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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

Doubling of Farmers' Income by 2022 - A Kaleidoscope (Part II)

- Branding of Indian Cotton and Contract Cotton Farming

Dr. Brijender Mohan Vithal has a Ph.D. Agric (Plant Breeding-Cotton) from Punjab Agriculture University (PAU) Ludhiana. He has been associated with cotton R&D activities for more than three decades. He has worked as a Senior Cotton Breeder with PAU, GM Production / Executive Director with National Seeds Corporation and Director, DOCD, Ministry of Agriculture (MOA). He was Officer on Special Duties (OSD) to look after activities related with Tech Mission on Cotton (TMC) in CCI Ltd during its pre-launch period. He joined CCI Ltd - TMC Cell (MMIII & IV) during 1999 and continued working there till the end of the TMC Project in December 2010. He is still associated with cotton through agencies like ISCI.

GUEST COLUMN

Dr. Brijender Mohan Vithal
Cotton Expert

In the issue number 34th of this publication, I have emphasised upon branding of Indian cotton as a strong tool to create a better place for it, in world markets. Countries like Egypt and the United States have already proved that successful branding of cotton can have a far-reaching impact in the market.

What exactly does 'branding of cotton' mean?'

'Branding of cotton' is a process that involves creating its unique name and image in the consumers' mind, mainly through advertising campaigns with a consistent theme. Branding is aimed to establish a significant and differentiated presence in the markets that attracts and retains its loyal customers.

Branding is advantageous because:

1. **It creates an image.** A brand name can project an expectation of performance of Indian cotton in domestic as well as overseas markets and also an emotion or feeling about it.

2. **It may help segment markets.** Virtually identical cotton could be sold in different distribution channels under various brand names in different parts of the world markets.

3. **It makes purchasing easier.** After making a satisfactory cotton brand decision for the first time, customers are likely to make repeat purchases without major reconsideration. Therefore, a good brand speeds up the shopping.

4. **It may develop a customer franchise.** Achieving cotton brand loyalty among customers will protect from competition and may give greater control over marketing mix.

While considering all the above benefits of branding, the Indian government is also considering branding the locally produced cotton fibre to get premium prices from overseas markets. According to a *Business Standard* report, the Textiles Commissioner of India, Dr. Kavita Gupta, has held several rounds of meetings with the different stakeholders of the cotton industry - traders, ginners, textile mills and garment manufacturers - for revising the Technology Mission on Cotton (TMC). The originally approved TMC was in operation up to December 2010.

Under the guidelines of the revised TMC, exporters will be allowed to qualitatively improve the quality of Indian cotton, in order to ensure lesser contamination, trash and better/ desirable staple length in the raw fibre, similar to the Egyptian and American cotton, currently being sold.

This report also has a mention that the revised TMC will have provisions for 'contract farming' in cotton for commercial purposes.

In issues number 6th and 7th of this publication (May 2017), Shri. Sharma and Shri. Bajaj had written about the impediments in branding Indian cotton and its possible solutions. So, in this article I will be discussing in detail about 'Contract Farming' – which will hopefully improve the quality of Indian cotton.

To establish an agrarian economy that may ensure the doubling of cotton farmers' income by 2022, provide raw material for its expanding cotton processing/ consuming industry and have surplus for exports; commitment driven 'contract cotton farming' is undoubtedly a viable alternative farming model. This will not only provide an assured and reliable income to cotton farmers, but also provide the desired quantity of quality cotton to ginners/ mill owners/ exporters.

How to Define 'Cotton Contract Farming'?

'Cotton contract farming' can be explained as a system under which a confirmed commitment for the production of cotton is carried out according to an agreement between a ginner/ mill owner / buyer on one side and the farmer on the other. This agreement establishes conditions for its production and marketing. Typically, the farmer agrees to provide a specific type of cotton as per requirements mentioned in such an agreement. In any case, the company bears the entire costs of transaction and marketing.

The basic impediment in the branding of Indian cotton is its quality (physical as well as genetical). And contract farming may be considered as the immediate solution for improving the quality parameters of Indian cotton. It will remove many impediments mentioned by Shri. Sharma and Shri. Bajaj, such as the tendency amongst farmers to add trash at various levels and also practices that add contaminants; marketing practices through brokers; pricing methods of cotton bales by ginners/spinning mills, etc.

Cotton contract farming is indeed a panacea for all ills. It can fill the gap of lack of investment and land improvement by supplying quality inputs, giving technical guidance and management skills to the producer of cotton by ginner/ mill owner / buyer.

Like the erstwhile Manmohan Singh government, the present Narendra Modi government also seems to keen to go ahead with corporatised agriculture in which big corporations/exporters (domestic and foreign) will have contracts with small and medium farmers to produce what they need. The Niti Ayog (2017) thinks a model law is required to streamline the contract farming system and make it more uniform across the states. According to Niti Ayog, "The law that shall be formulated will be a general one for all commodities and will aim at laying down a uniform set of terms and conditions that will significantly reduce conflicts."

Although contract farming has been operative in India since the 1960s, the amendments to the APMC Act at State levels have made it legal only in the last decade. It has provisions for registration of contract farming sponsors and recording of contract farming agreements with the APMC; protection of title or rights of farmers over the land under such contracts, dispute settlement mechanism and a model draft agreement suggesting various terms and conditions. Presently, contract farming has been co-opted by 22 states, but there is no uniformity or homogeneity regarding the kinds of produce that can come under it and the conditions under which contract farming should be allowed.

How Does Cotton Contract Farming Operate?

Under contract farming, cotton farmers are given seeds, credit, fertilizers, machinery and technical advice so that their cotton is tailor made as per the requirements of the mills/ ginners/ buyers/ exporters. There is no middlemen involved and farmers get a predetermined sale price. It sounds good and easy as the farmer does not have to make trips to the markets, nor worry about getting seeds and credit for farming operations, etc. By entering into a contract, the cotton farmers reduce the risk of fluctuating market demand and prices for his produce and the mills/ ginners/ buyers reduce the risk of non-availability of raw materials so as to meet their requirements.

Main Features of Contract Farming

- A bipartite agreement is made between the cotton farmer and the ginner/mill owner/ buyer/ exporter. The cotton producer agrees to produce the said type/ quality of cotton in desired quantities (subject to weather conditions); while the latter contributes directly to the management of the farm through input supply as well as technical guidance and also marketing the cotton.

- A specific type of cotton crop is grown by farmers under a buy back agreement with ginner/mill owner/ buyer, who may be engaged in trading or processing or consuming or exporting of such cotton.

- Under such contracts, the farmer assumes the production related risks, while the price risk is transferred to the company

Contract Farming Business Models

The various types of contract farming models in operation, are as follows:

The intermediary model - In this model, the buyer subcontracts an intermediary (a collector, or an aggregator or a ginner or a farmer organisation) who formally or informally contracts the farmers.

The informal model - This model is the most transient and speculative of all contract farming models, with a risk of default by both the promoter and the farmer. However, this depends on the situation: interdependence of contract parties or long-term trustful relationships may reduce the risk of opportunistic behaviour.

The centralised model - In this model, the buyers' involvement may vary from minimal input provision (e.g. specific varieties) to control of most production aspects (e.g. from land preparation to harvesting).

The nucleus estate model - In this model, the buyer sources both from own farms and also from contracted farmers. The estate system involves significant investments by the buyer into land, machines, staff and management.

The multipartite model - This model can develop from the centralised or nucleus estate models. It involves various organisations such as government statutory bodies alongside private companies and sometimes financial institutions.

Advantages of Contract Farming

Contract farming benefits both the farm-producers as well as to the ginners/mill owners/ buyers/ exporters.

Benefits to Producer/ Cotton Farmer

- Makes small scale farming competitive. Cotton farmers with small holdings can access technology, credit, marketing channels and information while lowering transaction costs

- New technologies such as higher yielding varieties and hybrids including Bt hybrids, innovative agronomic practices and IPM based plant protection practices with new pesticide molecules are available to the cotton growers.

- Transfer of these technologies to the growers go a long way in improving the productivity as well as the quality of cotton. State Departments of Agriculture of the cotton growing states with assistance from Ministry of Agriculture, Govt. of India and ICAR carry out the transfer of technologies

- Assured market for their produce at their doorsteps, reducing marketing and transaction costs. It reduces the risk of production, price and marketing costs. Contract farming can also open up new markets which would otherwise be unavailable to small farmers.

- It also ensures higher production of better quality of cotton thus reducing its per unit cost and also financial support in cash and /or kind to the cotton farmers.

Benefits to Mills, Ginners, Buyers and Exporters

- At the ginners/ mills/ buyers/ exporters level, it ensures a consistent supply of cotton with desirable quality parameters, at the right time and at lesser cost.

- Optimally utilises the installed capacity, infrastructure, manpower and market demand, and responds to safety and quality concerns of the consumers/ buyers in overseas markets too.

- Makes direct private investment in activities related to cotton production.
- The price is fixed through negotiation between the producers and mills/ginners/ buyers/ exporters.

Challenges in Contract Farming

- Contract farming arrangements are often criticised for being biased in favour of mills/ ginners/ buyers/ exporters/large farmers, while exploiting the poor bargaining power of small farmers.
- Problems faced by growers like undue quality cut on produce by mills/ ginners / buyers/ exporters, delayed deliveries of cotton to the factory due to unavoidable circumstances and practical difficulties faced by cotton producers resulting in delayed payments and sometimes price cuts too. Pest/ diseases attacks on the contract cotton crop raise the cost of production, thus farmers have to bear losses.
- Contracting agreements are often verbal or informal in nature, and even written contracts often do not provide the legal protection in India, that may be observed in other countries. Lack of enforceability of contractual provisions can result in breach of contracts by either party.

Policy Support

Agricultural marketing is regulated by the States' Agricultural Produce Marketing Regulation (APMR) Acts. In order to regulate and develop the practice of contract farming, Government of India has been actively advocating to the States/ Union Territories (UTs) to reform their agri- marketing laws to provide a system of registration of contract farming sponsors, recording of their agreements and proper dispute settlement mechanism for orderly promotion of contract farming in the country. Presently, contract farming has been co-opted only by 22 states but there is no uniformity or homogeneity regarding the kinds of produce that can come under it and the conditions under which contract farming should be allowed. Success of contract farming largely depends upon interest taken by the state governments.

NABARD's Initiatives in Contract Farming

NABARD developed a special refinance package for contract farming aimed at promoting increased production of commercial crops and creation of marketing avenues for the farmers. The various initiatives undertaken by NABARD in this direction are:

- Financial interventions
- Special refinance package for financing cotton farmers for contract farming in AEZs
- 100% refinance to disbursements made by CBs, SCBs, RRBs and select SCARDBs (having net NPA less than 5%)
- Term facility for repayments (3 years)
- Fixation of higher scale of finance for crops like cotton under contract farming.
- Extension of refinance scheme for financing farmers for contract farming in AEZs.
- Extension of refinance scheme for contract farming under Automatic Refinance Facility.

Special Steps to be Taken to Make Cotton Contract Farming a Success

In relation to contractual terms, the contract should:

- be negotiated transparently and fairly among the cotton farmers/ginners/mills/ buyers/ exporters, providing adequate information at all times on the financial aspects of the contract and the risks and likely impacts
- consider alternative contract farming models
- be regulated by a written contract spelling out the details and obligations of both the ginners/ mills/ buyers/ exporters on one side and the cotton growers on the other. This contract must be a written in a clear and understandable way and cotton growers should be given sufficient time to review it
- be transparent about how the price is determined, the duration of the contract and how production inputs and other services are to be supplied and used by cotton farmers
- build in a clause for the renegotiation of the contract at agreed intervals, and specify the sharing of production and market risks among the parties
- track and communicate performance to affected stakeholders to build accountability at the operational level
- prevent unfair practices in buyer-farmer relations, and should not prohibit or discourage cotton farmers from associating with other

farmers to compare contractual clauses or to address concerns or problems

- have clear mechanisms for settling disputes
- have the government acting as a third party, or mediator, between the parties and not be a mouthpiece for the mills /ginners / exporters / buyers only. And should have appropriate legislation to ensure that farmers' rights can be enforced.

The most important aspect for succeeding in getting cotton farmers' income doubled and to produce cotton with the least contamination in desired quantity that can meet domestic and export needs, is dependent on how successfully farmers, ginners and mill owners adopt /follow Best Management Practices. (BMPs). TMC developed a model of Integrated Cotton Cultivation (ICC) that includes a set of BMPs for farmers, marketers, ginners, etc.

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

Global Cotton Production to Increase in 2017/18

Cotton plantings in the northern hemisphere for the 2018/19 season will begin in a few months. Following two years of declining planted area, global cotton area for 2017/18 is projected to increase by 11% to 32.5 million hectares. Planted area in India is estimated at 11.55 million hectares for 2017/18, with production projected to grow by 8.7% to 6.2 million tons. In 2017/18, planted area in the USA continues to grow for the second season by an estimated 20% to 4.6 million hectares. Pakistan plantings for 2017/18 are expected to increase by 24% to 3.1 million hectares after several years of declining area with an anticipated 24% growth in production to 2.06 million tons. Production is projected to increase in all other major producing countries during 2017/18, including China, Brazil, Francophone Africa and Turkey. Global production in 2016/17 rose by 7% and is forecasted to grow by 12% during 2017/18.

Global cotton mill use is expected to grow in 2017/18 by 3% to 25.2 million tons. The gap between cotton prices and polyester prices has continued to narrow since mid-2017 despite a recent upturn in cotton prices that may push cotton consumption higher. While mill use is rising, stocks will continue to grow as production outpaces consumption. Imports by China are expected to remain steady as the stock to use ratio decreases. Mill use in China is expected to grow at 1% to 8.12 million tons. Cotton mill use is also projected to grow moderately in India, Pakistan, Turkey, Bangladesh, Vietnam and Brazil.

World cotton trade is expected to remain stable at 8 million tons for 2017/18. Exports by the USA in 2016/17 reached 3.248 million tons and in 2017/18 exports are projected to decrease slightly to 3.176 million tons. India's exports for 2016/17 were down 21% from the previous year to 991,000 tons, but are expected to grow by 8% in 2017/18 to 1.07 million tons. Bangladesh imports in 2016/17 were 1.4 million tons. Bangladesh will remain the largest importer in 2017/18 accounting for 18% or an estimated 1.535 million tons of world imports. Vietnam will remain the second largest importer with imports growing by 17% during 2017/18 reaching 1.4 million tons.

After two years of shrinking, global stocks are expected to grow by 3% in 2017/18 to 19.2 million tons. Stocks in China are expected to continue to decrease by 14% to 9.09 million tons, while stocks outside of China are expected to increase to 10.1 million tons.

Plantings have started in the southern hemisphere. Cotton area is expected to increase by 6% in Brazil to 995,000 hectares and in Argentina to 410,000 hectares. Australia planted area is expected to expand by 3% to 574,000 hectares.

Source: ICAC Cotton This Month, December 1, 2017

Supply and Distribution of Cotton

December 1, 2017

Seasons begin on August 1 — Million Metric Tons

	2012/13	2013/14 Est.	2014/15 Est.	2015/16 Est.	2016/17 Est.	2017/18 Proj.
BEGINNING STOCKS						
WORLD TOTAL	**15.708**	**19.428**	**21.317**	**22.955**	**20.24**	**18.71**
China	6.696	10.811	13.280	14.118	12.65	10.63
USA	0.729	0.827	0.512	0.795	0.83	0.60
PRODUCTION						
WORLD TOTAL	**27.079**	**26.225**	**26.269**	**21.483**	**23.00**	**25.74**
India	6.290	6.766	6.562	5.746	5.73	6.23
China	7.600	7.000	6.600	5.200	4.90	5.25
USA	3.770	2.811	3.553	2.806	3.74	4.65
Pakistan	2.002	2.076	2.305	1.537	1.66	2.06
Brazil	1.310	1.734	1.563	1.289	1.53	1.57
Uzbekistan	1.000	0.910	0.885	0.832	0.79	0.80
Others	5.107	4.928	4.801	4.072	4.65	5.18
CONSUMPTION						
WORLD TOTAL	**23.450**	**24.101**	**24.587**	**24.180**	**24.52**	**25.22**
China	7.900	7.600	7.550	7.600	8.00	8.12
India	4.762	5.087	5.377	5.296	5.15	5.30
Pakistan	2.216	2.470	2.467	2.147	2.15	2.23
Europe & Turkey	1.560	1.611	1.692	1.687	1.61	1.63
Bangladesh	1.045	1.129	1.197	1.316	1.41	1.44
Vietnam	0.492	0.673	0.875	1.007	1.17	1.31
USA	0.762	0.773	0.778	0.751	0.71	0.73
Brazil	0.910	0.862	0.797	0.701	0.73	0.76
Others	3.802	3.896	3.854	3.675	3.60	3.70
EXPORTS						
WORLD TOTAL	**10.048**	**9.029**	**7.786**	**7.552**	**8.11**	**8.15**
USA	2.836	2.293	2.449	1.993	3.25	3.18
India	1.690	2.015	0.914	1.258	0.99	1.07
CFA Zone	0.821	0.973	0.966	0.963	0.97	1.00
Brazil	0.938	0.485	0.851	0.939	0.61	0.65
Uzbekistan	0.690	0.615	0.550	0.500	0.34	0.37
Australia	1.343	1.058	0.527	0.616	0.81	0.73
IMPORTS						
WORLD TOTAL	**10.213**	**8.858**	**7.789**	**7.571**	**8.11**	**8.15**
Bangladesh	1.055	1.112	1.183	1.378	1.41	1.54
Vietnam	0.517	0.687	0.934	1.001	1.20	1.40
China	4.426	3.075	1.804	0.959	1.10	1.34
Turkey	0.803	0.924	0.800	0.918	0.80	0.72
Indonesia	0.686	0.651	0.728	0.640	0.75	0.76
TRADE IMBALANCE 1/	0.166	-0.171	0.003	0.020	0.00	0.00
STOCKS ADJUSTMENT 2/	-0.075	-0.063	-0.047	-0.034	-0.01	0.00
ENDING STOCKS						
WORLD TOTAL	**19.428**	**21.317**	**22.955**	**20.243**	**18.71**	**19.24**
China	10.811	13.280	14.118	12.650	10.63	9.09
USA	0.827	0.512	0.795	0.827	0.60	1.35
ENDING STOCKS/MILL USE (%)						
WORLD-LESS-CHINA 3/	**55**	**49**	**52**	**46**	**49**	**59**
CHINA 4/	**137**	**175**	**187**	**166**	**133**	**112**
COTLOOK A INDEX 5/	**88**	**91**	**71**	**70**	**83**	

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, 2017

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 DECEMBER 2017					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	4th	5th	6th	7th	8th	9th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	11473 (40800)	11445 (40700)	11445 (40700)	11445 (40700)	11445 (40700)	11445 (40700)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	11670 (41500)	11642 (41400)	11642 (41400)	11642 (41400)	11642 (41400)	11642 (41400)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	8267 (29400)	8267 (29400)	8352 (29700)	8408 (29900)	8492 (30200)	8520 (30300)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	9195 (32700)	9195 (32700)	9139 (32500)	9139 (32500)	9139 (32500)	9167 (32600)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	9926 (35300)	9983 (35500)	10067 (35800)	10067 (35800)	10067 (35800)	10095 (35900)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	10461 (37200)	10432 (37100)	10432 (37100)	10432 (37100)	10489 (37300)	10517 (37400)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	9561 (34000)	9561 (34000)	9561 (34000)	9561 (34000)	9617 (34200)	9645 (34300)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	10039 (35700)	10039 (35700)	10039 (35700)	10039 (35700)	10095 (35900)	10123 (36000)
9	P/H/R	ICS-105	Fine	27mm	3.5.4.9	26	10686 (38000)	10686 (38000)	10601 (37700)	10601 (37700)	10657 (37900)	10686 (38000)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	9786 (34800)	9786 (34800)	9786 (34800)	9786 (34800)	9842 (35000)	9870 (35100)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	10292 (36600)	10292 (36600)	10292 (36600)	10292 (36600)	10292 (36600)	10320 (36700)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	10770 (38300)	10742 (38200)	10714 (38100)	10714 (38100)	10770 (38300)	10798 (38400)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	10376 (36900)	10320 (36700)	10320 (36700)	10320 (36700)	10320 (36700)	10348 (36800)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	10517 (37400)	10517 (37400)	10517 (37400)	10517 (37400)	10601 (37700)	10629 (37800)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	10545 (37500)	10489 (37300)	10461 (37200)	10461 (37200)	10545 (37500)	10573 (37600)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	10686 (38000)	10686 (38000)	10686 (38000)	10714 (38100)	10798 (38400)	10826 (38500)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	10742 (38200)	10742 (38200)	10742 (38200)	10742 (38200)	10826 (38500)	10882 (38700)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	11023 (39200)	11023 (39200)	11023 (39200)	11023 (39200)	11107 (39500)	11135 (39600)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	11698 (41600)	11698 (41600)	11698 (41600)	11698 (41600)	11782 (41900)	11838 (42100)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	14369 (51100)	14510 (51600)	14650 (52100)	14650 (52100)	14735 (52400)	14819 (52700)

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