

Weekly Publication of



**Cotton
Association
of India**

COTTON STATISTICS & NEWS

Edited & Published by Amar Singh

2017-18 • No. 36 • 5th December, 2017 Published every Tuesday

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Office Bearers of Upcountry Associations Meet at CAI to Discuss Reverse Charge Mechanism (RCM)

On 27th November, 2017, the Cotton Association of India (CAI) convened a joint meeting of the Presidents and Secretaries of upcountry associations of all cotton growing states in Mumbai, to deliberate on the issue of Reverse Charge Mechanism (RCM) under GST and to chalk out strategy of finding out a solution to this vexatious problem in close coordination with each other. CAI has about 70 ginners enrolled as its members and therefore, this meeting was convened to understand the problem of RCM also from the ginners' perspective.

The meeting was chaired by Shri. Atul S. Ganatra, President, CAI and the persons present at the meeting included Shri. B. Ravinder Reddy,

President and Shri. Kakkirala Ramesh, Secretary, Telangana Cotton Millers & Traders Welfare Association, Shri. Manjeet Singh Chawla, President and Shri. Raju Jain, Secretary, Madhyanchal Cotton Ginners & Traders Association, Shri. B.S. Rajpal, President, Maharashtra Cotton Ginners' Association, Shri. Anil Somani, Khandesh Gin Press Kharkhandar & Traders Development Association, Shri. Omprakash Jain, President and Shri. Shantilal M. Ostawal, Secretary, Karnataka Cotton Association and Shri. Vinod Jain, Joint Secretary, Madhya Pradesh Cotton Merchants' Association.

Though Indian Cotton Association, All Gujarat Cotton Ginners' Association, Saurashtra Ginners' Association, Andhra Pradesh Cotton Association





caused to the crop and heavy losses suffered by the farmers due to pink bollworm and uncertain rains in Telangana. Shri. Reddy added that this matter was engaging the active attention of the State Government.



and the Cotton Association of Orissa could not attend this meeting, they conveyed their wholehearted support for the meeting and that the decisions taken at the meeting will be acceptable to them.

The plight of the entire cotton sector across the country and the issue of pending refunds to exporters since July 2017 on account of GST were deliberated at the meeting. Shri. Ravinder Reddy, President, Telangana Cotton Millers & Traders Welfare Association, highlighted the damage

Shri Manjeet Singh Chawla, President of Madhyanchal Cotton Ginners & Traders Association pointed out that due to RCM, huge funds of ginners were blocked and since cotton seed buyers and the buyers of cotton bales were not paying GST to the ginners, this had led to the blockage of huge funds of the ginners. Shri. Chawla requested CAI to take up the matter relating to removal of RCM on kapas. He further stated that the RCM on cotton has also led to tarnishing relationship between the spinners and ginners.



Shri. Omprakash Jain, President of Karnataka Cotton Association stated that unless RCM on cotton is removed immediately there will be no way left to the ginners but to close down their operations. He appreciated the efforts of CAI in calling this meeting and pointed out that this was perhaps for the first time in the history of the CAI that ginners were provided a platform to discuss their issues. He thanked the CAI for this opportunity.

Shri. B.S. Rajpal, President of Maharashtra Cotton Ginners' Association stated that RCM has been imposed only on cotton and not on other agri-commodities which is totally unjust. He added that if this RCM continues on kapas it will entail huge losses to the sector. He also requested CAI to take up the matter relating to removal of RCM with the Government which will also indirectly benefit the farmers in realising better price for their kapas.

Shri. Manish Daga, Director, CAI informed that every day about 2700 farmers were diverting from cotton, the most established cash crop in India, to

other competing crops. This year cotton farmers have already suffered huge losses due to lots of climatic and pink bollworm problems and if the RCM continues, cotton farming will substantially reduce in India and adversely affect to the whole textile sector.

Shri. Rajendra Barwale, Managing Director of Maharashtra Hybrid Seeds Company Limited and his team who were present at the meeting made a presentation on the menace of pink bollworm and ways to arrest spread of the same. The presentation also highlighted the need for continued research for the benefit of the cotton sector.

All members present at the meeting decided that, they would go on a one day token protest against RCM on 15th December 2017 and thereafter on an indefinite strike in their respective states by closing shutters from 22nd December 2017, if the issue of RCM was not resolved in the next meeting of the GST Council which is scheduled to be held on 21st December 2017.

Cotton Consumption - Cotton Year-wise

(In Lakh bales)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 (P)
Oct.	16.54	18.13	22.09	17.77	21.84	24.03	24.17	24.70	21.52
Nov.	16.94	18.47	21.09	18.34	21.09	22.96	25.05	23.35	23.06
Dec.	17.98	19.49	22.57	20.13	22.63	25.16	25.89	25.49	24.59
Jan.	16.93	19.54	22.1	20.33	23.3	25.19	25.77	25.26	25.02
Feb.	16.23	18.81	20.23	20.31	22.24	23.22	24.58	24.64	24.44
March	17.51	20.01	21.77	20.38	23.61	25.07	26.18	25.61	25.90
April	17.12	20.53	20.17	20.31	23.22	24.32	25.57	24.95	24.66
May	17.83	20.93	18.64	21.27	22.85	24.38	25.62	25.38	24.82
June	18.01	20.71	18.23	21.17	22.51	24.11	25.61	25.38	24.47
July	18.98	22.11	19	22.14	24.11	24.54	25.56	25.01	24.70
Aug.	18.59	21.73	18.64	22.08	24.23	24.46	25.86	24.37	24.14
Sept.	18.29	21.42	21.71	21.46	23.7	25.81	24.58	23.14	
TOTAL	210.96	241.88	246.23	245.47	275.34	293.24	304.43	297.28	267.30

P – Provisional

(Source: Office of the Textile Commissioner)

COTTON EXCHANGE MARCHES AHEAD

Madhoo Pavaskar, Rama Pavaskar

Chapter 7 Revival of Futures Trading

(Contd. from Issue No.33....)

Indian Cotton Contract

Since then the Hedge Contract Committee of the Association, with Mr. Radhamohan B. Chokhani as Chairman and Mr. Navinchandra C. Sayta as Co-Chairman, met more than 50 times to finalise the terms of the futures contract and the by-laws relating to futures trading. The By-laws and Legal Committee also met from time to time to revise the General By-laws of the Association. Both the hedge contract by-laws and the general by-laws were approved by the general body of the Cotton Exchange on September 14, 1998, and by the government on September 24, 1998.

The salient features of the Indian Cotton Contract, the futures contract in cotton, as drawn by the Cotton Exchange are as under:

- 1) **Basis :** Roller Ginned Cotton of 26mm staple length (based on 2.5 per cent span length) of Fine Grade with Micronaire value ranging from 3.6 to 4.2 (both inclusive) and Minimum Strength of 18gm/Tex/1/8" gauge stelo level. The basis has been prescribed in terms of description, in accordance with the prevailing trading practices in the developed countries, instead of by the name of variety as in the past. This has been done keeping in view the need to integrate the trading practices in India with those prevailing abroad.
- 2) **Tenderable Descriptions:** All cottons, including saw ginned, with staple length ranging from 24mm to 29mm with two grades "on" and one grade "off" from Fine, Micronaire between 3.3 and 4.5 and of the same strength as that of the Basis, are tenderable against the Indian Cotton Contract.
- 3) **Unit of Trading:** 55 bales (of 93.5 quintals in terms of total weight), which are equivalent to a 10 tonne truck load.
- 4) **Tenderable Lot:** Same as the unit of trading.
- 5) **Delivery Places:** Besides Mumbai, Ahmedabad,

Coimbatore, Madurai and Indore, any place in the country where cotton bales are pressed.

- 6) **Unit of Price Quotation:** Rs.per 100kg for delivery ex-seller's godown.
- 7) **Limit on Price fluctuation:** Rs.150 per 100 kg during the trading day.
- 8) **Delivery Months:** December, February, April, June and September. Trading to be allowed at any time for three successive delivery months.
- 9) **Delivery Period:** 16th day to the last working day of the delivery month.
- 10) **Tendering Differences :** To be fixed between the 1st and 7th day of the delivery month for grades, staple lengths, micronaire values and saw ginned cotton, other than the Basis, separately.
- 11) **Clearing :** Daily, with payment of differences to be made on the next day.
- 12) **Trading Hours:** 11.30 a.m. to 3.30 p.m. from Monday to Friday; and 11.30 a.m. to 2.00 p.m. on Saturdays and half holidays.

The Indian Cotton Contract as devised by the Cotton Exchange departs from the futures contracts traded in the old days. The present contract is essentially a new generation contract, aimed at improving the trading practices in the physical markets as well. With its emphasis on the description of major spinning properties of cotton rather than on the names of cotton varieties and their staples, it seeks to meet the specific requirements of mill buyers. This is as it should be, for in a market economy Consumer is always the King, and supply must seek to meet precisely the type of demand. The new Indian Cotton Contract of the Cotton Exchange will thus hopefully pave the way for improving the quality standards and grades of Indian cotton, as the prices of the Basis and tenderable descriptions will be determined by quality specifications such as staple length, micronaire, strength and fineness of cotton fibre. In other words, the Contract recognises that the



cotton market in the country is slowly turning into a buyers' market, especially following the import and export liberalization.

The contract as framed at present covers almost 60 per cent of the cotton crop in the country. It excludes mostly the short and medium staple cotton as well as the superior extra-long staple varieties of mainly DCH-32 and MCU-5. These cottons have not been made tenderable, as their prices do not seem to be co-related significantly with those of staple range from 24 mm to 29 mm as prescribed for delivery against the futures contract. It is not that the Cotton Exchange is not aware of the risk management needs for short, medium and superior extra-long staple cottons. But the Exchange prefers to wait and watch the working of the new Indian Cotton Contract and assess its utility for price discovery and risk management, before it rushes to evolve additional contracts for the rest of the cotton crop. Over the years, it is most likely that two or more futures contracts will be traded at the Exchange to cover the wide spectrum of Indian cotton of all varieties so as to offer the risk management facilities to the entire cotton production in the country.

Infrastructure & Inauguration

During the period when the Cotton Exchange was devising its futures contract, it took steps simultaneously to build the necessary infrastructure for facilitating trading, monitoring and regulating the Indian Cotton Contract. It refurbished the trading hall in the Cotton Exchange Building at Sewree (Cotton Green) by setting up cubicles, tables and benches; installing telephone lines for receiving and accepting orders; putting in place the requisite computer hardware and software for recording and clearing of transactions; and displaying the electronic circuit board for recording and disseminating prices. It strengthened its supervisory staff to undertake the task of monitoring the trading operations and daily clearing of transactions. It set up an independent Clearing House and designated ABN AMRO Bank, N.V. for clearing the transactions. The Exchange was also engaged in research, publications and training activities for educating, promoting and marketing the risk management techniques and practices among its members and other cotton market functionaries as well as nontrade related interests.

After trail trading for about a fortnight, formal trading in the February and April 1999 deliveries of the Indian Cotton Contract was inaugurated in the trading ring at Cotton Green on December 5, 1998 at the hands of Mr. V.K. Aggarwal, the then Chairman of the Forward Markets Commission and with the blessings of Mr. N.N. Mookerjee who was

then Secretary in the Union Ministry of Food and Consumer Affairs. As trading began, the volumes were small initially. This was not unexpected. Since futures trading in cotton was suspended for over three decades and the generation that traded in the futures in the past had then hardly survived (except for a few stalwarts like late Mr. J.K.S. Nicholson, the Grand Old Man of Cotton and ex-Sheriff of Mumbai, who was always an invaluable asset to the Exchange in its deliberations with ministers, government officials and dignitaries visiting the Exchange), the Cotton Exchange was aware that it would take quite some time before the activity would pick up in the market.

Trading Regulations

Although all members of the East India Cotton Association were eligible to trade in the Indian Cotton Contract (ICC), the actual participants were required to be registered with the Exchange in one of the several categories, namely, Institutional Members, Clearing Members, composite Trading Members, Clearing cum Trading Members, Trading Members and Brokers. Different categories of members had different rights with respect to trading, and clearing and settlement of transactions in ICC. Thus, the institutional member category was restricted to only the banks and financial institutions. While they could provide clearing and settlement facilities to their trading member clients, they were not permitted to trade either on their own account, or on account of their clients. At the same time, however, they were required to guarantee the performance of the contracts entered into by their trading member clients.

Among other categories, composite trading members could trade on their own account as well as on account of their clients, and were also allowed to clear their transactions through the Clearing House directly. Clearing Members, on the other hand, could trade only for and on behalf of their clients and could also clear their transactions directly. Clearing cum trading members were entitled to trade only on their own account and clear their transactions directly through the Clearing House of the Exchange. Trading members were permitted to trade on their own account and also on account of their clients, but needed to clear their transactions through the institutional members. Brokers, at the other end, could trade in the trading ring of the Exchange for and on behalf of any composite or trading member, but were not allowed to trade on their own account nor could they clear or settle the transactions, which the members alone could do as per the rules.

(to be continued...)



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; Akola; Aurangabad • **Gujarat :** Rajkot; Mundra; Ahmedabad • **Andhra Pradesh :** Guntur, Warangal
• **Madhya Pradesh :** Indore • **Karnataka :** Hubli • **Punjab :** Bathinda
Upcoming locations : • **Telangana :** Adilabad



**COTTON
ASSOCIATION
OF INDIA**

Established 1921

COTTON ASSOCIATION OF INDIA

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(₹ \ Quintal)

UPCOUNTRY SPOT RATES

November 2017

2017-18 Crop

Table with 30 columns for different cotton grades and 30 rows of data. Columns include Growth, G. Standard, Grade, Staple, Micronaire, Strength/GPT, and various market codes like KAR, GUJ, P/H/R, M/M/A, M/M/K, etc. Values represent prices in ₹ \ Quintal.

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) 2017-18 Crop NOVEMBER - DECEMBER 2017					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	27th	28th	29th	30th	1st	2nd
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	11360 (40400)	11332 (40300)	11332 (40300)	11389 (40500)	11417 (40600)	11417 (40600)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	11642 (41400)	11585 (41200)	11585 (41200)	11585 (41200)	11614 (41300)	11614 (41300)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	8070 (28700)	8070 (28700)	8099 (28800)	8127 (28900)	8183 (29100)	8183 (29100)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	9026 (32100)	9026 (32100)	9055 (32200)	9083 (32300)	9139 (32500)	9139 (32500)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	9729 (34600)	9729 (34600)	9758 (34700)	9786 (34800)	9842 (35000)	9842 (35000)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	10236 (36400)	10208 (36300)	10208 (36300)	10264 (36500)	10348 (36800)	10404 (37000)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	9420 (33500)	9420 (33500)	9448 (33600)	9448 (33600)	9505 (33800)	9505 (33800)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	9842 (35000)	9842 (35000)	9870 (35100)	9926 (35300)	9983 (35500)	9983 (35500)
9	P/H/R	ICS-105	Fine	27mm	3.5-4.9	26	10461 (37200)	10432 (37100)	10432 (37100)	10489 (37300)	10573 (37600)	10629 (37800)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	9617 (34200)	9617 (34200)	9645 (34300)	9645 (34300)	9701 (34500)	9701 (34500)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	10123 (36000)	10123 (36000)	10151 (36100)	10208 (36300)	10264 (36500)	10264 (36500)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	10545 (37500)	10517 (37400)	10517 (37400)	10573 (37600)	10657 (37900)	10714 (38100)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	10208 (36300)	10208 (36300)	10236 (36400)	10292 (36600)	10348 (36800)	10348 (36800)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	10292 (36600)	10292 (36600)	10320 (36700)	10376 (36900)	10432 (37100)	10432 (37100)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	10376 (36900)	10376 (36900)	10404 (37000)	10461 (37200)	10517 (37400)	10517 (37400)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	10461 (37200)	10461 (37200)	10489 (37300)	10545 (37500)	10601 (37700)	10601 (37700)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	10573 (37600)	10573 (37600)	10601 (37700)	10657 (37900)	10714 (38100)	10714 (38100)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	10826 (38500)	10826 (38500)	10854 (38600)	10911 (38800)	10967 (39000)	10967 (39000)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	11473 (40800)	11473 (40800)	11501 (40900)	11557 (41100)	11614 (41300)	11614 (41300)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	14229 (50600)	14229 (50600)	14229 (50600)	14229 (50600)	14229 (50600)	14229 (50600)

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