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# COTTON STATISTICS & NEWS

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## Competitive Space Opening for Textile Industries

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Prior to the start of World War Two, half of all cotton mill use in the world occurred in North America and Europe (figure 1). At that time, the South Asian continent, the Soviet Union, China and all the rest of East Asia together accounted for a little more than 40% of world cotton

use, and South America and Africa together made up just 4% of world cotton consumption.

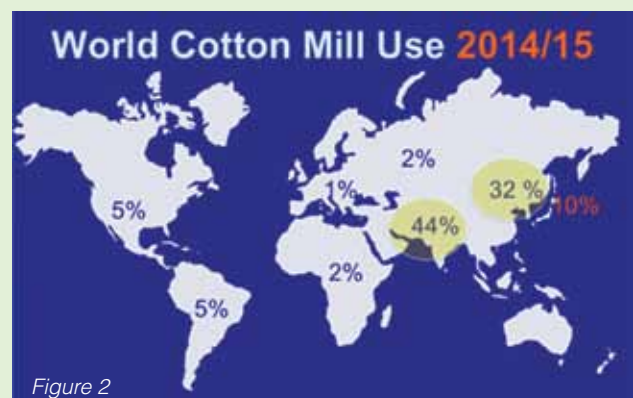
Reflecting the structural shifts in the world economy caused by the growth in world trade since World War Two, North America and Europe today account for just 6% of world cotton use (figure 2). South Asia alone accounts for nearly half of all cotton use, China accounts for one-third of mill use, and East Asia accounts for one-tenth of cotton use. South America and Africa together now account for 7% of world cotton use.

### EXPERT'S Column



**Dr. Terry Townsend**

However, the seemingly inexorable shift in the location of world cotton use away from developed economies toward developing countries in Asia may be slowing, and even reversing. First, lower labour costs were an important factor underlying the shift in cotton spinning activity toward



developing countries since the 1970s, but spinning, weaving and knitting processes are becoming ever more automated, faster and expensive, thus reducing the labour intensity of textile production.

Second, interest rates remain at historic lows, and central banks seem inclined to keep rates near current levels for years longer. Consequently, the cost of capital as a percentage of textile production is low, further encouraging increases in automation and reducing the competitive advantage enjoyed by low-wage countries in textile production. The advantage in textile production is shifting to countries with low interest rates.

Third, economic growth is narrowing the gaps in labor costs between countries, further eroding the advantage previously held by developing countries.

And fourth, perhaps as important as all other factors together, the government of China is no longer giving the extraordinary level of policy support to the textile industry that was provided during the past two decades. Consequently, the competitive pressure from Chinese textile exports that was placed on industries in all other countries is now less intense.

### Growth in China May be Over

Mill use of cotton in China more than doubled to nearly 11 million tons between 1997/98 and 2007/08. The Government of China lifted a policy that had limited cotton mill use to 4.5 million tons per year in 1998, and China was indisputably the engine of the world cotton economy in the years that followed, accounting for all but 1.2 million tons of the growth in world mill use in the ten years to 2007/08. However, since 2007/08, mill use in China has dropped to less than 8 million tons, and there is little prospect that Chinese cotton use will recover to its previous level in the foreseeable future. Wages and other costs in China are rising. Cotton prices remain uncompetitive for Chinese textile mills because of the role of the national government in

maintaining a reserve and blocking imports.

In addition, the government of China is encouraging a shift in the location of mill use of cotton to Xinjiang Autonomous Region, where most cotton is grown. Total spinning capacity in Xinjiang will reach an estimated 10 million spindles by the end of 2015, up over 30% from the end of 2014. The strong policy support for Xinjiang will undermine the textile industry in the rest of China because water shortages render Xinjiang unsuitable for dyeing and finishing activities, and the distance from clothing production and end-use consumption in Eastern China will result in long delays and increased costs for the Chinese industry as a whole.

Consequently, any increases in cotton consumption in Xinjiang will not likely offset decreases in other regions, and mill use of cotton as a whole in China is not likely to expand. Current estimates by ICAC are that mill use in China will rise only from 7.7 million tons in 2014/15 to 7.74 million tons in 2015/16.

### Projections to 2024/25

World cotton mill use is lower now than it was in 2007/08, and even over the next ten years mill use may rise little from its current level. Cotton is losing market share to polyester. The government of China maintains a national reserve of 12 million tons which prevents cotton prices from declining enough to boost demand. Campaigns of demonisation by retailers, environmental activists and advocates of organic cotton are undermining consumer preference for cotton. And, technology improvements are enhancing the fibre performance characteristics of polyester, making polyester products more acceptable to consumers.

Nevertheless, even if world cotton use climbs only 1.5% per year to 28 million tons by 2024, an expected decline in cotton use in China may provide opportunities for increases in mill use in other countries (figure 3 and table 1). Cotton use in China

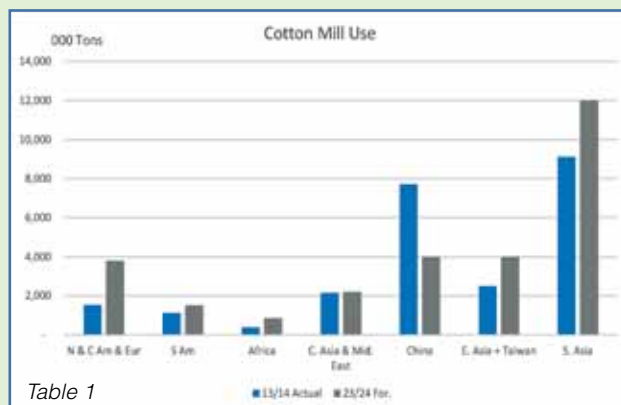
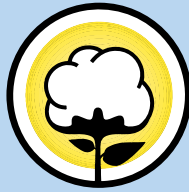


Figure 3

Table 1



**COTTON  
ASSOCIATION  
OF INDIA**

*Established 1921*

Announces under

## **“LEARN WITH CAI” series**

Programme No.2014-15/1 on  
**‘LETTER OF CREDIT’**

**Faculty: Shri K. Parameswaran,**  
Corporate Trainer & Advisor,  
International Trade and Finance

**Date: Saturday, 26th September 2015**  
**Time: 8.30 a.m. to 6.00 p.m.**

### **Fees for programme**

For CAI Members: Rs. 3,000/-

For Members of Affiliated Associations: Rs. 3,500/-

For Non-Members: Rs. 4,000/-

The above fees will include study material, breakfast/lunch and service tax.

Venue: Conference Room of the Association  
Cotton Exchange Building, 2nd Floor,  
Opp. Cotton Green Railway Station,  
Cotton Green (East), Mumbai 400 033.

For Registration please contact CAI Office,  
Tel. (022) 3006 3400 – Fax : (022) 2370 0337  
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has fallen from 11 million tons to less than 8 million tons, and a further decline to 4 million tons, the approximate amount of cotton grown in Xinjiang, is possible by 2024. China's share of world mill use has already come down from more than 40% in 2007/08 to 32%, and over the next decade cotton spinning in China could drop to 15% of the world total.

India, Pakistan and Bangladesh have experienced strong growth in cotton use since 1997/98, climbing from a combined 4.2 million tons to 8 million tons, or 44% of world mill use. However, cotton mill use in Pakistan and Bangladesh is no longer climbing, and political turmoil combined with power shortages and rising wages, may curtail their rate of growth in cotton use over the next decade.

If mill use of cotton declines in China and grows

little in South Asia, there may be competitive space for expansion in other regions. Low interest rates and access to the latest technology developments in spinning machinery in the United States and Europe may result in increased mill use of cotton over the next decade. Retailers in North America and Europe are placing a greater emphasis on short delivery periods and documentation of environmental and social standards. These factors may also favor increased cotton use in the U.S. and Europe.

There are also opportunities for small increases in cotton use in South America, Russia, Central Asia and Africa over the next decade, although economic policies and political turmoil may dampen growth prospects.

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

## Update on Cotton Acreage (As on 16th September 2015)

(Area in lakh ha)

Sl. No	States	Normal of Year	Normal Area as on Date (2010-2014)	Area sown (during the corresponding week in)					
				2015	2014	2013	2012	2011	2010
1	2	3	4	5	6	7	8	9	10
1.	Andhra Pradesh		20.376	22.484	23.669	21.130	21.680	18.300	17.100
	Andhra Pradesh (23.95%)	4.800	5.211	5.754	7.319	5.061	5.192	4.383	4.095
	Telangana (76.05%)	15.240	15.165	16.730	16.350	16.069	16.488	13.917	13.005
2.	Gujarat	26.140	27.254	27.612	30.060	26.880	23.630	29.590	26.110
3.	Haryana	5.580	5.698	5.810	6.390	5.570	6.030	6.050	4.450
4.	Karnataka	5.400	5.150	5.390	7.600	5.290	4.160	4.850	3.850
5.	Madhya Pradesh	6.200	6.308	5.470	5.788	6.210	6.080	7.060	6.400
6.	Maharashtra	39.800	40.558	38.239	41.950	38.680	41.450	40.980	39.730
7.	Orissa	0.900	1.088	1.250	1.250	1.240	1.190	1.020	0.740
8.	Punjab	5.100	5.122	4.500	4.500	5.050	5.160	5.600	5.300
9.	Rajasthan	4.200	3.908	4.060	4.162	3.030	4.500	5.300	2.550
10.	Tamil Nadu	1.300	0.222	0.179	0.070	0.190	0.260	0.480	0.110
11.	Uttar Pradesh	0.000	0.266	0.210	0.260	0.230	0.300	0.310	0.230
12.	Others	0.360	0.060	0.000	0.050	0.100	0.000	0.150	0.000
	<b>Total</b>	<b>115.020</b>	<b>116.010</b>	<b>115.204</b>	<b>125.749</b>	<b>113.600</b>	<b>114.440</b>	<b>119.690</b>	<b>106.570</b>

Source: Directorate of Cotton Development, Nagpur

## Southern Hemisphere Cotton Production in 2014/15

By Rebecca Pandolph, ICAC  
(Continued from last issue)

### Production Trends for the Largest Producers

#### Tanzania

While producer prices have increased in the last two seasons, expansion of the cotton area has been limited due to the perception by farmers that the 2011 price volatility makes cotton a very risky crop. Furthermore, price fluctuations at the end of 2013/14 delayed the marketing of Tanzania's 2013/14 crop, thus strengthening this perception on the part of growers. The perceived risk and the recent difficulty with marketing their crop in an environment of falling international prices will likely discourage farmers from planting cotton in 2014/15, and area is forecast to drop 18% to 336,000 hectares. This season will be the third since Tanzania introduced contract farming in 2012/13. Contract farming arrangements have helped increase output as inputs are made more available to farmers and in turn, yield improves. The government has also indicated producer prices in the last three seasons, but many of the ginners voiced complaints that these prices were too high for ginners to remain profitable. In July 2014, the government announced that it would move to a more market-determined price mechanism. Instead of setting prices, the government has set money aside in a Cotton Price Stabilization Fund that would be used to help farmers repay loans should the price fall below 750 Tanzanian shillings/kg. While the additional support from the government is expected to improve yield by 2% this season, total production is projected down 14% to 67,000 tons.



#### Zimbabwe

In Zimbabwe, nearly all cotton growers obtain inputs through contracts with ginners and merchants that belong to the Cotton Ginners Association. Cargill, which has contracted with Zimbabwe farmers in previous seasons pulled out entirely from the local cotton sector at the start of the growing season due to operational difficulties that include lack of fulfillment of contracts by farmers. Additionally, China Cotton Africa, another contractor, is expected to reduce its level of financing this year. Nevertheless, there are ten other ginners from which farmers can obtain inputs and the level of input funding agreed upon for 2014/15 increased from US\$23 million to US\$29 million. Greater availability of inputs as well as better rainfall during sowing should boost yields this season by 2% to 228 kg/ha. The average price paid to producers last season increased by 20% due to greater competition among the ginners and better regulation of the market. However, falling international prices

for cotton will likely cause more farmers to switch to competing crops like tobacco this season, and area could decline by 5% to 238,000 hectares. Production in Zimbabwe is forecast to decrease by 3% to 54,000 tons as better yields offset some of the loss in area.

#### Zambia

Last season, maize, the main competitor of cotton in Zambia, achieved a bumper crop about 30% greater than the previous season, and oversupply has pushed prices of maize downwards. Further, due to the large size of the maize crop, the government has experienced difficulties in securing financing and payments to maize growers are late. While maize is likely to be less attractive this season, cotton prices have also fallen. Furthermore, in the last few marketing seasons, prices paid to farmers have started at a low level, but gained 20% by the end of the season. As the farmers with better yields and production practices tend to sell early, the current marketing practice has tended to reward the farmers with low quality seedcotton that market their cotton later in the season. This will limit the expansion of cotton area, which is forecast to fall slightly by 1% to 287,000 hectares in 2014/15. Plentiful rainfall at sowing is expected to boost yields by 8% to 149kg/ha, but this is below the 10-year average of 196kg/ha. Production in 2014/15 is projected to expand 7% to 43,000 tons.

#### Mozambique

In 2013/14, Mozambique's cotton output recovered 17% to 44,000 tons due to expansion in area and improved yields. Mozambique is in the process of installing HVI testing facilities in several locations across the country, which should help improve the marketing of the cotton once they are running. However, in 2014/15, cotton faces stiff competition from soybeans and sesame, which have higher prices this season, particularly given the low yields that many cotton farmers derive from cotton. Additionally, the discovery of oil earlier this year and the continued development of the natural gas and coal industries are pulling some farmers out of the agricultural sector, including cotton, to work directly in these industries or on related infrastructure projects that may provide a more stable income than farming. Given the stiff competition and low prices for cotton at planting time, cotton area in Mozambique is forecast down 15% to 134,000 tons. Assuming yield remains stable at 280 kg/ha, lint output is projected down 15% to 37,000 tons.

Source : COTTON: Review of the World Situation,  
November-December 2014

# COTAAP Corner

## Events for September 2015

This year, the erratic rain and unfavourable climatic conditions in the early phase of crop development hampered growth and boll formation. The cotton crop suffered from an attack of sucking pest which acts as a vector to various diseases. COTAAP organised special training for identification of diseases and pests with integrated pest management (IPM) practices. This was followed up by field visits by scientists and COTAAP staff this month. Critical inputs including biological and herbal pesticides were supplied to the farmers under the PPP- IAD project.

### Distribution of inputs:

From 15th to 27th of August, COTAAP staff distributed the last lot of inputs in all the villages having beneficiary farmers. Due to scarcity of rain, the size and weight of cotton bolls particularly for the ELS hybrid 'Bahubali' was affected. Its weight was an average 2 to 3 gm as compared to the normal 3 to 4 gm. In order to avoid this problem for the further flush, COTAAP, in consultation with Mahyco Seeds and experts on panel, distributed WDG sulphur and water soluble potash (00:00:50) for application to the beneficiary farmers.

Drastic changes in the arrival and pattern of monsoons in this area every year has resulted in a change in sequence in which the pests used to attack the cotton. Indiscriminate and unscrupulous use of insecticides by ignorant farmers has resulted in developing resistance in pests towards most insecticides available in the market. Though COTAAP has distributed certain insecticides earlier, severe incidence of pests has become a recurring problem in the region.

In order to encourage and demonstrate effective



*Inputs being distributed in Virwade village*

economic and ecofriendly use of bio-pesticide, COTAAP distributed a combination of *Verticillium lacanee*, *Beauveria baciana* and *Metarizhium spp.* Farmers were guided about the importance of using bio-pesticides in alternation with chemical pesticides as an integral part of IPM in cotton. They were also educated regarding proper method for use of bio-pesticides and this has given excellent results.

### Visit of experts from Mahyco :

Extremely long dry spells during this monsoon have resulted in severe pest infestation of cotton in this region. In some areas of the tehsil, farmers complained about certain kind of damage to cotton plants. On being informed about the severity of the damage, Mahyco Seeds deputed a research team from their R & D center to visit farms in Chopda region. A team comprising of cotton breeder Shri. Prafulla Naphade, virologist Shri. Deepratan Kumar, entomologist Shri. Sanjay Ghule, pathologist Shri. Sachin Ghume, marketing manager of Khandesh region, Shri. Mahesh Kharade, district manager Shri. Shrikant Deshmukh along with staff of COTAAP visited different farms in the villages Vardi, Chunchale and Chahardi region on 11th of September 2015.

Team of researchers identified the damage caused by the "Tobacco streak virus" and explained to the farmers that this is a rare virus that usually spreads when there is severe attack of thrips. The team of experts guided the farmers about the remedial measures to be taken in such cases.

They also advised farmers to take care in future to control pests on cotton below the economic threshold level (ETL).



*Team of experts from Mahyco visiting farm in Vardi village*

## Production & Stock of Spun Yarn (SSI & Non-SSI)

(In Mn. Kgs.)

MONTH / YEAR	PRODUCTION				STOCK			
	COTTON	BLENDED	100% N.C.	G. TOTAL	COTTON	BLENDED	100% N.C.	G. TOTAL
2011-12	3126.34	789.29	457.08	4372.72	110.87	42.20	20.44	173.51
2012-13	3582.68	828.19	456.75	4867.61	107.92	40.37	21.38	169.67
2013-14	3928.26	896.19	484.99	5309.45	133.80	51.33	23.40	208.53
2014-15 (P)	4056.61	915.12	513.07	5484.80	148.59	47.62	22.20	218.41
2015-16 (Apr-Jun) (P)	1398.29	316.97	179.87	1895.13	160.22	59.64	25.61	245.68
<b>2013-14 (P)</b>								
April-13	316.61	65.91	39.68	422.20	121.99	41.07	21.94	185.00
May-13	314.97	71.46	38.94	425.37	123.79	39.59	19.08	182.46
June-13	317.69	71.18	38.95	427.82	117.62	36.75	17.84	172.21
July-13	332.12	74.84	41.31	448.27	116.52	38.01	20.68	175.22
Aug.-13	336.29	78.66	42.21	457.17	120.07	37.18	18.27	175.52
Sept.-13	326.09	79.42	43.47	448.98	132.87	43.34	22.51	198.72
Oct.-13	328.80	78.03	43.05	449.88	132.74	49.76	25.43	207.93
Nov.-13	312.13	72.21	39.01	423.35	136.35	51.53	26.52	214.40
Dec.-13	341.67	80.55	40.41	462.63	132.43	53.00	24.27	209.69
Jan.-14	340.38	77.71	39.33	457.41	117.38	51.11	23.60	192.09
Feb.-14	321.31	71.27	37.21	429.80	128.59	54.60	25.79	208.99
Mar.-14	340.20	74.95	41.42	456.57	133.80	51.33	23.40	208.53
<b>2014-15 (P)</b>								
April-14	328.68	73.84	41.41	443.93	142.80	50.06	21.20	214.06
May-14	332.92	74.77	42.71	450.40	139.60	46.20	20.80	206.61
June-14	330.69	74.03	42.95	447.67	151.05	47.99	22.56	221.60
July-14	340.00	78.51	44.85	463.36	160.20	51.30	24.18	235.67
August-14	338.09	76.66	44.23	458.98	166.64	53.21	24.87	244.72
Sept-14	334.03	77.91	42.55	454.49	167.53	51.73	24.02	243.28
Oct.14	323.53	74.51	40.96	439.00	178.62	56.85	25.89	261.36
Nov.14	336.19	71.42	41.71	449.32	171.39	55.01	25.23	251.64
Dec.14	353.92	76.55	42.22	472.69	160.73	56.06	26.49	243.28
Jan.-15	352.25	80.14	43.55	475.94	162.66	55.92	24.14	242.73
Feb.-15	334.74	79.66	42.00	456.40	152.90	51.66	22.70	227.26
Mar.-15	351.57	77.12	43.93	472.62	148.59	47.62	22.20	218.41
<b>2015-16 (P)</b>								
April-15	351.48	77.12	44.09	472.69	140.99	50.55	21.07	211.11
May-15	349.72	79.96	44.64	474.32	152.57	52.51	23.74	226.96
Jun-15	345.11	79.49	45.13	469.73	158.15	55.86	23.51	231.29
Jul-15	351.98	80.40	46.01	478.39	160.22	59.64	25.61	245.68

P - Provisional

Source : Office of the Textile Commissioner

# SAGA OF THE COTTON EXCHANGE

By Madhoo Pavaskar

## Chapter 5

### Assault on King Cotton

#### No Soft Option

While King Cotton was at its zenith of power, Hitler invaded Poland in August 1939. Soon Great Britain and France declared war against Germany on September 3, 1939. Thus began the Second World War, and the Golden Age of King Cotton abruptly came to an end. The prices of raw cotton, like those of all other commodities, began to soar after the outbreak of War. The Broach April-May contract, which was hovering around Rs. 150 per candy rose almost vertically within a week of conflagration in Europe to Rs. 200. Concerned by this abnormal market behaviour, and more particularly fearing that the price inflation may hamper war efforts, the Secretary to the Government of Bombay in the Finance Department wrote a letter to the East India Cotton Association on September 14, 1939, suggesting action on the following lines for more efficient control of forward trading.

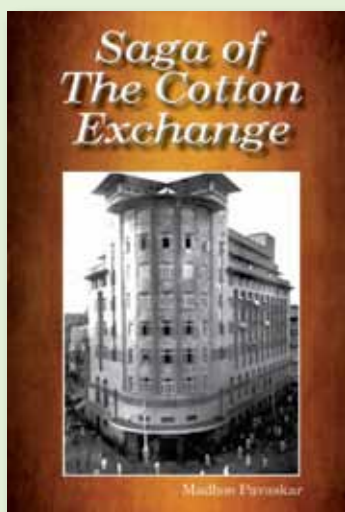
1. All options for a period shorter than March 31, 1940 should be made illegal and punishable as a criminal offence.

2. Fluctuations in price on any one day should be restricted to Rs.20 or Rs.25 per candy and on any such maximum fluctuation having taken place on any day, the parties concerned should deposit with the Clearing House the next day the necessary difference on all outstanding contracts at the close of the previous evening. These should be adjusted at the next clearing.

3. In order to enforce the first two proposals, unitary control in the trade was also essential. Therefore, all unrecognised associations should be forthwith declared illegal. As a condition precedent to this, however, it would be necessary for the government to assume power to impose bye-laws on the recognised associations.

Recognising the gravity of the war situation, the East India Cotton Association accepted the

government proposals, suggesting only a few minor modifications in them. Simultaneously, the Association issued a notice prohibiting 'teji mandi' or 'option' business of shorter duration than maturing on March 24, 1940. Clearly, in the changed conditions created by the War, the Association had no soft options.



Surprising, on September 22, 1939, the Government of Bombay dealt a first blow on King Cotton and issued an Ordinance declaring all options, including yearly options, in cotton entered into after that date as void. The Ordinance also empowered the Government to make bye-laws for any recognised cotton association.

The Ordinance was due to expire on November 3, 1939. The Government framed a Bill embodying the provisions of the Ordinance and published it on October 24, 1939. But on November 1, 1939, the popular Congress Ministry resigned and the elected Assembly was dissolved. The Bill could not be put through the legislature. As a result, when after November 3, 1939, the ordinance became inoperative, options once again acquired legal validity. Finally on December 11, 1939, the Governor of Bombay promulgated an Act incorporating all the provisions of the earlier Ordinance.

The Act was, of course, enacted on the ostensible plea of safeguarding the interests of cotton cultivators at a time when cotton prices were rising. It was therefore not surprising that the government resorted to a circuitous reasoning. In a statement explaining the reason for the enactment, the Governor of Bombay argued: "It happens that, at present, as a result of option business, the upward movement of prices has been exaggerated and prices have risen above parity. But it is possible that during the next few months there may be a reaction and prices may tend to go below parity and in that event options will exaggerate the downward movement with the same violence with which they have forced up prices at present."



In a lengthy press communique issued on December 13, 1939, the East India Cotton Association brought to the notice of the Governor that with an export business of as much as one lakh bales transacted just during a week prior to the promulgation of the Act, far from exaggerating the upward movement of prices, Indian cotton has actually been brought "on a reasonable parity with American prices", and the very *raison d'être* of the Act issued by the Governor did not exist. What was more deplorable was the fact that the Act was enacted to prevent cotton prices from rising when cotton marketing had started and was expected to reach its peak within a few weeks. The East India Cotton Association therefore lodged its "emphatic protest" against this unwarranted assault on King Cotton. As expected, however, its protest fell on deaf ears. But this was merely the beginning of the state onslaught against King Cotton.

### Weekly Clearings

After the onset of the War, there was a general fear in the trade that the fortnightly settlement clearings, which were introduced more than two decades ago, would not go through smoothly during the critical periods of rapid and wide price fluctuations resulting from changed conditions. Yet, it must be said to the credit of the cotton trade in Bombay, that despite a perpendicular rise in prices soon after the War, the settlement clearings went through without a default. In fact, an all time record amount of Rs.1,97,40,157 was settled at a single clearing on January 29, 1940. Interesting enough, the total amount cleared during the cotton season 1939-40 was also the highest at Rs.13,84,71,834 since the institutions of the Cotton Clearing House in 1918. Actually, as many as on four occasions during that year, settlement amounts exceeded Rs.1 crore each time.

Although the fortnightly settlement clearings had thus satisfied the test of the time, as a measure of abundant caution and to afford further security to the trade through ensuring its solvency, fortnightly clearings were replaced by more frequent weekly clearings from September 1, 1940, by the East India Cotton Association at the request of its own members. While congratulating the trade on taking such a voluntary step in the regulation of hedge contract business, Sir Purshotamdas Thakurdas in his Presidential address at the Nineteenth Annual General Meeting of the Association held on December 12, 1940, remarked, "The lesson to be drawn from this natural evolution is to have patience until people learn by experience and move voluntarily towards the ideal which is best achieved when it is reached with conviction of the majority". Reform

by consent is obviously more effective than that introduced by show of force. Unfortunately, most of those in authority often forget this invaluable lesson and then wonder why their imposed reforms don't work in practice.

### All New Records

As hostilities spread all over Europe, cotton exports dwindled rapidly. This led to a precipitous drop in cotton prices since the beginning of the 1940-41 cotton season. From a peak of Rs.340 per candy in the previous season, Broach contract slumped to Rs. 180 in January 1941. The slump, however, proved short-lived. With railways geared to the war service, shortage of wagons developed resulting in artificial cotton shortage in the city of Bombay. Broach once again began to climb and touched the peak of Rs. 323 on May 15, 1941.

The sharp rise in Broach April-May contract during the delivery period, however, attracted heavy tenders, which totalled no less than 252,400 bales—the largest figure on record against a single hedge contract since September 1922 when as many as 351,000 lakhs were tendered against the Fine Oomra Hedge contract. An all-time record of delivery orders issued on any one day was reached on May 7, 1941, when 1255 delivery orders were issued against the maturing Broach, Oomra and Bengal hedge contracts together. The total surveys and appeals held during April-May 1941 also set new records at 5611 and 4013 respectively, as against 3157 and 1763 held in September 1922. Again, the largest number of surveys and appeals held on any one day in the history of the East India Cotton Association was on May 24 and May 27, 1941, when as many as 611 surveys and 447 appeals respectively were disposed of. These records not only established the utility and efficiency of the Clearing House and Survey systems at the Association, but also increased the confidence of the trade in the inherent strength and soundness of the Cotton Exchange.

### Indian Cotton Contract

The large tenders against the April-May 1941 hedge contracts, however, brought to light the weakness of the prevailing hedge contract system at the Association. True, the five hedge contracts devised at the inception of the Association in 1922, had served the trade well for nearly two decades. But the War brought about a sea-change in the demand supply situation in different varieties of cotton. As it is, exports to Europe had dwindled after the outbreak of hostilities.

In the meanwhile, cotton futures markets all over the world had come under heavy pressure. The

futures markets in Liverpool was closed on March 31, 1941. On July 24, the Reserve Bank of India withdrew the facility of supplying U.S. Dollars for settlement of differences on futures business in the New York market, and thus snapped the relationship between Bombay and New York at one stroke. A further blow to Indian cotton quickly followed, when on July 26, 1941, the Government of India issued an order freezing Japanese assets in India, following deterioration in diplomatic relations between Great Britain and Japan. Close on the heels of this came another order on July 30, affecting similarly the Chinese assets. These two orders issued in quick succession saw the end of cotton shipments from India to both Japan and China.

The loss of markets for Indian cotton in Europe and the Far East meant the loss of principal buyers for short and fine staple cotton. The main support, therefore, for the cotton growths represented by Bengal, Oomra and Broach hedge contracts was lost. The successful functioning of these hedge contracts would have nevertheless necessitated movement of these growths into Bombay for no other purpose than providing support to these contracts. But the shortage of wagons due to the War was so pronounced that it would have been rather foolhardy for the railways to supply wagons for transport of huge quantities of unwanted cotton to Bombay for merely providing cushion to the existing hedge contracts. And in the absence of such support, the contracts could easily be squeezed by unscrupulous operators as happened with Broach April-May 1941 delivery.

The East India Cotton Association was alive to these difficulties. It also recognised that the consumption of staple cotton by Indian mills was on the rise. Moreover, the face of the Indian cotton crop had also changed materially with a growing share of staple cotton in it. Last but not the least, pressures were steadily mounting on the EICA to evolve a more broad-based hedge contract, which could help restrain the firmness in cotton prices. While the Association resisted such pressures successfully in the past in the interests of cotton growers, it could no longer offer similar resistance in the new circumstances brought about by the War, when the government was keen to obtain large supplies of cloth at cheap prices for the military.

Under these circumstance, at an Extraordinary General Meeting of the East India Cotton Association held on July 14, 1942, the prevailing five hedge contracts, which had survived the onslaught of millowners for two decades, were replaced by a single hedge contract styled "Indian Cotton Contract". Although explaining the *raison d'être*

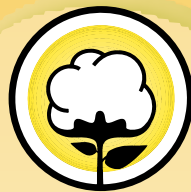
of this change in its official announcement, the East India Cotton Association had stated that it was "in the fitness of things that our main contract should have as its basis, cotton which caters to our domestic economy, i.e. medium staple cotton, rather than short or fair staple cotton", there is no gainsaying the fact that the evolution of the Indian Cotton Contract was the signal victory of the millowners, who had clamoured for over two decades for a single hedge contract.

As it is, the official pressures on making the contract bearish were so strong that the East India Cotton Association could not stop at evolving only a single hedge contract. It also permitted most of the cotton varieties grown in the country tenderable against the Indian Cotton Contract. This is not all. To render the contract bearish, several changes, of rather extraordinary nature, were introduced in it. These included (a) providing for delivery at up-country centres at the option of the seller, (b) fixing of tendering differences with heavy weightage for most growths of cotton, (c) fixing of spot rates taking into consideration rates ruling in up-country, rates for similar growths and rates for succeeding deliveries and (d) reduction in the penalty for the default in delivery.

It was estimated that the total of all varieties tenderable against the Indian Cotton Contract would add to three million bales, or even more, in an average season. This was double the quantity which was tenderable against the old Broach contract. Naturally, such a heavy load together with the other bearish features introduced in it were expected to unduly depress the cotton futures market and along with it the spot cotton prices as well. The millowners wanted this. The alien government fighting the War needed it. The cotton trade had then little alternative, but to bow to the wishes of the authorities.

No doubt, with the evolution of the Indian Cotton Contract, King Cotton saved his crown, for otherwise the Government would have surely come down heavily on the cotton futures market, as it, in fact, did a little later. For the cotton merchants, the Indian Cotton Contract reflected their helpless struggle for survival. For once, they seemed to have abandoned the interests of cotton growers. True, the Indian Cotton Contract was an "experimental" step, devised particularly with the purpose of meeting the exigencies created by the War. But in retrospect, one cannot but resist the conclusion that the creation of the Indian Cotton Contract marked the beginning of the downfall of King Cotton from the august throne of the Cotton Exchange.

*(To be continued)*



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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) 2014-15 Crop SEPTEMBER 2015					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	14th	15th	16th	17th	18th	19th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	9336 (33200)	9195 (32700)	9195 (32700)		9195 (32700)	9139 (32500)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	9476 (33700)	9336 (33200)	9336 (33200)	H	9336 (33200)	9280 (33000)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	7030 (25000)	7002 (24900)	6946 (24700)		6946 (24700)	6946 (24700)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	7424 (26400)	7396 (26300)	7339 (26100)		7339 (26100)	7339 (26100)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	8380 (29800)	8352 (29700)	8295 (29500)	O	8295 (29500)	8295 (29500)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	9476 (33700)	9420 (33500)	9364 (33300)		9336 (33200)	9336 (33200)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	8323 (29600)	8295 (29500)	8239 (29300)	L	8239 (29300)	8239 (29300)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	8773 (31200)	8717 (31000)	8661 (30800)		8661 (30800)	8661 (30800)
9	P/H/R	ICS-105	Fine	27mm	3.5-4.9	26	9561 (34000)	9505 (33800)	9448 (33600)		9420 (33500)	9420 (33500)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	8577 (30500)	8520 (30300)	8464 (30100)	I	8464 (30100)	8464 (30100)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	8998 (32000)	8942 (31800)	8886 (31600)		8886 (31600)	8886 (31600)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	9701 (34500)	9645 (34300)	9589 (34100)	D	9561 (34000)	9561 (34000)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	9280 (33000)	9280 (33000)	9195 (32700)		9195 (32700)	9139 (32500)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	9561 (34000)	9476 (33700)	9364 (33300)	A	9336 (33200)	9336 (33200)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	9420 (33500)	9336 (33200)	9251 (32900)		9251 (32900)	9195 (32700)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	9842 (35000)	9758 (34700)	9701 (34500)	Y	9673 (34400)	9673 (34400)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	9336 (33200)	9280 (33000)	9195 (32700)		9195 (32700)	9195 (32700)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	9561 (34000)	9505 (33800)	9448 (33600)		9448 (33600)	9448 (33600)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	9842 (35000)	9786 (34800)	9758 (34700)		9758 (34700)	9758 (34700)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	11951 (42500)	11951 (42500)	11951 (42500)		11951 (42500)	11951 (42500)

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