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Cotton Exchange Building, 2nd Floor, Cotton Green, Mumbai - 400 033
Phone: 3006 3400 Fax: 2370 0337 Email: cai@caionline.in
www.caionline.in

MSP of Cotton in India: Will it Distort International Prices?

Dr. A.R. Reddy holds a PhD in Agricultural Economics. Currently, he is working as a Principal Scientist in Agricultural Economics at the ICAR-Central Institute for Cotton Research, Nagpur, India. His fields of specialization are - impact analysis of agricultural technologies, total factor productivity of cotton, costs, returns and constraint analysis in cotton cultivation.



GUEST COLUMN

Dr A. R. Reddy

*Principal Scientist, Agricultural Economics,
ICAR-Central Institute for Cotton Research
Nagpur*

Cotton MSP

Minimum Support Price (MSP) is a form of market intervention by the Government of India to guarantee agricultural producers against any sharp fall in prices of agricultural produce. Like other crops, every year before the commencement of the cotton marketing season (October to September), the Ministry of Agriculture based on the recommendations of Commission for Agricultural Costs and Prices (CACP) fixes the MSP for two basic varieties of cotton viz. medium staple length cotton having staple length of 24.5 mm to 25.5 mm with micronaire value of 4.3 to 5.1 and long staple length having staple length of 29.5 to 30.5

mm with micronaire of 3.5 to 4.3. Based on the Support Price of these two basic varieties of seed cotton (kapas) and taking into account the quality differential, normal price differential and other relevant factors, the MSP for other classes of seed cotton (kapas) of Fair Average Quality (FAQ) has been fixed by the Textile Commissioner of India.

The main purpose of the MSP is to protect farmers against excessive fall in prices and to protect them from distress sale. It also helps to provide price stability in the

agricultural products.

Implementing agency CCI

Cotton Corporation of India Limited (CCI) is the nodal agency of Govt. of India to undertake minimum support price (MSP) operations of cotton. CCI is a Public Sector Undertaking under the administrative control of Ministry of Textiles, Govt. of India. The major role of the CCI is to undertake price support operations, whenever the market prices of seed cotton (kapas) fall below the minimum support prices

(MSP) announced by Govt. of India, without any quantitative limit. Besides MSP operations, to fulfill the raw material requirement of the domestic textile industry particularly for a lean season, CCI undertakes commercial purchase operations. Over the years, with a pan India presence through 350 procurement centres in all the major cotton growing regions, CCI has become a major operator for cotton farmers and Indian cotton for textile mills.

Criticism on MSP

In India, the MSP programme has been in operation since the 1960s in some form or the other. It caught the international attention when India entered into the World Trade Organization (WTO). These programmes have been attacked by several developed countries who believe that the huge quantities of agricultural subsidies provided by India under the MSP would distort global trade. The cotton MSP particularly came under attack, as the cotton exports from India

increased and it became the second largest exporter in the world.

The concerns seem ill-founded if one considers the ground reality of Indian agriculture and the abject poverty faced by the Indian farmers. The WTO subsidies policy is tilted in favour of the developed countries and India cannot free its farmers from the clutches of poverty if it blindly follows the global subsidies.

Quantum of MSP Operations

CCI resorts to raw cotton procurement operations under the price support policy only when the price of seed cotton falls below the MSP. This situation does not arise every year. Even when such a situation arises, CCI does not purchase the entire quantity of cotton produced in the country. The quantum of purchase by the CCI under the MSP operation is about 5 percent of total production during 2007-08 to 2018-19 (Table 1).

Table 1. Quantum of MSP Operations by CCI in India

Year	Cotton production in India (lakh bales)	Market value of total cotton production based on average seed cotton price (Rs. Cr)	Cost of the cotton purchased by the CCI at MSP rate (Rs. Cr)	Percentage value of CCI operations in total value of cotton production
2007-08	307	37374	234	0.63
2008-09	290	36778	12987	35.31
2009-10	295	51298	844	1.65
2010-11	339.1	75112	0	0.00
2011-12	355	70582	12	0.02
2012-13	370	79394	4490	5.66
2013-14	398	91511	82	0.09
2014-15	386	81202	17739	21.85
2015-16	338	78962	1744	2.21
2016-17	351	87869	1	0.00
2017-18	370	88960	850	0.96
2018-19	337	89267	2947	3.30
Total	4136.1	868308	41931	4.83

Note: worked out based on average prices

Table 2. Purchase and Sale Prices of Cotton Handled by CCI through MSP Operations

Year	PURCHASES			SALES		
	Bales (in Lakhs)	Rs. in Crore	Price (Rs./kg lint)	Bales (in Lakhs)	Rs. in Crore	Price (Rs./kg lint)
2012-13	22.9	4804.34	123	0.67	1110.49	975*
2013-14	0.48	105.28	129	22.3	4478.68	118
2014-15	86.37	18379.47	125	1.47	4314.59	1727*
2015-16	9.17	1982.4	127	85.5	13865.6	95
2016-17	0.02	1.19	35	9.05	1576.51	102
2017-18	3.83	882.78	136	1.22	717.02	346
2018-19	10.78	2975.22	162	2.41	1235.55	302
Average	19.08	4161.53	128	17.52	3899.78	131

Source: Worked out from Detailed Financial Results of CCI (<https://www.cotcorp.org.in/financeresult.aspx>)

*: high price probably due to receipts from last year's sale

There are many reasons why farmers do not want to sell their produce to CCI, even though the price in the open market is less than the MSP. Most of the cotton farmers in India are small and marginal with a land holding of less than 2ha. The quantity of cotton produced by them is very less, and this too is spread over 4 months of harvesting period. Low volume of production, transport cost, delays in payment, complicated quality evaluation and price determination process, etc., deter them from selling their produce to CCI through APMC.

Instead, many of the small and marginal cotton farmers sell their produce to village merchants or traders in the nearby town though they get a comparatively less price. There was an exception during 2019-20 due to Covid -19 pandemic. When most of the ginning mills were closed and private traders were hesitating to purchase, CCI intervened and procured about 106 lakh bales of cotton, which was about one third of the total production of the country.

Sale Procedure of Procured Cotton by CCI

CCI sells the procured cotton after ginning and pressing. This cotton is sold in the open market through e-tendering procedure at competitive rates. Most of the years, the sale prices are generally higher than the purchase prices (Table 2). Out of seven years (2012-13 to 2018-19), five years price of cotton sold by CCI is more than that of purchase. As CCI is selling the cotton in the open market at the competitive prices, these operations should not distort the international prices.

Support Provided by the Government

As the MSP operations undertaken by the CCI are supportive in nature, there is every chance to incur losses in the process of purchase and sale. So the government of India reimburses the loss incurred by the CCI.

Table 3 shows the value of the support provided by the Government of India to CCI during 2012-13 to 2018-19. It was too little when

Table 3. Value of the Government Support Provided to CCI from 2012-13 to 2018-19.

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Market value of total cotton production (Rs. Cr)	79394	91511	81202	78962	87869	88960	89267
Cost of the cotton purchased by the CCI at MSP rate (Rs. Cr) as given in Financial Results	4804.34	105.28	18379.5	1982.4	1.19	882.78	2975.22
Govt. support (MSP Loss reimbursable by Govt)	205.69	0	535.62	3029.07	252.47	287.51	324.95
Percentage value of Govt. support in total value of cotton production	0.26	0.00	0.66	3.84	0.29	0.32	0.36

compared with the value of the cotton produced in the country. During 2012-13 to 2018-19, it was less than 1 percent in all the years except during 2015-16. The value of support provided by the government to CCI was 3.84 percent of the total value of the cotton produced.

India has Comparative Advantage in Cotton Production

Comparative advantage refers to an economy's ability to produce goods and services at a lower opportunity cost than that of other competing economies. Comparative advantage gives a country the ability to sell goods and services at a lower price than its competitors.

Sachin Kumar Sharma and Kavita Bugalya (Competitiveness of Indian agriculture sector: A case study of cotton crop published in *Procedia - Social and Behavioral Sciences*. 133 (2014) 320–335), estimated the comparative advantage in cotton production and cotton export diversification by calculation of various indicators and found that India has a comparative advantage in production and export of cotton after 2005. As India is having comparative advantage in cotton export, the MSP policy will not distort world cotton trade.

Conclusions

The main purpose of the MSP is to protect the farmer against excessive fall in prices as most of the cotton farmers in India are small and marginal land holders with poor resource base. The quantum of MSP operations done by the CCI and the loss reimbursement given by the government is very minimal. Similarly, the procedures followed by the CCI in the sale of procured cotton in the open market will not distort international prices of cotton. Due to increase in productivity India has acquired comparative advantage in cotton production, MSP policy of India contributing to distortions in international trade is a misnomer.

Reference:

Sachin Kumar Sharma and Kavita Bugalya. (2014) Competitiveness of Indian agriculture sector: A case study of cotton crop published in *Procedia - Social and Behavioral Sciences*. 133 (2014) 320 – 335

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

Revision in Testing Charges at CAI Laboratories

The following are the charges for cotton testing in the laboratories of the Cotton Association of India with effect from 1st October 2020.

Particulars	Per Sample Testing Fees in Rs.		
	Testing Fees	GST	Total
HVI Test	145	26	171
Micronaire Test	85	15	100
Colour Grade on HVI	85	15	100
Gravimetric Trash Test on HVI	85	15	100
Moisture	85	15	100
Grading (Manual Classing)	235	42	277

VOLUME BASED DISCOUNTS

Particulars	Per Sample Testing Fees in Rs.		
	Testing Fees	GST	Total
For 250 samples and above but less than 500 samples	140	25	165
For 500 samples and above but less than 750 samples	135	24	159
For 750 samples and above but less than 1000 samples	130	23	153
For 1000 samples and above but less than 2000 samples	125	23	148
For 2000 samples and above but less than 5000 samples	120	22	142
For 5000 samples and above but less than 10,000 samples	115	21	136
For 10,000 samples and above	100	18	118

The fees under the above volume based discount scheme is payable within 15 days from the receipt of the invoices to be raised on monthly basis.

We would also like to inform that the parties can avail the benefit of testing of cotton at multiple laboratories of the Associations against the CAI Credits made by them.

We earnestly request you to avail the facility of testing at the Association's laboratories.



**COTTON
ASSOCIATION
OF INDIA**
Established 1921
ISO 9001:2015

Cotton Association of India

Cotton Exchange Building, 2nd Floor, Opp. Cotton Green Rly. Station,
Cotton Green, Mumbai - 400 033.

Tel.: +91 22 2370 4401/02/03/04 E-mail: cai@caionline.in Website: www.caionline.in

Supply and Distribution of Cotton

December 1, 2020

Seasons begin on August 1

Million Metric Tons

	2015/16	2016/17	2017/18	2018/19 Est.	2019/20 Proj.	2020/21 Proj.
BEGINNING STOCKS						
WORLD TOTAL	22.95	20.38	18.63	18.65	18.51	21.24
China	14.12	12.65	10.35	9.03	8.88	8.94
USA	0.79	0.83	0.60	0.82	0.83	1.26
PRODUCTION						
WORLD TOTAL	21.54	23.14	26.71	25.94	26.05	24.68
India	5.75	5.87	6.35	5.61	6.07	6.20
China	5.20	4.90	5.89	6.04	5.80	5.85
USA	2.81	3.74	4.56	4.00	4.34	3.72
Pakistan	1.54	1.66	1.80	1.67	1.32	0.90
Brazil	1.29	1.53	2.01	2.78	3.00	2.74
Uzbekistan	0.83	0.79	0.80	0.64	0.64	0.64
Others	4.13	4.66	5.31	5.20	4.88	4.63
CONSUMPTION						
WORLD TOTAL	24.33	24.78	26.44	25.85	22.54	24.26
China	7.60	8.28	8.50	8.25	7.25	8.00
India	5.30	5.15	5.42	5.40	4.45	5.13
Pakistan	2.15	2.15	2.35	2.23	2.08	1.98
Europe & Turkey	1.68	1.61	1.80	1.70	1.60	1.64
Bangladesh	1.32	1.41	1.66	1.58	1.37	1.41
Vietnam	1.01	1.17	1.51	1.51	1.45	1.48
USA	0.75	0.71	0.70	0.63	0.43	0.55
Brazil	0.66	0.69	0.68	0.73	0.61	0.61
Others	3.87	3.62	3.82	3.83	3.28	3.46
EXPORTS						
WORLD TOTAL	7.59	8.31	9.26	9.27	9.05	9.40
USA	1.99	3.33	3.64	3.37	3.47	3.18
India	1.26	0.99	1.13	0.76	0.70	1.23
CFA Zone	0.98	1.00	1.06	1.18	0.96	1.23
Brazil	0.94	0.61	0.91	1.31	1.95	1.68
Uzbekistan	0.50	0.40	0.34	0.13	0.06	0.06
Australia	0.62	0.81	0.85	0.79	0.30	0.33
IMPORTS						
WORLD TOTAL	7.84	8.13	9.00	9.05	8.27	9.40
Bangladesh	1.38	1.41	1.67	1.54	1.37	1.39
Vietnam	1.00	1.20	1.52	1.51	1.46	1.48
China	0.96	1.10	1.32	2.10	1.55	2.00
Turkey	0.98	0.84	0.96	0.79	1.02	0.96
Indonesia	0.64	0.74	0.76	0.69	0.55	0.60
TRADE IMBALANCE 1/	0.25	-0.18	-0.26	-0.22	-0.78	0.00
STOCKS ADJUSTMENT 2/	-0.04	0.07	0.00	0.00	-0.01	0.00
ENDING STOCKS						
WORLD TOTAL	20.38	18.63	18.65	18.51	21.24	21.65
China	12.65	10.35	9.03	8.88	8.94	8.74
USA	0.83	0.60	0.82	0.83	1.26	1.25
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA 3/	46	50	54	55	80	79
CHINA 4/	166	125	106	108	123	109
COTLOOK INDEX A 5/	70.39	82.77	87.98	84.35		

1/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports.

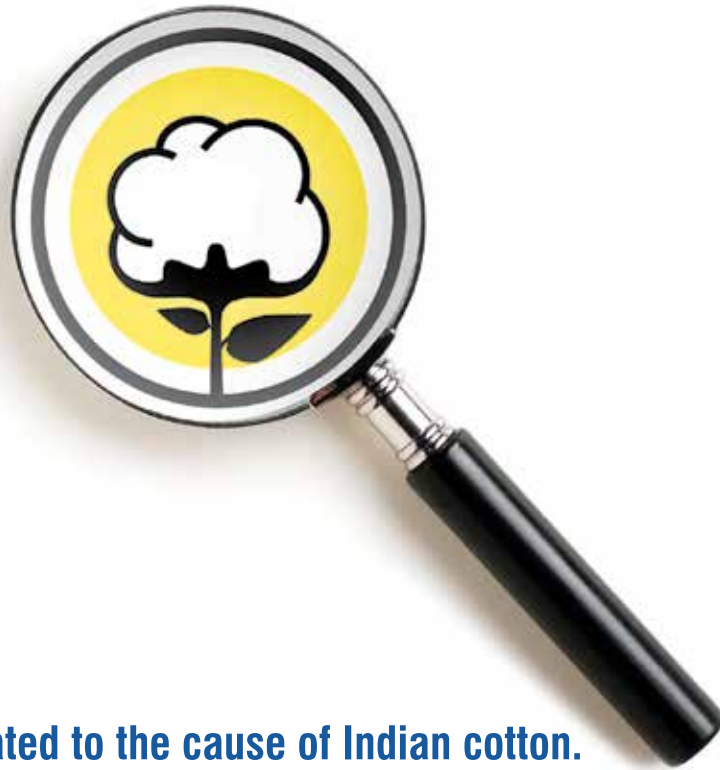
2/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated.

3/ World-less-China's ending stocks divided by World-less-China's mill use, multiplied by 100.

4/ China's ending stocks divided by China's mill use, multiplied by 100.

5/ U.S. Cents per pound

Source : ICAC Cotton This Month, December 1, 2020



**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; Jalgaon • **Gujarat :** Rajkot; Ahmedabad • **Andhra Pradesh :** Adoni
• **Madhya Pradesh :** Khargone • **Karnataka :** Hubli • **Punjab :** Bathinda • **Telangana :** Warangal, Adilabad



COTTON ASSOCIATION OF INDIA

Cotton Exchange Building, 2nd Floor, Opposite Cotton Green Railway Station, Cotton Green (East), Mumbai - 400 033, Maharashtra, INDIA
Tel.: +91 22-2370 4401/02/03/04 • E-mail: cai@caionline.in • www.caionline.in

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) 2019-20 Crop December 2020					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Gravimetric Trash	Strength /GPT	14th	15th	16th	17th	18th	19th
3	GUJ	ICS-102	Fine	22mm	4.0 - 6.0	13%	20	7424 (26400)	7592 (27000)	7592 (27000)	7592 (27000)	7592 (27000)	7592 (27000)
								Spot Rate (Upcountry) 2020-21 Crop					
1	P/H/R	ICS-101	Fine	Below 22mm	5.0 - 7.0	4%	15	11023 (39200)	11023 (39200)	11023 (39200)	11023 (39200)	11023 (39200)	11023 (39200)
2	P/H/R (SG)	ICS-201	Fine	Below 22mm	5.0 - 7.0	4.5%	15	11164 (39700)	11164 (39700)	11164 (39700)	11164 (39700)	11164 (39700)	11164 (39700)
3	GUJ	ICS-102	Fine	22mm	4.0 - 6.0	13%	20	-	-	-	-	-	-
4	KAR	ICS-103	Fine	23mm	4.0 - 5.5	4.5%	21	8492 (30200)	8492 (30200)	8548 (30400)	8633 (30700)	8717 (31000)	8717 (31000)
5	M/M (P)	ICS-104	Fine	24mm	4.0 - 5.5	4%	23	10601 (37700)	10601 (37700)	10657 (37900)	10742 (38200)	10826 (38500)	10826 (38500)
6	P/H/R (U) (SG)	ICS-202	Fine	27mm	3.5 - 4.9	4.5%	26	11417 (40600)	11501 (40900)	11557 (41100)	11614 (41300)	11726 (41700)	11726 (41700)
7	M/M(P)/SA/TL	ICS-105	Fine	26mm	3.0 - 3.4	4%	25	9392 (33400)	9561 (34000)	9617 (34200)	9701 (34500)	9786 (34800)	9786 (34800)
8	P/H/R(U)	ICS-105	Fine	27mm	3.5 - 4.9	4%	26	11557 (41100)	11642 (41400)	11698 (41600)	11754 (41800)	11867 (42200)	11867 (42200)
9	M/M(P)/SA/TL/G	ICS-105	Fine	27mm	3.0 - 3.4	4%	25	9926 (35300)	10095 (35900)	10151 (36100)	10236 (36400)	10320 (36700)	10320 (36700)
10	M/M(P)/SA/TL	ICS-105	Fine	27mm	3.5 - 4.9	3.5%	26	10461 (37200)	10517 (37400)	10573 (37600)	10657 (37900)	10742 (38200)	10742 (38200)
11	P/H/R(U)	ICS-105	Fine	28mm	3.5 - 4.9	4%	27	11670 (41500)	11754 (41800)	11810 (42000)	11867 (42200)	11979 (42600)	11979 (42600)
12	M/M(P)	ICS-105	Fine	28mm	3.7 - 4.5	3.5%	27	11360 (40400)	11417 (40600)	11473 (40800)	11529 (41000)	11614 (41300)	11614 (41300)
13	SA/TL/K	ICS-105	Fine	28mm	3.7 - 4.5	3.5%	27	11445 (40700)	11501 (40900)	11557 (41100)	11614 (41300)	11698 (41600)	11698 (41600)
14	GUJ	ICS-105	Fine	28mm	3.7 - 4.5	3%	27	11417 (40600)	11529 (41000)	11585 (41200)	11670 (41500)	11754 (41800)	11754 (41800)
15	R(L)	ICS-105	Fine	29mm	3.7 - 4.5	3.5%	28	11529 (41000)	11642 (41400)	11698 (41600)	11754 (41800)	11838 (42100)	11838 (42100)
16	M/M(P)	ICS-105	Fine	29mm	3.7 - 4.5	3.5%	28	11585 (41200)	11726 (41700)	11782 (41900)	11867 (42200)	11951 (42500)	11951 (42500)
17	SA/TL/K	ICS-105	Fine	29mm	3.7 - 4.5	3%	28	11670 (41500)	11754 (41800)	11810 (42000)	11895 (42300)	11979 (42600)	11979 (42600)
18	GUJ	ICS-105	Fine	29mm	3.7 - 4.5	3%	28	11642 (41400)	11754 (41800)	11810 (42000)	11895 (42300)	11979 (42600)	11979 (42600)
19	M/M(P)	ICS-105	Fine	30mm	3.7 - 4.5	3.5%	29	11754 (41800)	11951 (42500)	12007 (42700)	12092 (43000)	12176 (43300)	12176 (43300)
20	SA/TL/K/O	ICS-105	Fine	30mm	3.7 - 4.5	3%	29	11810 (42000)	11951 (42500)	12007 (42700)	12092 (43000)	12176 (43300)	12176 (43300)
21	M/M(P)	ICS-105	Fine	31mm	3.7 - 4.5	3%	30	12148 (43200)	12288 (43700)	12345 (43900)	12401 (44100)	12485 (44400)	12485 (44400)
22	SA/TL/K/TN/O	ICS-105	Fine	31mm	3.7 - 4.5	3%	30	12204 (43400)	12260 (43600)	12317 (43800)	12401 (44100)	12485 (44400)	12485 (44400)
23	SA/TL/K/TN/O	ICS-106	Fine	32mm	3.5 - 4.2	3%	31	12373 (44000)	12570 (44700)	12626 (44900)	12682 (45100)	12766 (45400)	12766 (45400)
24	M/M(P)	ICS-107	Fine	34mm	3.0 - 3.8	4%	33	16225 (57700)	16506 (58700)	16563 (58900)	16619 (59100)	16703 (59400)	16703 (59400)
25	K/TN	ICS-107	Fine	34mm	3.0 - 3.8	3.5%	34	16647 (59200)	16928 (60200)	16984 (60400)	17041 (60600)	17125 (60900)	17125 (60900)

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