICS-107 (M(P)/K/T)	13,687	13,633	13,934



The increase has been maximum at Rs.773 per quintal in the case of ICS-105 (M/M/A). The next in order was ICS-202 (P/H/R) the prices of which moved up by Rs. 685 per quintal. It was closely followed by ICS-105 (GUJ) with an increase of Rs. 610 per quintal. The next growth in the order was ICS-105 (M/M/A/K/T/O) which showed an increase of Rs. 442 per quintal. ICS-107 (M(P)/K/T) registered the lowest increase of Rs. 301 per quintal.

Domestic cotton prices had turned weak in September and October after touching a high in August. There was a marginal increase in November and this uptrend continued in the case of most growths in December. In January also, the trend was upward except in the case of ICS-107(M(P)/K/T) the prices of which declined. Prices moved up in February and maintained the uptrend in March but they turned weak in April, with the downtrend persisting in May. The trend has now been reversed in June with the prices of all growths hardening.

There have been quite a few reasons for the uptrend in June. According to reports, the increase followed the rise in both domestic demand and overseas enquiries. The supply was getting reduced as market arrivals have continued to fall while spinners and exporters were active in the market to cover their position. Buyers were in fact worried over near term supply which may tighten further due to surge in export demand in recent weeks. Further, the weak rupee has made exports quite attractive.

Apart from export of raw cotton, there is also stated to have been a rising demand from USA for Indian textiles with the revival of US economy. In addition, exporters of apparels appear to have also received more orders from Europe. In fact, US and Europe account for most of India's apparel exports. In the last few years, the Indian textile industry has seen a crisis of sorts with the emergence of new competitors in Bangladesh and Vietnam. However, of late, the slow growth in Bangladesh economy has opened a window of opportunity for the Indian textile industry. The increased demand for Indian apparels has triggered the increased demand for raw cotton by the industry. Indeed, all these factors have put upward pressure on raw cotton which is reflected in the rise in its prices in June.

A study of the comparative monthly average prices this year and last year shows that the average prices this year have been higher in the case of all growths. The relevant data are given below:

Seasonal (Oct-Jun) Avg. Spot Rates (Rs/Qtl.)			
Growth	2011-12	2012-13	Diff.
ICS-202 (P/H/R)	8,955	9,795	+ 840
ICS-105 (M/M/A)	9,403	9,918	+ 515
ICS-105 (GUJ)	9,950	10,112	+162
ICS-105 (M/M/A/K/T/O)	10,098	10,364	+266
ICS-107 (M(P)/K/T)	13,041	13,198	+157

UPCOUNTRY SPOT RATES

June 2013

2012-13 Crop

Growth	P/H/R	P/H/R	P/H/R	M/M	P/H/R	M/M/A		M/M/A		M/M/A		P/H/R	P/H/R	M/M/A		M/M/A	G.U.J.	M/M/A/K		G.U.J.	M/M/A/K		K/A/T/O	M/P/K/T	
						ICS-101	ICS-201	ICS-102	ICS-103	ICS-104	ICS-105			ICS-202	ICS-105			ICS-105	ICS-105		ICS-105	ICS-105			ICS-105
Grade	22 mm	22 mm	22 mm	24 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	26 mm	34 mm
Staple	5.0-7.0	5.0-7.0	4.0-6.0	4.0-5.5	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	3.5-4.9	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	3.5-4.9	3.0-3.8	
Strength/GPT	15	15	20	21	23	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	33	
1	10011	10264	7311	8548	9589	10432	9673	10039	10039	10629	9898	10320	10742	10657	10742	10826	10826	10939	11135	11417	13638				
3	10151	10404	7311	8548	9589	10432	9673	10039	10039	10489	9842	10320	10601	10742	10826	10967	10967	11107	11248	11529	13638				
4	10151	10404	7311	8548	9589	10432	9673	10039	10039	10601	9983	10404	10714	10882	10967	10967	11107	11248	11529	13638					
5	10151	10404	7311	8548	9589	10432	9673	10039	10039	10657	9983	10404	10770	10882	10967	10967	11107	11248	11529	13638					
6	10292	10545	7311	8548	9589	10432	9673	10039	10039	10657	9983	10404	10770	10882	10967	10967	11107	11248	11529	13638					
7	10292	10545	7311	8548	9589	10432	9673	10039	10039	10657	9983	10404	10770	10882	10967	10967	11107	11248	11529	13638					
8	10432	10686	7311	8548	9589	10432	9673	10039	10039	10601	9983	10404	10854	10967	10967	11107	11248	11529	13638						
10	10545	10798	7424	8605	9645	10686	9814	10179	10179	10826	10039	10461	10939	10854	11023	10995	11164	11304	11585	13638					
11	10686	10939	7592	8605	9645	10798	9926	10292	10292	10939	10151	10573	11051	10967	11135	11107	11276	11417	11698	13779					
12	10686	10939	7733	8605	9701	10854	9983	10348	10348	10995	10208	10629	11107	11023	11192	11164	11332	11473	11838	13919					
13	10686	10939	7874	8745	9842	10967	9983	10348	10348	11107	10348	10714	11220	11164	11079	11164	11332	11473	11838	13919					
14	10826	11079	7958	8858	9954	11023	10039	10404	10404	11164	10404	10770	11276	11360	11276	11360	11389	11529	11895	14060					
15	10826	11079	8014	8858	10011	11079	10039	10404	10404	11220	10404	10770	11332	11360	11276	11360	11389	11529	11895	14060					
17	10967	11220	8014	8858	9954	10967	9983	10348	10348	11107	10348	10714	11248	11304	11192	11276	11332	11445	11810	14060					
18	10967	11220	7874	8717	9842	10911	9926	10208	10208	11051	10208	10573	11192	11135	11079	11192	11248	11360	11726	13919					
19	10967	11220	7733	8577	9842	10967	9983	10264	10264	11107	10208	10461	11248	11023	11051	11164	11248	11332	11726	13919					
20	10967	11220	7817	8633	9898	11023	10067	10348	10348	11164	10292	10545	11304	11107	11135	11248	11332	11417	11810	13919					
21	10967	11220	7817	8633	9898	11079	10123	10404	10404	11220	10348	10601	11360	11164	11192	11248	11304	11389	11473	11867	13919				
22	10967	11220	7845	8661	9954	11220	10179	10461	10461	11360	10404	10657	11501	11220	11248	11360	11445	11529	11951	14004					
24	11107	11360	7986	8802	10039	11417	10404	10657	10657	11557	10601	10826	11698	11389	11417	11473	11670	11726	12035	14200					
25	10967	11220	7902	8717	9954	11389	10348	10601	10601	11529	10545	10770	11670	11332	11360	11417	11445	11614	11951	14200					
26	10967	11220	7986	8773	10011	11389	10461	10686	10686	11529	11657	10854	11670	11417	11445	11529	11557	11698	11979	14341					
27	11051	11304	8099	8858	10123	11445	10545	10798	10798	11585	10742	10967	11726	11501	11529	11642	11670	11754	11810	11979	14341				
28	11051	11304	8155	8942	10264	11473	10545	10798	10798	11614	10742	10967	11754	11501	11529	11642	11670	11754	11810	11979	14341				
29	11135	11389	8099	8886	10208	11417	10517	10770	10770	11557	10714	10939	11698	11445	11473	11585	11614	11754	11810	11979	14341				
H	11135	11389	8155	8942	10264	11473	10545	10798	10798	11614	11657	10967	11754	11501	11529	11642	11670	11754	11810	12035	14341				
L	10011	10264	7311	8548	9589	10432	9673	10039	10039	10489	9842	10320	10601	10657	10742	10826	10826	10939	11135	11417	13638				
A	10713	10966	7724	8687	9836	10940	10038	10360	10360	11083	10321	10618	11209	11133	11102	11215	11218	11342	11455	11761	13934				

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 June 2013					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	24th	25th	26th	27th	28th	29th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 - 7.0	15	11107 (39500)	10967 (39000)	10967 (39000)	11051 (39300)	11051 (39300)	11135 (39600)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0 - 7.0	15	11360 (40400)	11220 (39900)	11220 (39900)	11304 (40200)	11304 (40200)	11389 (40500)
3	GUJ	ICS-102	Fine	22mm	4.0 - 6.0	20	7986 (28400)	7902 (28100)	7986 (28400)	8099 (28800)	8155 (29000)	8099 (28800)
4	KAR	ICS-103	Fine	23mm	4.0 - 5.5	21	8802 (31300)	8717 (31000)	8773 (31200)	8858 (31500)	8942 (31800)	8886 (31600)
5	M/M	ICS-104	Fine	24mm	4.0 - 5.5	23	10039 (35700)	9954 (35400)	10011 (35600)	10123 (36000)	10264 (36500)	10208 (36300)
6	P/H/R	ICS-202	Fine	26mm	3.5 - 4.9	26	11417 (40600)	11389 (40500)	11389 (40500)	11445 (40700)	11473 (40800)	11417 (40600)
7	M/M/A	ICS-105	Fine	26mm	3.0 - 3.4	25	10404 (37000)	10348 (36800)	10461 (37200)	10545 (37500)	10545 (37500)	10517 (37400)
8	M/M/A	ICS-105	Fine	26mm	3.5 - 4.9	25	10657 (37900)	10601 (37700)	10686 (38000)	10798 (38400)	10798 (38400)	10770 (38300)
9	P/H/R	ICS-105	Fine	27mm	3.5 - 4.9	26	11557 (41100)	11529 (41000)	11529 (41000)	11585 (41200)	11614 (41300)	11557 (41100)
10	M/M/A	ICS-105	Fine	27mm	3.0 - 3.4	26	10601 (37700)	10545 (37500)	11657 (37900)	10742 (38200)	10742 (38200)	10714 (38100)
11	M/M/A	ICS-105	Fine	27mm	3.5 - 4.9	26	10826 (38500)	10770 (38300)	10854 (38600)	10967 (39000)	10967 (39000)	10939 (38900)
12	P/H/R	ICS-105	Fine	28mm	3.5 - 4.9	27	11698 (41600)	11670 (41500)	11670 (41500)	11726 (41700)	11754 (41800)	11698 (41600)
13	M/M/A	ICS-105	Fine	28mm	3.5 - 4.9	27	11389 (40500)	11332 (40300)	11417 (40600)	11501 (40900)	11501 (40900)	11445 (40700)
14	GUJ	ICS-105	Fine	28mm	3.5 - 4.9	27	11417 (40600)	11360 (40400)	11445 (40700)	11529 (41000)	11529 (41000)	11473 (40800)
15	M/M/A/K	ICS-105	Fine	29mm	3.5 - 4.9	28	11473 (40800)	11417 (40600)	11529 (41000)	11642 (41400)	11642 (41400)	11585 (41200)
16	GUJ	ICS-105	Fine	29mm	3.5 - 4.9	28	11501 (40900)	11445 (40700)	11557 (41100)	11670 (41500)	11670 (41500)	11614 (41300)
17	M/M/A/K	ICS-105	Fine	30mm	3.5 - 4.9	29	11670 (41500)	11614 (41300)	11698 (41600)	11754 (41800)	11754 (41800)	11754 (41800)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5 - 4.9	30	11726 (41700)	11670 (41500)	11754 (41800)	11810 (42000)	11810 (42000)	11810 (42200)
19	K/A/T/O	ICS-106	Fine	32mm	3.5 - 4.9	31	12035 (42800)	11951 (42500)	11979 (42600)	11979 (42600)	11979 (42600)	11979 (42600)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0 - 3.8	33	14200 (50500)	14200 (50500)	14341 (51000)	14341 (51000)	14341 (51000)	14341 (51000)

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