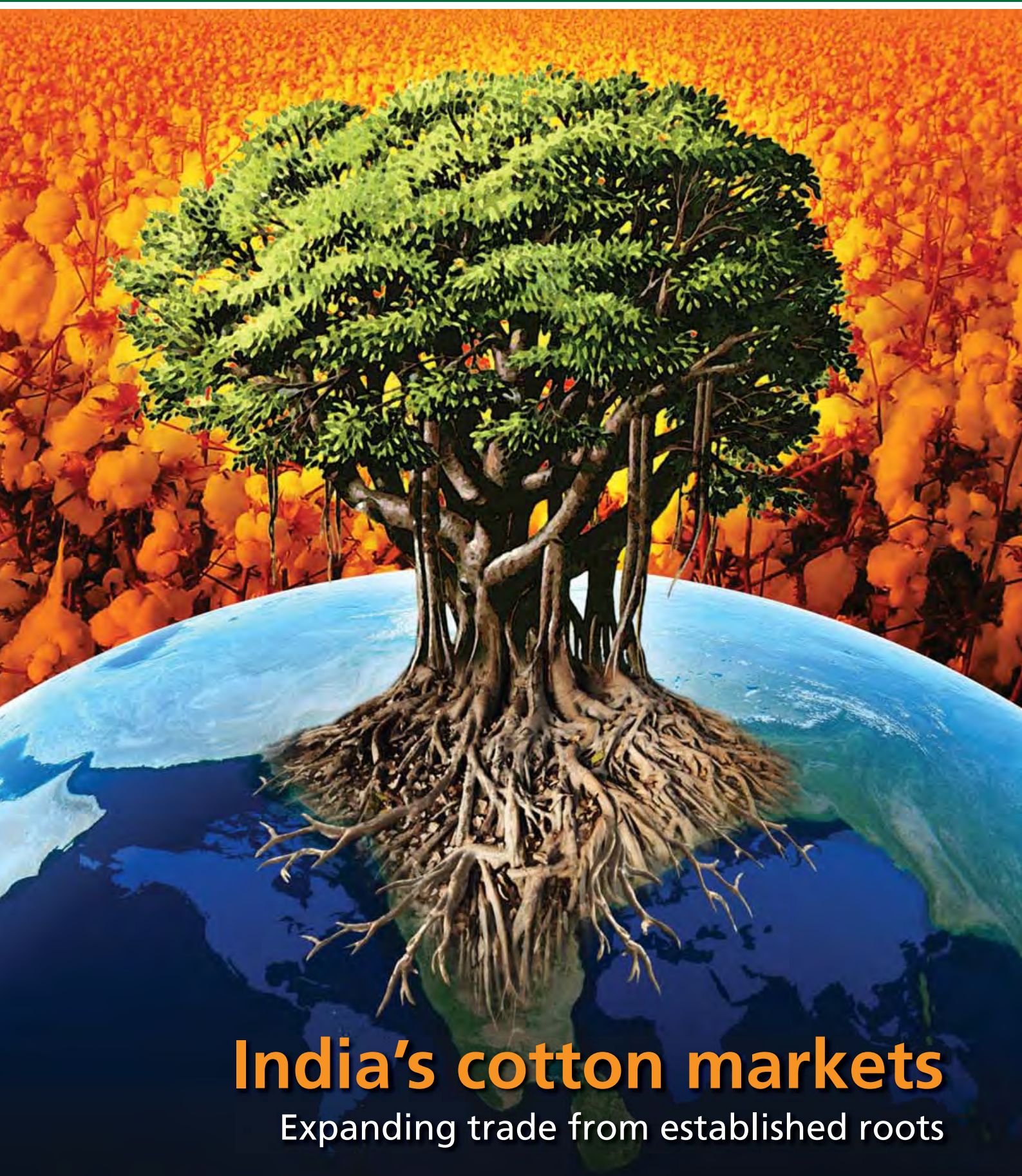


Cotton Outlook

Special Feature

November 2013



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India's Leading Role in Cotton and Cotton Textiles



Ray Butler,
Managing Director, Cotlook Limited

Several contributors to this Cotton Outlook Special Feature emphasise the persisting dominance of cotton in the Indian textile make up and point to the fact that the outlook is bright for cotton supply to feed the industry's requirement in view of the numerous efforts in progress to improve average yield. In this respect, attention is being paid to the best industry practices around the world, whether it is narrow row, high density planting or drip irrigation technology. In the coming seasons, India stands potentially (though still depending primarily on the generosity of the Southwest Monsoon) to reclaim the spot of being the world's leading cotton producer, sustaining the local textile industry's capacity to supply a rapidly growing domestic market and allowing it to increase its share of world textile and apparel trade.

Zohra Chatterji's comments highlight the investment potential that exists in both textiles production and Indian fashion, and, as Prem Malik indicates, the expectation is strong that a further big outlay on modernising and expanding capacity is to be anticipated in the next several years.

Ministers appear to have made clear, meanwhile, that the fear of cotton export policy swings alluded to by Mohit Shah in his article is ruled out for this season at least, so trade participants and overseas buyers might feel reassured they will receive the cotton they buy as the season progresses. Since this season's harvest has been delayed somewhat and local mills have also been eager to take up new crop supplies, the full weight of harvest pressure has perhaps not materialised quite as quickly as some observers had

anticipated. Heavy export commitments made to China for delivery by the end of the year have also served to underpin prices.

As some contributors note, there remain many challenges for India's cotton and cotton textile industry participants. The casual observer, however, might note the air of enthusiasm and the entrepreneurship that characterise the Indian cotton and cotton textiles sectors today.

The timing is thus ideal for the wonderful initiative taken by the North India Cotton Association to invite the global cotton industry to Delhi in November. This publication has been produced specifically to coincide with that event, though it will be circulated, like all Cotton Outlook's Special Features, in print and electronically to our worldwide audience and, in electronic format, to *Beijing Cotton Outlook's* Chinese readers.



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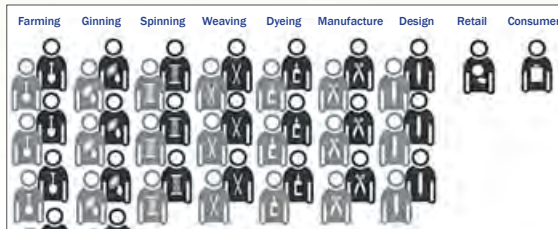
Also the Director of The Northern India Cotton Association Ltd.



For anything to be achieved, it comes first from a thought, turns into a vision and becomes a firm belief. Any obstacles have then to be overcome. Many events and revolutions would not have happened had someone not dreamed and devoted themselves to the cause. This separates leaders from individuals. They step forward to face the challenges and bring everyone concerned together.

Cotton is no different. We need to understand the unique nature of every fibre, spin them into a fine yarn, weave them into a perfect fabric and share this perfection with the worthy designers to fulfill a vibrant dream of clothing. The whole textile chain has to come together in order to bring meaningful change. We need to collaborate with our upstream and downstream partners to bring about the best for cotton to be the fibre of everyone's choice, desire and demand.

Effort is required to grow the market share of cotton fibre in textiles. Even a small increase can turn the fortunes of the entire cotton value chain. Cotton plays a very important role in India's textile trade and is one of the biggest contributors to the national GDP. So, to understand and remove hindrance to its growth needs to be actively carried out. The most pressing issues are to reduce the cost of cultivation, adopt the best ginning practices and



augment standardisation, whilst improving the availability of reliable data, reducing policy interventions, managing external risk and price volatility and maintaining sanctity of contract.

The Northern India Cotton Association has been working for the benefit of the entire value chain for more than 50 years. Members include producers, ginners, merchants, mills and exporters. We have been actively communicating with government at the State and Central levels so as to promote the industry. The organisation's primary objectives are to bring balanced growth and protect the interests of every stakeholder.

On the occasion of the Indian Cotton Conference 2013, I call on the leaders of the cotton world to collaborate and usher in new ideas to energise the whole value chain. Success will be unattainable unless every participant benefits. So, let's work together and grow together.

"Coming together is a beginning; keeping together is progress; working together is success."
Henry Ford



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Cotton and Textile Industry in India

**Excerpts of Statement of Zhora Chatterji, Secretary, Ministry of Textiles,
Government of India to the 9th International Uzbek Cotton and Textile Fair
held in Uzbekistan from 16th to 18th October 2013.**



The textile industry is a key economic driver of growth in India, contributing approximately 14% to the nation's industrial production, 11% to the country's export earnings, and 4% to our GDP. After agriculture, India's textiles industry engages the second largest workforce and complements the growth of several industries and institutions. Textiles in India is more than an industry - It is a tradition that is firmly woven into the social and cultural fabric of India. India's textiles industry is also unique on account of its diversity, ranging from hand-spun and hand-woven sector on the one hand to the capital intensive, sophisticated mill sector on the other. The handloom and handcrafted sector is an exposition of the rich tradition and cultural heritage of India and is particularly valued in foreign markets.

India was once the leading producer of cotton. Even today, it is the second largest producer as well as consumer of cotton and also the second largest exporter with an export of up to two million metric tons. It constitutes 59% of the fibre consumption in the country and engages about 5.8 million farmers, while about another 50 million people depend on activities relating to cotton trade and its processing for their livelihoods. India also has the distinction of having the largest area under cotton cultivation in the world - about 12 million hectares.

India continues to make rapid strides both in cotton production as well as consumption. Indian cotton encompasses all the four major varieties of cotton known globally, along with over 200 varieties and hybrids. We produce extra-long staple, long staple, medium as well as short staple varieties that can be spun in a wide range from 6 to 120 counts. Over the years, cotton production in India has increased significantly from the level of 2.31 million metric tons

in 2002-03 to a record level of 6.34 million metric tons in 2011-12. India is also the world's largest producer of organic cotton and has an annual production of 75,000 tons. With improvement in the quality of Indian cotton, its demand in the overseas market has been increasing. However, we are continuously looking at ways to enhance productivity and to provide a stable policy environment for maintaining cotton supply and prices at a reasonable level for domestic industry while affording enough opportunity for the farmers to get remunerative prices. Cotton export is under Open General Licence (OGL) and India is the second largest exporter in the world with an export of 10 million bales (of 170 Kg) during the cotton season 2012-13.

India is also the leading exporter of cotton yarn in the world - over 1,000 million kgs. With an installed capacity of 43 million spindles, India represents 20% of global spindle capacity. However, considering the abundant availability of cotton in the country, there is still scope for further investment in the spinning sector.

India is also the world's second largest producer of raw silk with annual production of about 25,000 tonnes of all known varieties. India also continues to be a major exporter of silk goods.

India is the third largest producer of cellulosic fibres/yarn, the fifth largest producer of synthetic fibres/yarn and the largest producer of jute.

India also has one of the highest weaving capacities in the world with over 5 million powerlooms, over 4 million handlooms, and an estimated 92,000 modern looms in the organised mill sector. Unorganised powerloom and handloom sectors together produce over 85% of total cloth production in the country.

India's domestic textiles and apparel market size is estimated to be worth about US\$63 billion and the export market is about US\$33 billion. The domestic market is rapidly growing on the back of economic development, while expansion of the export market reflects the growing competitiveness of Indian textiles and clothing.

India's households consume nearly 50% of all textiles and garments, followed by 20% by the institutional, industrial and technical sectors, and 30% by the export sector. According to research reports, with a booming population, and accompanying industrial growth, the potential size of the Indian textile and apparel industry is expected to reach US\$ 221 billion by 2021.

India, thus presents several compelling advantages for harnessing growth potential in its textile sector, such as: strong presence in the entire textile value chain from raw material to finished goods; availability of adequate skilled man-power at competitive wage rates; strong and diverse raw-material base including cotton, jute, silk, wool, man-made fibres and other speciality fibres; presence of extensive institutional support base; and, a strong and vibrant sense of entrepreneurship.

The Indian textiles sector also presents opportunities for introducing modern technology in weaving, processing and garmenting segments. The Government of India has put in place an industry-oriented and growth-conducive policy and business environment and enabling infrastructure for promotion of the textile sector.

Indian entrepreneurs have responded positively to the Government's initiative and huge investment of about US\$35 billion has been made in the last few years for adding new capacities and upgrading the existing ones. It is hoped that additional investments of about US\$25 to 30 million will be made over the next three years.

India has abundant availability of manpower with skill sets across all activities of the textiles value chain. The Government has also launched a massive programme for upgrading the skill of the work force engaged in the textile industry so as to cater to the growing demand of the industry. The programme is targeted to train 10 million persons by the year 2022.

India exported about US\$33 billion worth of textiles and clothing in 2012-13, including US\$17 billion of textiles, \$13 billion of apparel and one billion of handicrafts. India's textiles export growth rate is forecast at 15-20% and is likely to reach US\$50-55 billion by the end of 2016-17.

In view of several competitive advantages of the sector and a conducive investment climate, foreign direct investment (FDI) in the textiles sector is growing and several leading global brands have of late shown keen interest in the Indian Apparel and

allied sectors. The Ministry of Textiles, through its Technology Upgradation Fund Scheme (TUFS), offers up to 6% interest subsidy and 10% capital subsidy in investments in state of the art textile machinery. Further, to foster integrated clusters, the Scheme for Integrated Textiles Parks (SITP) also offers government assistance of up to US\$ 7 million for the 12th Plan period ending in 2017 toward common infrastructure development. As of now, 64 such SITPs are at different stages of development in India. I take this opportunity to invite international investors to take part in India's growth story and invest in its weaving, garmenting and processing sectors as well as in the manufacture of textile machinery, as India also has a huge and attractive market of young consumers to offer, in addition to its manufacturing strengths.

Apart from the traditional handloom and hand crafted sector representing the rich traditions of the country, India also has a vibrant fashion industry. Indian fashion industry and fashion education spearheaded by the National Institute of Fashion Technology (NIFT) has firmly established itself in the domestic as well as international markets. I invite the global textile industry for greater participation and collaboration with the Indian fashion industry also for harnessing its rich creativity and potential.



Changing Demand Pattern and its Effect on Indian Cotton Consumption



Prem Malik,
Chairman, Confederation of Indian Textile Industry

India traditionally prefers cotton and chief-value cotton fabrics, apparels and home textiles. The cultural link of Indians with cotton clothing has been the support base for the growth of the Indian textile industry. The economic development of the country is interwoven with the evolution of spinning, weaving, integrated textile mills and apparel for over a century. While maintaining the traditional strength, the industry has been able to modernize itself substantially and currently we have a unique blend of heritage and modern state of the art technology in the entire value chain. However, cotton continues to be the mainstay of our textiles industry along with other fibres.

The domestic textile and clothing (T&C) market in India is witnessing a compound annual growth rate of 10% due to increase in disposable incomes, large and youthful populations, who are fashion, style and brand conscious. The Indian housing industry is also growing rapidly, resulting in a huge demand for home textiles, especially bath linen, bed linen and interior decorations. This has resulted in the expansion of retail, both in the organized and stand-alone stores of reputed international and domestic brands. This trend is likely to increase substantially in the coming years. The current domestic market is to the tune of \$60 billion and the same is estimated to grow to \$120 billion by the year 2021.

After the dismantling of the multi-fibre agreement (MFA), Indian textile and clothing exports have increased substantially and we hope to achieve \$40 billion in 2013-14 against \$34 billion last year. Indian textile and clothing exports are forecast to achieve \$80 billion by 2021.

Our ratio of cotton and man made fibre is 60:40 for the domestic market and 80:20 for exports. This ratio

may change over the years - there may be some shift to man-made fibres - but it will not be as significant as in the rest of the world.

India's textile and clothing industry has made substantial investment in the entire value chain - an investment of \$30 billion has been made in the last 10 years. The industry is planning to invest an additional \$20 billion in the next 5 years to expand and modernize and upgrade capacities. This will further fuel consumption of cotton fibre for producing textile and clothing for the expanding Indian domestic market and for increasing our market share in the world from its current level of 4%, to 10%.

India has the largest area of land under cotton cultivation in the world i.e. over 11 million hectares. India's present share of world cotton area is around 36% out of 30.5 million hectares. Currently, India produces the widest range of cotton capable of spinning from 6s to 120s counts of yarn. Around 35% of the total area under cotton is irrigated and the remaining 65% is rain-fed. Total production of cotton in India during 2012 was around 5.6 billion kg, which represents a 21% share of world cotton production of approximately 26.5 billion kg. Quality-wise, roughly 79% of Indian cotton production is of superior long staple, 18% of Medium/Medium Long, around 2% of Extra Long staple and a little over 1% of short staple.

Total production, as well as yield and quality, have improved due to extensive use of Bt cotton, which has surpassed 80% of the total area under cultivation. Introduction of Bt cotton on a commercial scale in 2002, and various programmes under the Technology Mission for Cotton (TMC), have helped in reducing costs and increasing yield. Cotton yield per hectare has substantially increased from 300 to 500 kgs but it remains much below the world average, which is

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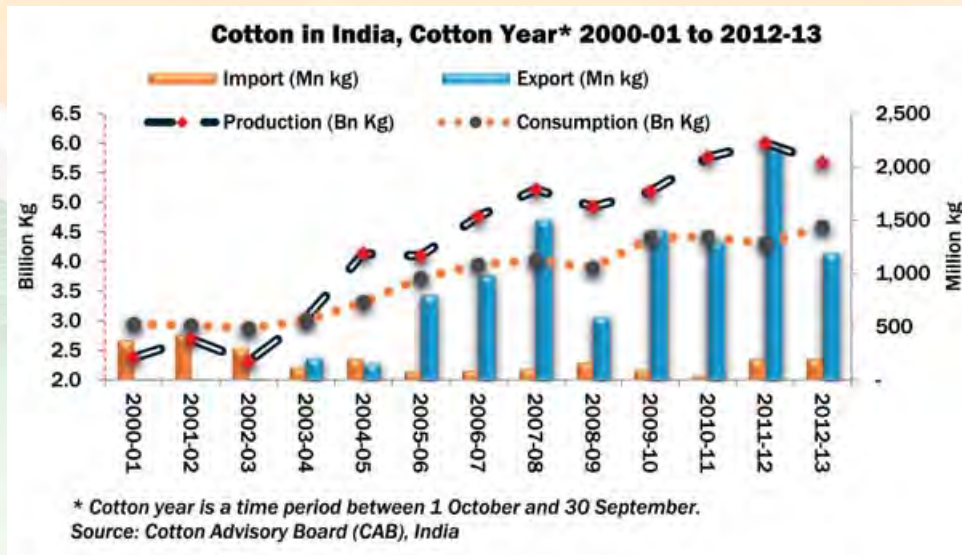


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Chart 1: Production, Consumption & trade trends for Cotton in India, 2001 to 2013



still exports the bulk of its cotton output. Brazil is another larger producer and consumer of cotton, but its imports of textile and clothing are increasing. India has a unique position in the world now to produce and feed cotton as much as is desired for manufacturing in the country. Cotton accounts for nearly 65% of fibre consumption in India (vis-a-vis 70% of man-made fibres in the rest of the world). Over

over 50 percent higher. Matching the world average in cotton yield would make India the world's largest cotton producer. Now, cotton policy in India has put special emphasis on the research and development of seeds and substantial improvement in irrigation facilities so as to increase yield. The possibility of importing seeds and technology from countries which have achieved high yields, like Brazil, Israel and China, is being explored. Consumption is basically driven by spinning mills in the organised sector, which account for around 90 percent of the total. Consumption is set to increase with the addition of more capacity, technology upgrades and modernisation. Domestic cotton consumption rose from 2.9 billion kgs in the 2000-01 season to 4.6 billion kg in 2012-13. As a result of higher cotton production, India has been able to convert its position from net cotton importer until 2002-03 to an exporter of more than 20% of production. However, in future, a substantial portion of Indian cotton will be absorbed by the expanding textile and clothing industry. India has the advantage of an abundant supply of home-grown cotton compared with other textile powers such as Bangladesh, Vietnam, Cambodia, Mexico, South Korea, Indonesia, Thailand and Turkey. Despite being the largest cotton producer, China continues to be a cotton deficit country and depends on large imports. Uzbekistan

20% of the world's active spindles are in India.

Over the last decade, the destination of cotton exports has switched from Europe to Asia, and in particular to China. The most important development of the past decade has been China's rise as the largest importer of cotton, accounting for 36 percent of the world total in 2012/13. Bangladesh, Turkey, Indonesia and Vietnam are the next largest importers, with a combined share of 30 percent expected in 2012/13, up from 28 percent five years ago due to increasing consumption. In contrast, Pakistan's share declined from 10 percent to 2 percent in 2011/12 due to reduced consumption, but it recovered to 5 percent in 2012/13.

The largest exporter of cotton over the last five years has been the United States, accounting for around a third of global cotton trade. India is the second largest exporter with its share in global

Chart 2: Major Cotton Consuming# Countries are Import Dependent, Except India

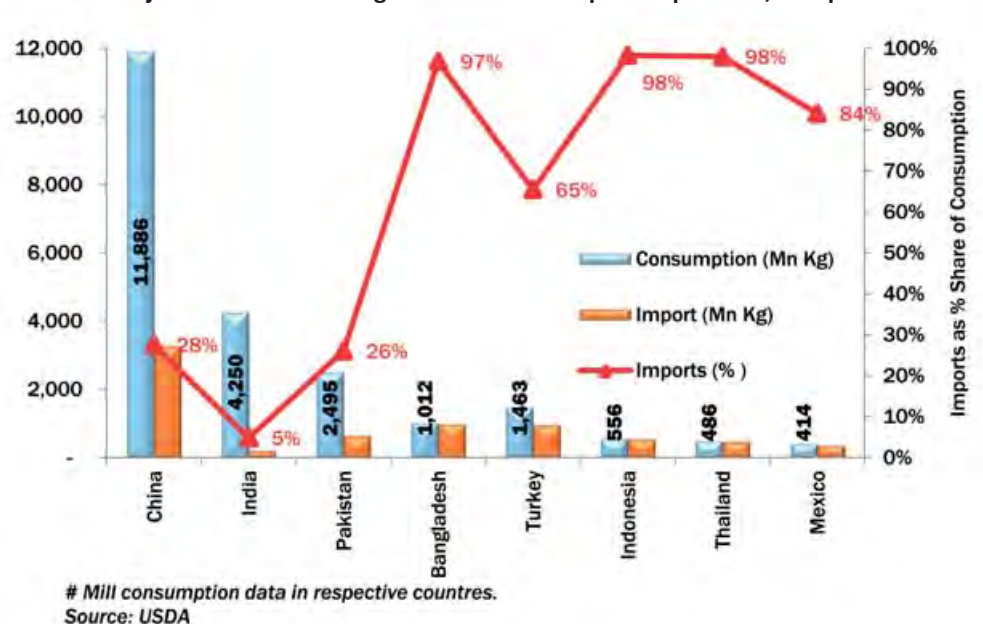
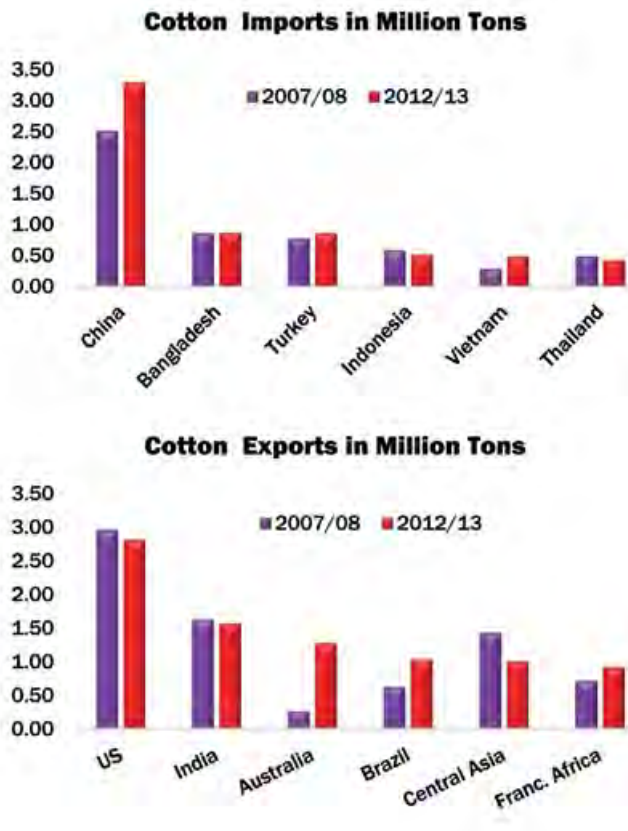


Chart 3: Cotton Imports and Exports

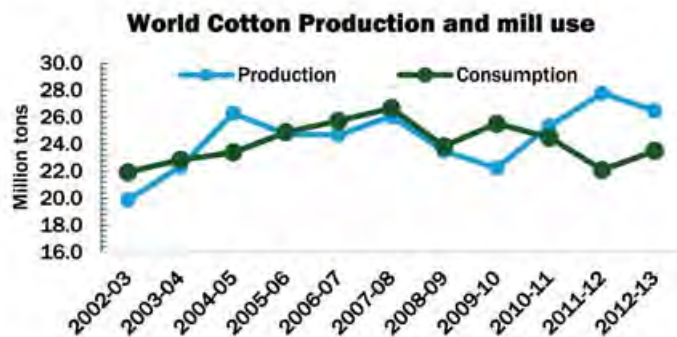


Globally, cotton mill use is continuously increasing in India, Bangladesh, Turkey and Pakistan. China, with highest cotton mill use is on a declining path. Now, there is increasing substitution-effect on cotton consumption by man-made fibre (MMF). Almost all major textiles producers or exporters have an increasingly high proportion of MMF-based textiles products, rather than cotton, except India. Recent expansion in spinning capacity in India, Vietnam, Bangladesh and Indonesia could offset reported declining yarn production in China.

Looking on world cotton production, consumption, trade and stocks statistics, it is readily apparent that cotton production was substantially higher than cotton consumption in 2011-12 and 2012-13. While China has built huge reserve stocks of cotton, Indian mill use has increased substantially. Few other countries, apart from Bangladesh, recorded an increasing pace of cotton mill consumption. While this shows substitution-effect on cotton of increased MMF use by many of the largest textiles producers, India is neither facing any

exports increasing or decreasing significantly, depending on domestic mill use. Central Asia's share declined in 2012 (from 16 to 10 percent) due to reduced production and increased consumption. The shares of Brazil and the C-4 countries (Benin, Burkina Faso, Chad and Mali) rose (from 6 percent to 11 percent and from 3 percent to 6 percent, respectively), owing to larger crops. Australia's share rose from 3 percent to 12 percent, also as a result of increased production.

Chart 4: World Cotton Production and Mill Use



Source: ICAC

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increasing substitution-effect nor is it suffering stagnant domestic demand. India is largest exporter of cotton yarn in the world and also one of the largest cotton textiles and apparel exporters globally. Preference of cotton textiles among indigenous consumers and surging demand for cotton textiles, home textiles and apparel from the world markets will keep the cotton flag flying in India for clothing its own population and as one of the clothiers to the world.

Review of Cotton Yields - a Key Factor of Cotton Production



Samir Kumar Ghosh,
India Business Manager, Cotlook Limited

“Dil Mange More” is a very popular slogan running in India for the advertisement campaign of a famous cold drink manufacturing company. It is a mixture of Hindi and English words that has the meaning the “heart desires more”. There is a never-ending expectation for betterment from the actual in India. Thus, there is scope or hunger for improvements for all of the achievements with the application of better or improvised technologies or skills.

In cotton cultivation globally, improved yield is always highly desired. It will become more and more significant in the coming years, when greater agricultural areas will be required to produce food grains, oil seeds and other agricultural products to meet the requirement of an increasing population. This will become an important constraint in India.

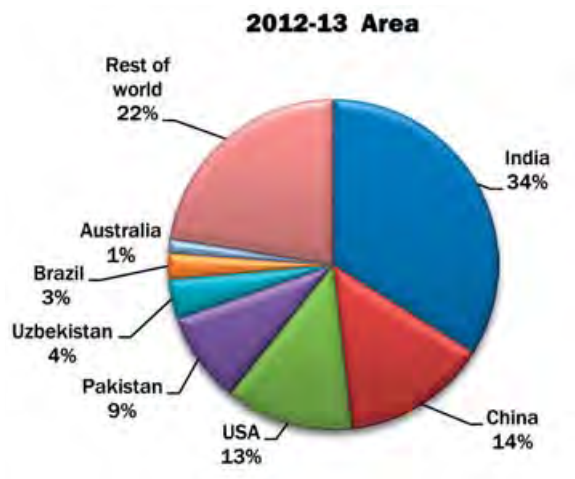
Globally, India is the “second largest producer” of cotton after China. It is very likely that India will emerge as the world’s largest cotton producer within a few years by “Achieving the Yield” equal to the world

average. The planted area under cotton in India has remained one of the highest in the world. Considering the record area sown in 2012/13, India’s share is almost 34% of the world total. However, in terms of aggregate production India is able to achieve only approximately 22 percent of cotton globally, which is a poor record. It can be seen, therefore, that there is tremendous scope for the improvement of yields.

Out of approximately 80 cotton producing countries in the world, six (China, India, USA, Pakistan, Uzbekistan and Brazil) produce almost 80% of the world’s cotton. Some countries achieve production through higher area utilization and some by dint of greater productivity.

World window

To get clarity about the world cotton production scenario, we have tabulated countries utilizing the greatest areas, countries producing the majority of cotton and countries obtaining maximum yield.



Cotton Area (In 1,000s Hectares)					
	2009-10	2010-11	2011-12	2012-13	2013-14 (Proj)
India	10,310	11,142	12,191	11,773	11,400
China	5,195	5,135	5,210	4,939	4,709
USA	3,047	4,330	3,986	4,372	3,241
Pakistan	3,200	3,115	3,177	3,100	3,080
Uzbekistan	1,340	1,350	1,350	1,350	1,300
Brazil	825	1,400	1,400	894	1,068
Australia	190	590	602	445	540
Rest of World	6,035	6,554	8,348	7,831	7,451
World	30,142	33,616	36,264	34,704	32,789

Note: More than one third of world cotton area is being utilized by India

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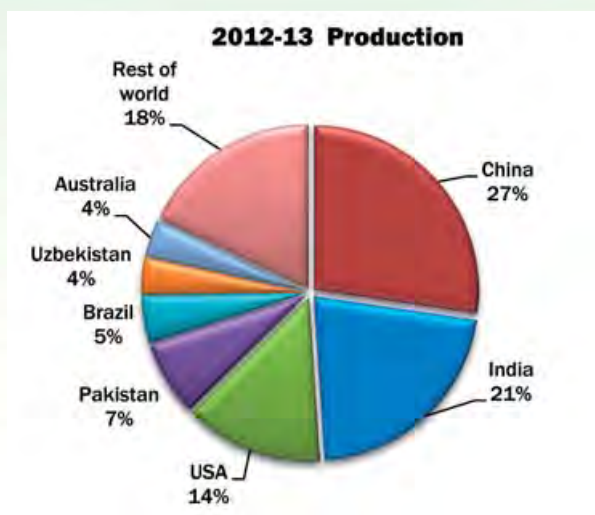
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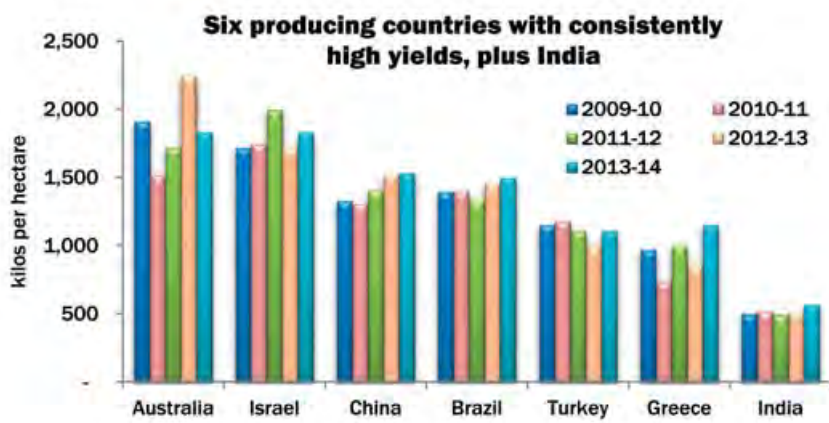
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Cotton Production (in 1,000s Hectares)					
	2009-10	2010-11	2011-12	2012-13	2013-14 (Proj)
China	6,900	6,400	7,330	7,520	7,000
India	5,185	5,763	6,035	5,950	6,375
USA	2,654	3,942	3,388	3,771	2,888
Pakistan	2,032	1,760	2,210	2,050	2,025
Uzbekistan	850	908	880	1,000	950
Brazil	1,150	1,960	1,868	1,290	1,550
Australia	363	898	1,067	1,000	990
Rest of World	2,878	3,198	4,317	3,940	3,710
World	22,012	24,829	27,095	26,521	25,488

Note: China is the world's largest cotton producer with an average of 28% of the total



Six producing countries with consistently high yields, plus India					
	2009-10	2010-11	2011-12	2012-13	2013-14
Australia	1,912	1,522	1,722	2,247	1,833
Israel	1,720	1,748	2,000	1,726	1,833
China	1,328	1,305	1,407	1,523	1,533
Brazil	1,394	1,400	1,334	1,459	1,498
Turkey	1,152	1,184	1,111	1,000	1,111
Greece	974	739	1,000	862	1,154
India	503	517	495	505	567



Note: We have considered the five top achievers of yield in 2012/13 and show the data for a five-year period, including projections for 2013/14. Australia and Israel have maintained consistently high yields.

India - Insights

A new era began in Indian cotton with the introduction of "Hybrids". Hybrids did very well to achieve the "desired fibre quality" in respect of properties such as fibre length and micronaire. This made India the only country producing cotton with a wide range of qualities and staple length.

A second revolution came through GM (genetically modified) Bt cotton

Bt cotton was introduced in India in 2002 and since then its share has been increasing gradually, to reach its current level of around 95 percent of total cotton production. Indian farmers got the taste of better yields and resultant profitability through the use of Bt varieties. Cotton area also kept on gradually increasing, hence the rise in total production. The increased production resulted in a higher exportable surplus, and India has emerged as the Second Largest Exporter in the world in recent years.

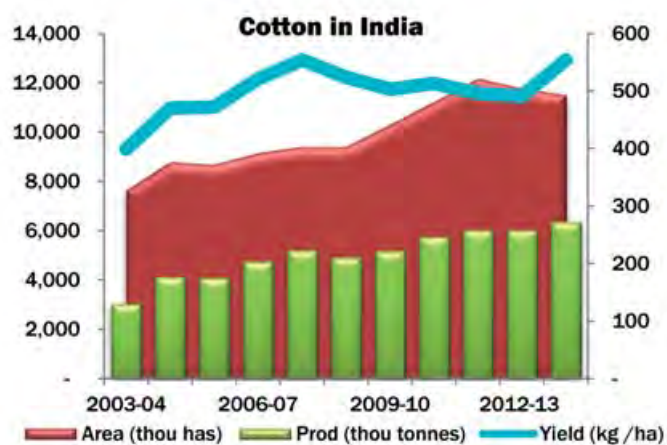
A peak average yield of 554 Kg/hectare was achieved in the 2007/08 cotton season. However, we have also to look into the yield factor for each Individual state; Haryana, Punjab, Gujarat and Tamil Nadu delivered quite reasonable output, owing to the introduction of better irrigation systems and good rain (in Tamil Nadu). The yield in Maharashtra was relatively low, whereas it plants the largest cotton area of any state in India (almost one third of the total). This gives a pull-back effect to Indian production.

Rainfed and irrigation

The majority (approx. 66%) of cultivated area in India is rainfed. Sowing area and yield is dependent on and affected by the monsoon pattern. Timely and evenly distribution of the monsoon is one of the key factors in better production and yield. In the current season (2013/14), it has been a better situation for agriculture in general as well as for cotton, compared with previous years.

The onset of the monsoon was on time and it was widely and adequately spread throughout the season. Actually there has been excessive rain in some regions, but field observers at state level remain optimistic. Expectation is high, even of a bumper crop, with improved yields not ruled out.

The Agricultural Department, together with scientists, cotton bodies and different NGOs are working for the development of cotton and are now brainstorming to focus on increasing yield - first to achieve the world average of approximately 750 Kg/hectare, then to achieve levels of at least 1,000 Kg/hectare.



- Efficient weed management system.
- Development of specially designed Bt cotton suitable for HDPS would be very helpful.

New And Noteworthy Initiatives

High Density Planting System (HDPS)

As a result of current thinking there are moves to adopt and implement HDPS farming. High Density Planting System is also commonly known as the Ultra Narrow Row (UNR) system. It is being widely used in different countries such as Australia, Brazil, China, Uzbekistan and the USA, who are in the top bracket for achieving high yields. Brazil and India have similar weather conditions. Brazil also cultivates cotton in rain-fed areas.

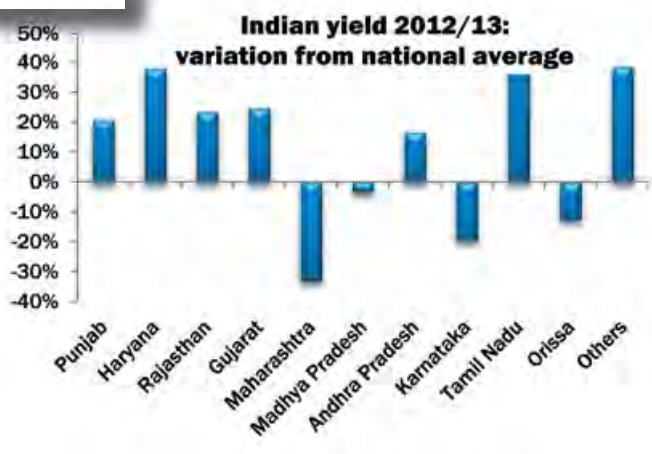
In India, the Central Institute for Cotton Research (CICR), Nagpur, has taken an active initiative since the year 2010 in adopting the Brazil model, and has conducted various trials, mainly in different districts in Maharashtra. Subsequently, they have also started conducting trials in different states. Plant populations of up to 150,000 per hectare have been commissioned. It is learnt that results are very encouraging and the yield achieved is in the range of 1,500 to 3,000 Kg/hectare.

Other institutional initiatives for HDPS adoption have been done by CITI-CDRA (Confederation of Indian Textile Industry - Cotton Development and Research Association). They have conducted trials with HDPS in different districts of lower Rajasthan and are reported to have achieved yields up to 1,600 Kgs/hectare

Cotton cultivation under HDPS requires some special considerations:

Cotton variety suitable for high density planting.

- Plant growth regulator to control plant growth and hasten maturity.
- Efficient nutrient management system - as thickly populated plants need more nutrients per unit area.
- Efficient pest management system - as the effect of pest attacks would be severe because of higher density.



Drip Irrigation System- to achieve better yield

Since the major cotton area in India is rain-fed, cotton production is being affected by the timely onset of monsoon, and/or erratic monsoon behavior. Drip irrigation systems are the need of the day, to maintain moisture in the soil. Countries like Israel have delivered excellent output with the drip irrigation system. In India, trials are being initiated in different states such as Maharashtra, Rajasthan, and Gujarat.

As improving yield is critical, vital and essential for India, we suggest the following measures:

- Government bodies need to control and monitor numerous varieties of seed running in India. The number should be rationalized and selection allowed only according to suitable agro-climatic appropriate zones.
- Initiate strict action against spurious seed suppliers
- Develop indigenous seed varieties - especially Bt cotton and Bt cotton suitable for HDPS
- HDPS cropping to be popularized and suitable agro-equipment designed and developed
- Drip irrigation to be given incentives.
- India must rapidly take consistent measures in the effort to improve yields.

The Southwest Monsoon: Drought and Deluge



Alice Robinson,
Market Analyst, Cotlook Limited

The onset of the Southwest monsoon traditionally marks the beginning of cotton planting operations in the rain-fed regions of India, which account for almost 65 percent of the total planted area (according to data from the FAO). Only around 35 percent of India's cotton is irrigated, and this is concentrated mainly in the three Northern Zone cotton producing states. Together, these produce around 14 percent of the total crop.

The irrigated cotton area increased from 10 percent in 1955/56, to just over 34 percent in 1994/95 [FAO], largely because of investment and modernisation in the industry, and has remained at approximately that level since. This has somewhat contributed to an increase in output, but an increase in irrigated cotton of 24 percent in almost 40 years is hardly rapid enough, or dramatic enough, to be indicative of a shift towards irrigation. Patently, the distribution and intensity of rainfall throughout the monsoon season has a direct relationship to the size and quality of the cotton crop. Given India's position as the world's second largest exporter of cotton,

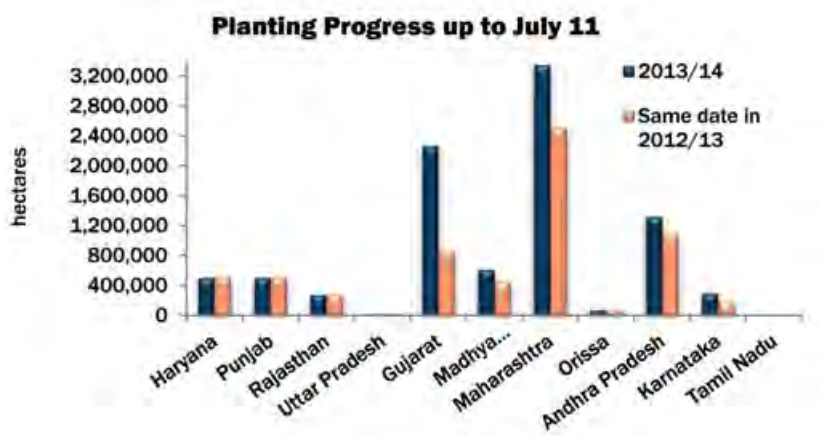
the production volume (and therefore exportable surplus) has a direct effect on the world cotton balance sheet. Around 23 percent of cotton produced globally originates in India.

This year seems an appropriate one to consider the importance of the Southwest monsoon in relation to Indian cotton production, as the correlation can be clearly illustrated by comparing with relative data from last year, when rainfall distribution levels were starkly different.

In 2012, the Southwest monsoon began its season late, not making landfall until around two weeks after the predicted date of June 1, and this lateness set the tone for the rest of the period. The weather system was delayed by meteorological depressions, stalled before entering the key central states and significantly lagged behind the progress of previous season's rainfall. As can be seen from the accompanying chart, planting in the three main producing states (Gujarat, Madhya Pradesh and Maharashtra, all residing in central regions) was already lagging behind the pace

of the previous season by July 11, when sowing should have begun in earnest with the arrival of rains. These central states produce around 67 percent of the total crop. The lag was most significant in Gujarat, the state which is also traditionally the largest producer of cotton.

This year, in contrast, the monsoon followed its forecasted trajectory almost to the day. The weather system made landfall on June 1, officially the first day of the rainy season in India,



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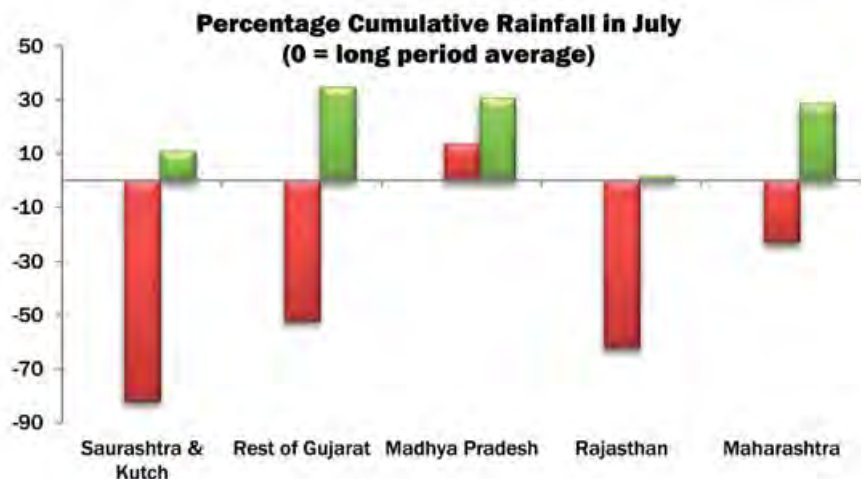
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with 100 percent of weather stations detecting at least 2.5 mm of rainfall in a 24 hour period. On the same date during the previous year, only around 15 percent of weather stations recorded the same level of precipitation, according to data from the Meteorological Department.

The rains in 2012 continued to be delayed, and by the third week in August of the year, the important Saurashtra growing region in Gujarat displayed a cumulative rainfall deficit for the season of 88 percent. Official and private production estimates were reduced across the board, and Cotton Outlook was no exception to this. In our August 2012 supply and demand forecast, the Indian production figure was revised downwards by half a million bales (of 170 kg), to a comparably paltry 31.5 million, when one considers the initial estimate of 34.5.

However, at the eleventh hour, the 2012 monsoon became vigorously active

over the key producing regions, and lashed the country with extremely heavy precipitation. In the first few weeks of September 2012, the deluge was so extreme that rainfall deficiencies began to narrow rapidly, even settling at a single figure percentage gap in some regions, which had previously been significantly deficient. Production estimates were generally reversed and settled close to the levels initially predicted. Perhaps ironically though, the revival of the monsoon was not without its risks for



the cotton crop. Such a massive volume of water falling on fields in a matter of weeks had left some areas flooded and waterlogged. This posed a threat of damage to cotton which was already in the ground, and prompted fears of restricted yields and pest attacks. The balance between a helpful volume of rain and an unhelpful one teetered within the range of a few percentage points, a few millimetres of daily moisture, and informed farmers' perceptions that the late rains may constitute too much of a good thing.

In reality, the wet conditions abated just in time for the production of a healthy crop, in the top portion of India's historical production volumes. It cannot be said that no major impact was felt though, as seed cotton arrivals from the 2012/13 crop were delayed by around one month, which affected the global cotton balance sheet, and in turn affected international asking rates. In November 2012, over a month after the Southwest monsoon season had finished, Cotton Outlook tellingly wrote; "the anticipated pressure from [the Indian crop] has yet to weigh on prices". The delicate nature of this balance between a 'good volume' and 'bad volume' of precipitation is certainly notable, when one considers that the second largest

exporter of cotton globally is so dependent on the accurate prediction of a complex and expansive weather system.

In the current (2013/14) season, all signs point to a bumper crop. Putting aside growers' efforts to improve technology and develop new cultivation practices, the biggest reason for this increase in production was the healthy progress of the monsoon, which emulated its forecast trajectory and intensity from the day the season began, to the benefit of plants. Sowing throughout the 2013/14 season broke all previous records, and by July 4 was 75 percent ahead of the same date in 2012/13. For the country as a whole, cumulative rainfall for the season represented 106 percent of the Long Period Average (compared with 93 percent in 2012/13). Cotton Outlook's current estimate pertaining to 2013/14 is placed at 38 million bales of 170 kgs, the highest volume ever. This impressive output figure is doubtless attributable to great effort and endeavour on the part of the Indian farmer, however, it must be noted that for the vast majority of the cotton belt in India, growers are, for better or worse, at the mercy of Mother Nature.

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India's Place in World Cotton Output



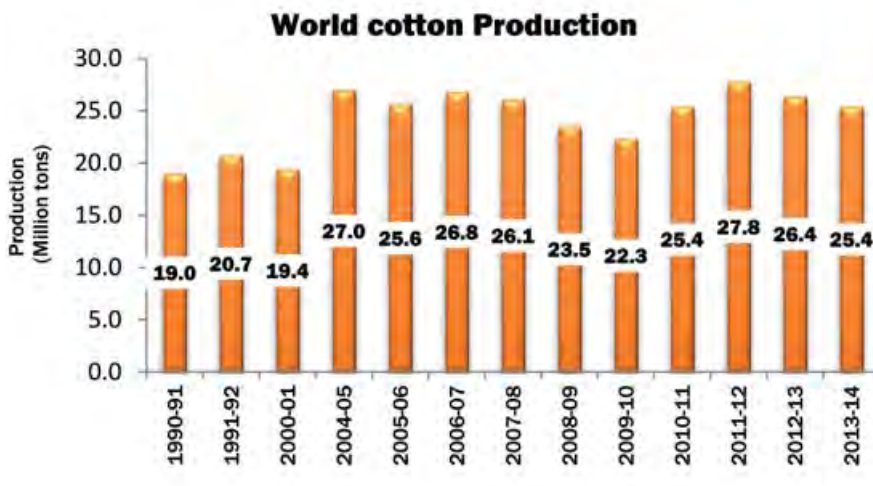
I. J. Dhuria,
Director (Materials), Vardhman Textiles Limited

World cotton production exploded from 14 million tons in 1980 to 19 million in 1984 due to better hybrid seeds and better plant protection against pests, which lead to increases in yield. For the 16 years from 1984 to 2000 production was flat except in the year 1991-1992, when it reached approximately 21 million tons.

The area dedicated to cotton globally has been fluctuating since 1990 from 28 million to 36 million hectares. Growth in output has come mainly from improvement in yields.

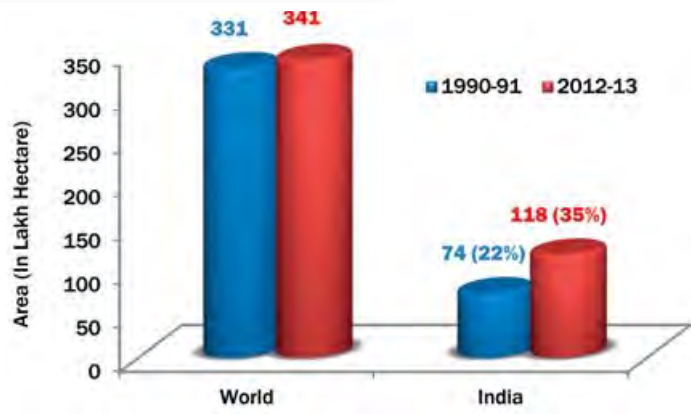
From the mid-1980s to 2003-04, world average yield was in the range of 500 kg/ hectare. Following the introduction of BT seed, average yield was raised to between 730 and 780 kg.

World area has gone up only slightly over the period, whereas cotton has been sown on 60% more land in India. World average yield has risen by 35%, while India's has increased by about 82 percent. Nevertheless, yield in India in the last 10 years has ranged from 470 to 550 kg per hectare, and thus still lags behind the world figures.



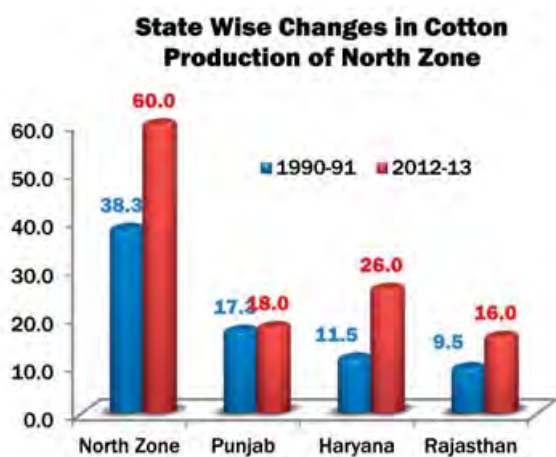
Continuous use of Biotech cotton varieties from 1996 onward, together with expansion of cotton growing areas in Australia, Brazil, China and West Africa, boosted production to a then record 27 million tons in 2004-05. In 2011-12, that record was broken.

The top five cotton producing countries, namely China, India, USA, Pakistan and Brazil, account for the majority. China, India and Pakistan alone contribute around 60%.



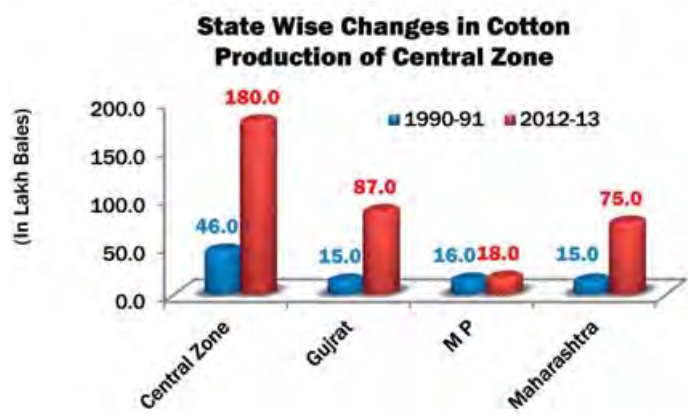
More land and improved yield has almost doubled India's cotton output. The scope is wide for more improvement in India's yields, as a result of better seed availability and better farm practices. If India should achieve the world average of about 750 kg per hectare on the present area, then India's production would surpass 9 million tons, making it the world's largest producer.

North India's contribution in terms of the area cultivated and output has increased but it now accounts for merely 18 percent of national production, having been as high as 33 percent some 22 years ago. Average yield has increased from 395 to 650 kg/hectare.



Punjab has witnessed a decline in area from 700,000 hectares in 1990-91 to 510,000 in 2012-13. Output has gone up slightly, as a result of an increased average yield (from 418 kg/hectare to 605 kg). Haryana, in contrast, has witnessed expansion of the area sown (from 489,000 to 614,000). This, together with an 80 percent rise in average yield, has raised the state's output from 1,150,000 bales to around 2,600,000. Rajasthan has recorded a production increase of 68 percent, from 950,000 bales in 1990-91 to 1.6 million in 2012-13. Average yield has risen from 355 kg in 1990-91 to 604 Kg in 2012-13.

Central India's contribution has grown from 57% to 67% in terms of its share of total area and from



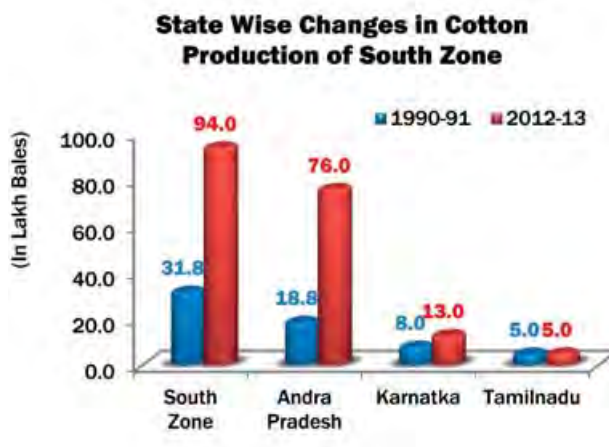
39% to 62.5% in terms of output during the 22-year period under review. The increase in area across the region (69 percent) has been far outweighed in terms of the gain in production (291%). Average yield has more than tripled, from 131 to 428 kg/ hectare.

In Gujarat, the yield gain has been from 277 to 616 kg, while in Madhya Pradesh it has been less pronounced (from 463 to 503 kg). More than half as much land again than 22 years ago is now being devoted to cotton in Maharashtra. Yield in the state has doubled, but still remains comparatively low, 308 kg.

In South India, cotton area has almost doubled, while output has trebled. Yield has increased from 367 to 555 kg/ hectare.

Andhra Pradesh's area expansion is impressive, from 660,000 to 2,270,000 hectares. Yield has risen from 485 to 569 kg. Karnataka has recorded a fall in plantings over the period by about 19 percent but yield has virtually doubled, to 456 kilos. Tamil Nadu has also seen a reduction in area, of about 42 percent, though average yield has risen from 392 to 675 kg.

The leading cotton producing states – Gujarat, Maharashtra and Andhra Pradesh - together account for 75% of the country's cotton area and contribute about 70% of total cotton output. The three states are known as the 'cotton basket' of India.



The 'cotton basket' can be compared with China's Xinjiang region or the US state of Texas but there is a big difference in the yield level of these clusters.

Outside of these three states, lower Rajasthan can be identified as having high growth potential. Area has risen almost six-fold in the past 22 years and the region accounted for half of the plantings in the state in 2012/13. Average yield has touched 648 kg/hectare.

Rajasthan – The Emerging Area In Cotton Production



P. D. Patodia,
Past Chairman, Confederation of Indian Textile Industry and
Chairman, Standing Committee on Cotton , CITI (CDRA)

Introduction:

Cotton Production in India has witnessed a turnaround in the past decade. From 17.9 million bales in 2002-2003, production increased to 34.0 million bales in 2012-13. During the current year it is estimated at 37.5 million bales. A number of factors have contributed to this turnaround. Launching of Technology Mission on Cotton (TMC) in 2000 to address the whole gamut of cotton issues, from research to processing raw cotton, coupled with the introduction of *Bt* Cottons from 2002 onward and increased area have been the most important factors. In the wake of this turnaround, India has emerged as No. 2 producer of cotton in the world, and also as a major cotton exporter. Yield, which stagnated at around 300 Kgs of lint/hectare up to 2000-2001, improved to 554 Kgs of lint/hectare in 2007-08. However, subsequently yield has shown a declining trend and it is around 500 Kgs of lint/hectare. To overcome the present stagnation, emphasis now is being placed on agronomic management and cropping system.

Yield - Kgs of Lint/hectare				
Year	National Average	Punjab	Haryana	Rajasthan
2002-03	302	284	287	220
2003-04	399	389	372	452
2004-05	470	551	424	427
2005-06	472	610	350	325
2006-07	521	672	481	437
2007-08	554	563	528	415
2008-09	524	565	522	422
2009-10	503	432	511	459
2010-11	517	593	587	513
2011-12(p)	493	562	663	615
2012-13	489	593	677	606

Rajasthan Cotton Scenario:

Among the nine major cotton growing states in India , Rajasthan, one of the states in India's Northern Cotton Growing Zone, is emerging as a promising area for increased cotton production.

CITI-CDRA's Entry In Rajasthan For Cotton Development:

The Confederation of Indian Textile Industry's (CITI's) Cotton Development and Research Association (CDRA) has been continuously following up with the governments of various cotton growing states, the issue of improving yield, and particularly of improving yield in those areas where it was lagging behind neighbouring states. In the Northern Zone, it was noticed that cotton yield in Rajasthan was much less compared with Punjab and Haryana. Though major areas under cotton in Rajasthan were irrigated, the rain-fed areas in central and southern Rajasthan were found to be a drag on the state's overall yield. Therefore, the CDRA took up the matter with the state government. The government's proactive response enabled CDRA to propose an inclusive, public/private partnership growth model, with the following participants:-

1. The state government of Rajasthan
2. CITI-CDRA
3. Bayer Crop Science (BCS)
4. Rajasthan Textiles Mills Association, Jaipur, since 2012-13
5. CITI CDRA'S Cotton Projects In Southern & Central Rajasthan

Since 2008-09, the CDRA has been implementing two projects in southern and central Rajasthan. A



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Front Line Demonstration Programme sponsored by the Government of India under Mini-Mission-II of the Technology Mission on Cotton (TMC) for dissemination of Production and Plant Protection Technologies was implemented initially in the three districts of Banswara, Bhilwara and Rajsamand, and in 2012-13 in Ajmer and Jodhpur. Participating farmers receive an input subsidy of Rs. 2000/- per acre. Meanwhile, the Cotton Collaborative Project is being implemented in the aforementioned districts and in Pali and Nagaur.

Strategy For Implementing The Cotton Projects In Southern & Central Rajasthan

CDRA chalked out a well thought out strategy for implementing the above projects as below:

- a. To change the mind set of traditional cotton growers so as to encourage the adoption of new technologies for production and plant protection.
- b. To equip traditional/non-traditional growers with the latest technologies through continuous training, involving scientists from state agriculture universities, Bayer Crop Science, state agricultural department officials at various levels and the project coordinator/project officers appointed by the CDRA.
- c. To supplement the infrastructure of the state agricultural department from village level to district level, by creating infrastructure with full time scouts, project officers and coordinator.
- d. To acquaint and encourage cotton growers to use new methods for dealing effectively with pests and diseases as a part of an integrated pest management strategy.
- e. To encourage soil test based use of micro-nutrients with a view to take care of soil health.
- f. To rope in stakeholders in the cotton value chain, including input suppliers.
- g. To put in place a review mechanism to monitor the progress of projects at the district and state levels.
- h. To create a database in respect of participating farmers for impact assessment.
- i. To evaluate the performance of various Bt hybrids/ varieties in different agro-climatic conditions of various districts in order to guide cotton farmers in cultivating the varieties that give better performance.



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- ▶ Delivery centres in Gujarat - Kadi, Amreli, Surendranagar, Anjar and Bodeli
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- j. To encourage drip irrigation for optimum use of available water as Rajasthan is known for scanty rains and scarce water resources.
- k. To promote use of solar energy for pumping underground water as Rajasthan is blessed with abundant sunshine.

Progress Of The Projects:

- a. Area and no. of participating farmers:

The collaborative Project commenced in 2008-09 in the tribal district of Banswara, covering 562 villages and involving 24,500 farmers from 100 Village Panchayats [local self-governments], covering 1,000 hectares. In 2009-10, it was extended to Bhilwara and Rajsamand districts, adding an additional 10,000 hectares from 148 villages and 9,717 farmers. A team of two project co-ordinators, two supervisors and 17 scouts was deployed for implementing the project during the period from 2008-09 to 2011-12. From 2012-13, the projects were shifted to Ajmer, Pali, Nagaur and Jodhpur Districts, covering 57,789 hectares with 424,00 farmers. Thus, 76,617 cotton farmers with an area of 77,789 hectares have been involved in the above Projects during the last five years.

- b. Training to scouts and supervisors:

Scouts and supervisors were trained by scientists from agro science centres (Krishi Vigyan Kendras) attached to these districts, Bayer Crop Science, officials from the agriculture department. Training covered various aspects of cotton cultivation, from the stage of soil health care, pests and diseases of cotton and their control, integrated pest management practices, the latest techniques of cotton cultivation, conducting survey of pests and insects, economic threshold level (ETL) and other related issues.

- c. Efforts at technology transfer:

For transferring technical knowhow, 932 events like awareness camps, Kisan Melas (farmers' gatherings), Kisan Goshtis (farmers' discussions), farmers field days and farmers' field schools were conducted with the assistance of scientists of Krishi Vigyan Kendras, agriculture research stations, officers from the agriculture department, scientists from BCS and the project co-ordinator and project officers. 69,885 farmers participated in the aforementioned events.

- d. Implementation of FLD Programme:

A Front Line Demonstration programme on cotton production and integrated pest management technologies was implemented

in 1,538 villages in the districts of Banswara, Bhilwara, Rajsamand, Ajmer and Jodhpur Districts during the period from 2008-09 to 2012-13. The programme has been taken up in 117 villages of Ajmer, Pali, Nagaur and Jodhpur districts during the current season. 2,840 farmers received the benefit of the Government of India's input subsidy. Of these, 2,170 beneficiary cotton farmers belonged to resource poor SC/ST and women cotton farmers.

- e. Monitoring system:

The progress of the Projects was monitored by the state monitoring committee periodically and at the district level committee every month. The former functioned under the chairmanship of the Agriculture Commissioner/Addl. Director of Agriculture (Research) with representatives from CITI CDRA, Bayer and Deputy Directors of Agriculture (Extension) of the concerned districts. The district level committee, under the chairmanship of Deputy Director of Agriculture (extension), reviewed the progress of the collaborative project and also the implementation of the Front Line Demonstration programme sponsored by the Government of India.

- f. Creating database:

Each participating farmer was provided with a booklet known as 'Passport' to record details of the farmers, their holdings, various crops taken, area under cotton, production of cotton, cost of cultivation, sales proceeds and so on. Data recorded in the Passports was used for facilitating impact assessment of the project, by analyzing data in respect of 10% of the participating farmers by Random Sampling Method.

Changed Cotton Scenario Of Rajasthan:

A noteworthy feature of Rajasthan Cotton Scenario is increase in the production and yield of cotton in the districts of southern and central Rajasthan. Cotton production in these areas used to be about only 2.0 Lakh bales. During 2011-12, production in southern Rajasthan is reported to have reached 7.5 lakh bales.

Impact Of Changed Cotton Scenario On Cotton Textile Mills :

Textile Mills in Rajasthan, which used to source their cotton requirements to the extent of over 70% from other states, now source only 10 to 20% from outside. About 27 new ginning factories have been constructed in the southern and central regions. Quality in these areas is found to be better than in neighbouring areas. Some has been exported this year.

Year	Production in southern/central Rajasthan	Production in rest of state	Total
2003-04	205	710	915
2004-05	350	650	1,000
2005-06	206	694	900
2006-07	144	756	900
2007-08	191	709	900
2008-09	313	437	750
2009-10	315	885	1,200
2010-11	311	699	1,010
2011-12	789	911	1,700
2012-13	765	835	1,600

Out of the four trials, two were successful, giving lint production per hectare as under:

District	Range of Production
Jodhpur (Nevra Road)	1028 Kgs to 1,600 Kgs.
Pali(Hirola)	616 Kgs to 1,562 Kgs.

This year, 21 trials have been taken up in four districts and crops are progressing well.

CITI CDRA's Aim:

The CDRA is aiming to increase yield of cotton to 1,000 kgs of lint/ha in southern and central Rajasthan under its projects in the next few years.

Farmers' Rallies:

As a part of mass awareness about the development activities of CDRA in southern and central Rajasthan, three grand farmers' rallies have been organised. Almost 9,000 farmers participated in these events. The last such rally took place in Jodhpur district, where close to 3,000 farmers participated.

Factors Contributing To Increase in Yield in Rajasthan:

Increased technological awareness, adoption of Bt cotton technology, increase in non-traditional cotton areas, virgin lands brought under cotton cultivation, farmer preference for cotton, spread of drip irrigation and better utilization of available water resources, coupled with generally favourable monsoon rains, have contributed to the increase in the yield in recent years.

High Density Trials:

In 2012-13, the CDRA took up four preliminary trials for high density planting of one acre each in Pali, Ajmer, Nagaur and Jodhpur districts.



Kisan Mela – (Soyala), Jodhpur District 26.7.2013

Dr. A.K. Dahma, Vice Chancellor, Swami Keshvanand Agriculture University, Bikaner giving letter of appreciation and cash awards to best farmers. Shri P.D. Patodia, Chairman, Standing Committee on Cotton CITI (CDRA) is seen in the picture.



The Cotton Corporation Of India Limited:- Catalyst To Cotton Trade



B. K. Mishra,
Chairman, CCI

As a consequence of independence on 15th August, 1947 India became dependent upon import of cotton from other countries as the major cotton producing area fell under the territory of Pakistan. As a result, production of cotton in the country was drastically reduced in the early fifties to about 3 million bales out of 4 million hectares land area with a yield of about 100 kg. per hectare. The situation remained altogether same with minor improvement in area under cotton and the figures of production of cotton until 1970. In the year 1969-70 area under cotton production was 77.31 lakh hectares [one lakh = 100,000] and with the yield of 135 kg., the total production of cotton in the country was 61.41 lakh bales.

As a number of textile mills were facing raw material crisis due to lesser cotton production in the country, the Government of India identified the problem and incorporated Cotton Corporation of India (CCI) in the year 1970. The main objective of the CCI was to identify the variety-wise requirement of cotton of the mills, so that it could be imported from other cotton producing countries for onward supply of the same to domestic mills. Up to 1983, the role of CCI was limited to importing and distributing cotton based on mill requirement. Meanwhile, the Government of India, which was in the process of framing a National Textile Policy, revised the role of CCI. As per the new policy, the role of CCI was extended to undertake Price Support Operations so as to stabilize the market on the one hand, and to ensure remunerative prices to the farmers on the other. 1984-85 was the year when cotton production in the country had for the first time reached to three digits landmark i.e. 100 lakh bales. With this stimulus, though the area in the year was comparatively smaller, at 73.82 lakh hectares, yield saw a remarkable increase as it jumped from 173 kg

to 247 kg per hectare, which was more than 40% up from the previous year. Thereafter, in the next 15 years, i.e. up to 1999-2000, yield improved to 300 kg. This improvement was seen due to the presence of CCI in the market at all times. However, thereafter, the area under cotton did not show much increase, owing to better crop options available to farmers. The situation remained almost stagnant for the next 10 years, i.e. up to the year 2000 In that year, the Government of India announced a new National Textile Policy, which replaced the previous one of 1985. The main constituents of the new policy to develop the cotton sector, were as under:-

- I. Increase cotton productivity and upgrade its quality to international standards, through effective implementation of the Technology Mission on Cotton.
- II. Reduce the ratio between cotton to non-cotton fibres in line with international trends.
- III. Encourage full fibre flexibility between cotton and man-made fibres.
- IV. Encourage modernization of the spinning sector.
- V. Liberalise and encourage the export of cotton yarn.

In the new Textile Policy, the Government of India launched two major schemes in the textile sector, namely (1) the Technology Upgradation Fund Scheme (TUFS) and (2) the Technology Mission on Cotton (TMC). The former was intended to modernize the Textile Industry as a whole and to sharpen its competitive edge; the latter, launched in February 2000, was targeted towards improvement in cotton production, productivity and quality of cotton in India.

The TMC had four 'Mini-Missions' (MM). For MM-I and & MM-II, Ministry of Agriculture, Department of Agriculture and Cooperation, Government of India and for Mini Mission III & IV, Ministry of Textiles, Government of India were the nodal agencies. The Mini Mission III relates to Development of Market Infrastructure and Mini Mission IV relates to modernization/upgradation of cotton Ginning and Pressing factories. For these two Missions, the Cotton Corporation of India Ltd. was the Implementing Agency. Under Mini Mission III, against the target of development of 250 market yards, 246 were developed i.e. 98.4% and the Government of India subsidy of Rs.231.42 crores was released. Under Mini Mission IV, there was a target of modernization of 1000 ginning and pressing units and the actual achievement was 859. Thus, the achievement was 85.9% and the Government of India subsidy of Rs.184.75 crores was released.

The result of both the aforesaid schemes started appearing from the year 2004-05, as the production of cotton, which had stayed below 200 lakh bales, then crossed that mark. Yield, which had not previously touched 400 kg per hectare, increased to 470 kg. There was no material increase in the area, which was recorded as 87.86 lakh hectares. Yield had started to increase following the introduction of Bt seed in 2002. In the 3 years up to 2007-08, area increased to 94.14 lakh hectares and the production crossed 300 lakh bales. Yield reached 554 kg per hectare, which is still a record. In the year 2011-12 cotton production was 355 lakh bales, thereafter there was reduction in the area in 2012-13, thus the production of cotton was smaller at 340 lakh bales. In the ensuing cotton season 2013-14, with good rains, we expect cotton production will improve, though the area appears to be almost same as in 2012-13.

In the last 40 years or so of CCI's journey, the organization has emerged as a most dependable supplier of cotton to the textile industry, not only in years when Minimum Support Price Operations have been undertaken, but also in years when it had purchased cotton under Commercial Operations at its own risk. During the period, various other Government Agencies, state-level Cotton Marketing Federations have been established in an endeavor to promote cotton production at regional level but their presence has been short. With the flow of time, most of them have either closed down or exited the cotton scene. In contrast, CCI proved its strength as a dependable cotton supplier in the country having a presence in every state on a pervasive basis. It has met the expectations of farmers by successfully undertaking MSP operations and implementing the TMC Schemes in the country. Under TMC, CCI has upgraded 246 market yards under Mini Mission-III and modernized 859 ginning and pressing factories under Mini Mission-IV all around the country. Today, CCI cotton has become a brand and the prices quoted by the CCI on its website have become benchmarks

for the cotton trade fraternity. Apart from the above, CCI has always been farmer friendly: in addition to implementing Minimum Support Operations, it has been conducting schemes to promote improved practices in cotton, starting from seed sowing through to storage. This was done with the aim of improving quality, as well as yield. CCI has implemented various programmes such as contract farming, adoption of villages, under its Corporate Social Responsibility policy.

I do not want to mention here negative aspects of the trade but it would be an injustice to CCI not to take the liberty of touching on the issue related to unforeseen volatility which the CCI and the entire cotton value chain witnessed in 2010-11. Coincidentally, I joined CCI at the time when cotton prices both domestically and internationally were at a peak. This was the time when cotton prices saw their biggest leap and subsequently nosedived to a level that was less than that at the start of the season. International prices, which had started from 80+ cents in the month of October 2010, had almost tripled in less than 5 months, to reach 243 cents per pound. India's domestic prices at the start of the season were Rs.28000/- per candy and reached Rs.62000/- by the end of March 2011. Unfortunately, CCI, which had very enthusiastically purchased about 13 lakh bales by April 2011 and sold the same quantity simultaneously, faced a severe hit as mills that had purchased cotton from the CCI were unable to perform their contractual obligations. Their working capital had been eroded overnight owing to the devaluation of their stocks. As a *fait accompli*, CCI was left only with the option of reselling all such cotton in the market at almost half the price at which it had originally been sold. The cost to CCI in the form of contractual default was around Rs.200/- crores (one crore = 10 lakh). CCI did not 'give up' and stood consistently in support of the cotton sector. It remains always in the readiness to accept any challenge in the prevalent market conditions on a perennial basis.

In the 2012/13 cotton season, procurements by CCI were the third highest in its history, which has been managed by its team in a most efficient manner. It has also shown its commitment towards e-governance and has become a pioneer in the industry for the introduction of sale of cotton through e-auctions. The feedback I have received is that this system of sale is gaining overwhelming popularity. With this, I congratulate the sector and hope to see another good crop in 2013-14. In my opinion, it will not only ensure the availability of cotton for mills but also provide rather more space for increase cotton exports. I hope that the new cotton season will be the best one for all participants in the cotton textile value chain.



Indian Cotton Industry at Crossroads



Mohit D Shah,
Director, Gill & Co.

India's cotton and textile industry today is experiencing exciting times, given the fact that India has achieved the status of being the second largest producer, consumer and exporter of cotton in the world. Being in such a dominant position, the cotton industry equally faces opportunities and challenges in the future. What we witness in India today, I call the 'push & pull' effect, and it is time to ensure that the cotton industry's future remains on the path of being progressive and different sectors of the industry realize the right path for this industry's future.

As we stand today, there is a general consensus that India will produce the largest cotton crop on record. Cotton consumption is also set to rise at a healthy pace.

For the cotton season 2013/14, I expect India's cotton production to achieve 6.4 million tonnes, with an upward bias, and cotton consumption in the region of 4.9 to 5.0 million tonnes.

India, this season, will have the capacity to export 1.6 million tonnes.

These numbers are very encouraging from a cotton grower's, cotton exporter's and textile mill's point of view, since there will be enough room for everyone to flourish. To continue this momentum into the future, it is imperative that India's policies are aimed toward a dynamic, free market and unrestricted environment, without any artificial government controls or policy flip-flops, the likes of which we have seen over the last 2 years. Again, there have been recent talks of the possible imposition of an export duty, and such measures if taken would have short-term gains but would cause long-term pains.

India's cotton yield for 2013/14 is forecast at 550 kgs per hectare, significantly lower than the current

forecast world average yield of 762 kg per hectare. In the years ahead, India's cotton production could reach world average yields and even surpass those levels, provided the Indian farmer keeps receiving the highest price for his seed cotton, be it as a result of cotton exports or from sales to the local textile industry.

Measures such as banning, suspending or limiting exports will only cause harm and dampen the cotton producer's enthusiasm for planting cotton, by encouraging a switch to competing crops.

Another important factor is that, even today, Indian cotton is undervalued from a price perspective, being sold at a discount of approximately 5 US cents per pound compared with West African cotton, when it could easily be sold at par. From a textile mill's point of view, whether local or overseas, the challenge remains to secure adequate raw material with less contamination, moisture and good packing to ensure that their final product, be it yarn or fabric, meet the criteria of their end customers. Projections are that the size of the Indian textile industry by 2020 will be in the region of US\$160 billion.

With globalisation, it is difficult to manage or manipulate domestic prices. In a buoyant global economy in which fibre demand is rising every year at a faster clip, we need to see the government, textile industry and trade work together under a common, coordinated, well-directed agenda with a clear focus. To ensure this happens, the industry as a whole needs to realize the following initiatives: better farm practices, development of pure & high quality seeds, continuous research and development, aim to reduce cotton contamination at the field level and the ginning and pressing stages and development of uniform cotton standards.

The urgent need of the hour is also to have a vibrant futures market for farmers, traders and textile mills to hedge their price risk.

Although cotton consumption is poised to grow year on year, consistent and market-friendly policies will be critical to ensure India's dominant position in the world market.

The price of cotton has to be determined by market forces and not through artificial measures. Contracts executed between willing buyer and willing seller must be honoured if confidence in trading is to be secured and enhanced.

By the time this publication is in the hands of the reader, I will be proud to have taken on the role as the 2013/14 President of the International Cotton Association, a body that aims to represent buyers and sellers of cotton that moves across international boundaries in a fair and equitable manner, to support the concept of sanctity of contract and assist in maintaining good order in world trade in cotton. The presidential role requires impartiality. As the first Indian national to occupy this demanding and prestigious post, however, it is my sincere wish that India's dominant position in the global cotton market is accompanied by responsibility and leadership.

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"The Growth of Commodity Futures Markets in India, including those for Cotton"



G. Chandrashekar,
Associate Editor, The Hindu Business Line, Mumbai

As an agrarian economy, India has a long history of producing and trading agricultural commodities. Rain-fed cultivation of crops or dependence on benign weather has often resulted in unsteady production, fluctuating yields and uneven quality of produce. Inadequate marketing infrastructure, lack of supply chain management and tardy flow of market information led to price volatility. Market participants hardly had any risk-management tool.

Interestingly, commodity futures trading in India commenced less than three decades after the first organised trading on an exchange was started in 1848, with the setting up of the Chicago Board of Trade in the United States. In 1875, the Bombay Cotton Trade Association was established. Needless to add, India was then, as it is now, a major producer of cotton.

Until the mid-20th Century, the country had a thriving futures market for a range of commodities, including agriculture and metals. In the 1930s, as many as 300 commodity exchanges conducted futures trading across the country. Most markets thrived with activity and even overseas players participated in them, because the currency was fully convertible at a fixed exchange rate with the pound sterling.

When World War II broke out, trading in commodity futures was suspended as supplies had to be diverted to meet the needs of the military. After the war, and India's independence in 1947, the Forward Contract (Regulation) Act was enacted in 1952, with a view to reviving the commodity futures market under the supervision of a regulator - Forward Markets Commission (FMC). However, before long, the government closed down the markets one by one. By the mid-1960s, except for two minor commodities (pepper and turmeric), futures trading in commodities had been completely banned,

because of the socialistic mindset of policymakers in the then government, together with distrust of the trading community and belief that inflation was fanned by rampant speculation in commodity trading.

India embarked on the path of economic liberalisation and globalisation in 1991. Trade restrictions – both internal and external – were progressively dismantled. In the 1990s, through the liberalised trade and investment route, the country slowly but surely started to globalise. Domestic markets began to steadily integrate with the global markets. With integration of markets and seamless flow of funds from one asset class to another, the risk perception was considerably heightened.

No wonder, a need was once again felt for providing risk management tools to stakeholders, especially producers, consumers and traders of commodities. Given that more than 50 percent of the country's workforce depended on farm and related activities for livelihood, policymakers came around to the view that reviving agricultural futures would send out effective price signals to the growers and help them plan production and marketing activities.

At the same time, from the early 1990s, after the positive effects of economic liberalisation started to kick in, trading volumes in the equity market began to gather pace. Many traders traditionally in the commodity market switched to equity market trading. Ironically, by 1999, there were only seven commodities allowed for trading in the futures market. There were as many as 20 recognised exchanges in different parts of the country, many of them dormant. They were essentially regional associations trading in one specific commodity or a group of related commodities (oilseeds and oils or spices); and were recognised as commodity exchanges. Bombay Oilseeds and Oils

Exchange (now Bombay Commodities Exchange) and East India Cotton Exchange (now Cotton Association of India) are two of the oldest exchanges that recorded thriving futures business until such trading was banned.

However, following the efforts of World Bank and UNCTAD in the late 1990s, the Indian government in 2001/02 decided to open up the commodity futures industry. It was consciously decided that commodity futures trading should be conducted through modern exchanges with screen-based trading in multiple commodities and with nationwide reach. Experience of other countries was studied. Technological advancement enabled replacement of open-outcry with online trading.

Even as some regional exchanges remained active and some lay dormant, in 2003, the government lifted the prohibition on futures trading in commodities. Three modern electronic exchanges were licensed to conduct commodity futures business with the condition of screen-based trading, nationwide reach and demutualised organisational set up. 'The rest is history', as they say. Trading volumes picked up enormous momentum and year-on-year growth was exponential from 2004 till 2007. Clearly, there was huge risk appetite in the country, and opening up of the futures market through transparent online trading helped whet the appetite.

Currently, six national exchanges and 16 regional exchanges are registered. As many as 113 commodities are being regulated. Metals and energy products dominate the business and account for as much as 88 percent of trade value, while agriculture accounts for the paltry balance (12%). The market has clearly drifted away from its original intent of using the futures platform to de-risk agriculture and help farmers. The physical market has remained largely unreformed and distorted, even as a superstructure in the form of modern electronic exchanges had been built on the fragile foundation of the physical market. Futures markets faced policy risk from time to time. Production shortfalls and food inflation during 2007-2010 forced the government to suspend trading in some sensitive commodities such as select grains, sugar and so on.

Cotton: a sad case of missed opportunities

In a strange but unrelated coincidence, along with the growth of the commodity futures market, India's cotton economy also started to grow. In 2002, India produced about 17 million bales of cotton and imported about two million bales to meet domestic needs. With the introduction of genetically modified cotton (Bt. cotton) in 2003, the country's cotton production steadily expanded through a combination of area increase and yield improvement. Soon, India emerged in the world market as an exporter. By 2009, India's cotton production crossed 30 million bales and exports zoomed to 5-6 million bales. India displaced the US as the world's second largest producer and exporter of cotton. It has continued to retain the position, although policy intervention – often seen as unwarranted - has from time to time stymied the natural growth of production and trade.

Strangely and sadly, futures trading in cotton seldom picked up, despite being an ideal candidate for robust derivatives trade. Attempts to revive cotton futures trading through road shows and awareness programs did not yield results. Internecine squabbles within the trade ensured that this time-tested risk management tool was not available to stakeholders. Regional associations and industry participants refused to cooperate. The exchanges failed to gain the trust of potential market participants such as ginning and pressing units, spinners, textile mills, exporters and local traders. There was misplaced apprehension that reintroduction of cotton futures trading may disturb the entrenched position of existing physical market players.

Today, on the exchanges, trading volumes in cotton are nothing to write about. Cotton is not a significant agricultural commodity traded on the exchanges. Volumes are so small that cotton is clubbed under 'other agri commodities' in complete contrast with what's happening at the New York exchange. Signals available at present do not inspire confidence that cotton futures will revive anytime soon.



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India is Developing Its Manmade Fibres Business, but Cotton Still Predominates



Peter Driscoll,
Managing Director, PCI Fibres

India's capacity in manmade fibres (MMF) has grown considerably in recent years; in polyester for example expanding from 1.5 million tons/year in 2000 to 5.2 million this year. In the same period textile mill consumption across all the manmade fibres has only grown from 1.9 million tons to 3.3 million; suggesting that capacity has run well ahead of the market and is not being fully utilised, even allowing for an export trade in MMF as filament yarn and staple fibre. The various MMF have not lost market share, but neither have they gained much either. In 2000 the MMF share of textile activity in India was reckoned to be 38%, and it is now put at 40%. This is not so different to the MMF position in South and South East Asia where the MMF sector has held share during the period in question, at just under 50%. In China however MMF usage has grown in share from 62% to an estimated 82% of textile mill consumption, helped perhaps by the current policy in China on cotton pricing, but also by a concerted policy there to promote the use of MMF throughout the textile system.

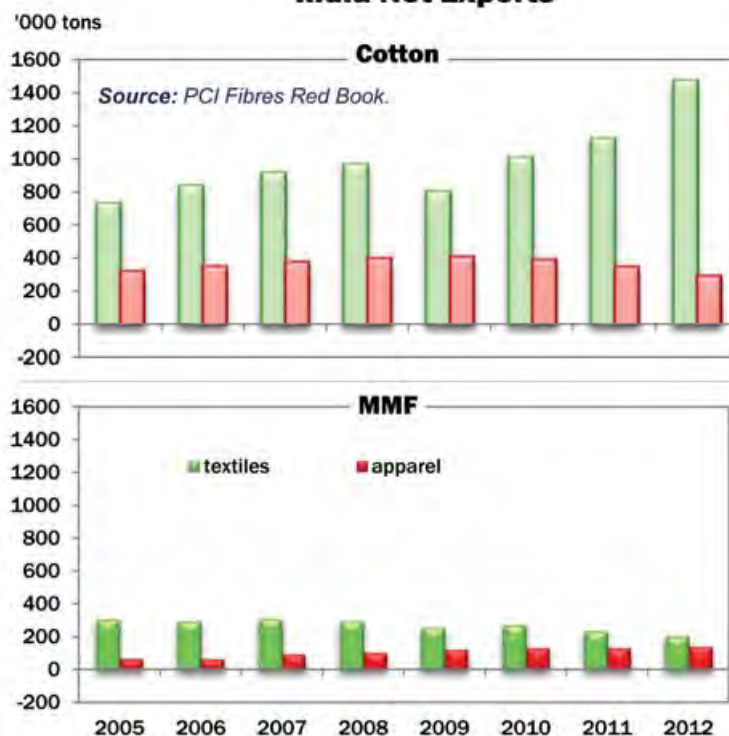
Patterns of local consumer demand also influence textile activity. In India the cotton share of the domestic market across all applications is estimated to have declined since 2000 from 55% to 49%, but this still represents a very strong position. In S/SE Asia cotton's share of the consumer market is holding at close to 40%. In China the reverse is to be seen, and final consumer demand for cotton has

declined in that market since 2000 from 32% to just 9%. The consumer figures for both India and S/SE Asia reflect domestic markets that still favour cotton to a greater extent than is shown in the textile data. In China however cotton's share of consumer demand is considerably less than at mill level.

Although cotton's share of mill consumption in India is close to 60%, its role in the overall textile economy would appear to be even greater. Chart

A

India Net Exports



A (for clarity not showing the small but important trade in wool merchandise) shows net apparel and textile trade for India broadly split by cotton and MMF content. The chart shows quite modest net exports in MMF apparel, with MMF textile volumes even declining; the very opposite of what might be expected from a developing market. In fact, textile exports in MMF have been growing in volume, but not as fast as imports which sometimes include quite sophisticated fabrics in polyester filament from China.

In the case of India's trade in cotton merchandise, the scale of the apparel business is also quite disappointing; the volume of actual exports of cotton apparel from India being only one twelfth that of China. Net exports of cotton textiles are quite substantial however, inflated in the last couple of years by sales to China of spun yarn (which is also defined alongside fabrics as part of textiles). Actual exports of cotton textiles from India, fabric and spun yarn together, have been a little less than 40% of the size of China's exports, but this year the comparative figure could grow to 45% or more. While the demand

for cotton yarn remains so strong, India's spinners are unlikely to increase their use of MMF, even in blends whether as polyester or as viscose. But in the long-term there is still a tendency for MMF to increase market share.

In the short-term however matters in India are not helped by a broad economy that is experiencing relatively low growth, reflected particularly in the MMF data. Apparent consumer demand for MMF, defined for any region as MMF supply plus net imports of MMF merchandise (or less net exports), and presented in terms of kg *per capita*, shows India sitting at 2.5/2.6 kg for each year through 2010-2014; in actual volume moving from 3.0 million tons in 2010 to 3.1 million by 2014 and growing on average at 1.4% a year. In part this is a reflection of the slowness of the overall economy, but even more a reflection of a very full supply chain right through to the consumer which needs to be cleared of high stocks of unfinished and finished merchandise. A gradual but necessary purging of the supply chain is expected to be completed within the next 5 years, and, in

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anticipation of this, domestic volumes in India could start to strengthen as early as 2014; provided, that is, that the general economy does not deteriorate.

Meanwhile India's textile industry in MMF continues to disappoint. Chart B shows a global textile economy split by the main regions. Worldwide growth for MMF in 2012 was nearly 7%, led by double digit increases in S/SE Asia and China. In the Far East however, Japan, Korea and Taiwan, textile activity in MMF fell by 5%, and in India it fell by 4%. For 2013, although global growth is expected to ease, there are signs of some recovery in India. From an MMF total in 2012 of 58.2 million tons, world mill consumption in 2013 is expected to reach 61.0 million, up nearly 5%. And within this India is expected to recover by 2%, to 3.3 million tons. For 2014 the forecast is for a global increase of 5.0%, and for India one of 4.4%. Further out, global growth in MMF tends to weaken, while that for India steadily strengthens; largely because of the cyclic effects resulting from movement of stock-levels within the supply chain. It should also be noted however that the global position could be affected by some eventual correction to the current high levels of apparent demand in China. This would reduce overall demand, but might result in an increase in China's export drive which in textiles and apparel shows little sign of diminishing.

The recent period of slower textile growth in India's MMF sector has left some of the newer fibre plants at a temporary disadvantage. In India there are more than 60 polyester fibre producers running on average at only 70% utilisation, and the competition for business can be very tough. The larger plants, because of scale and product range, are managing the situation, but some of the newer producers are finding it very difficult to enter the market.

Notwithstanding the rapid expansion of MMF capacity in China, the largest polyester fibre producer in the world is to be found in India. Reliance Industries has more than 1.5 million tons/year of capacity in India spread among its own and subsidiary plants (as well as other capacity offshore); having nearly 30% of national polyester fibres capacity, and a feedstock position fully able to support this scale of operation. This enables the company not only to serve the local market, but also to develop the export trade. Textile mill consumption in India for polyester fibres is currently around 2.7 million tons based on production of 3.3 million and net exports of 0.6 million. Actual exports are nearer 0.7/0.8 million tons.

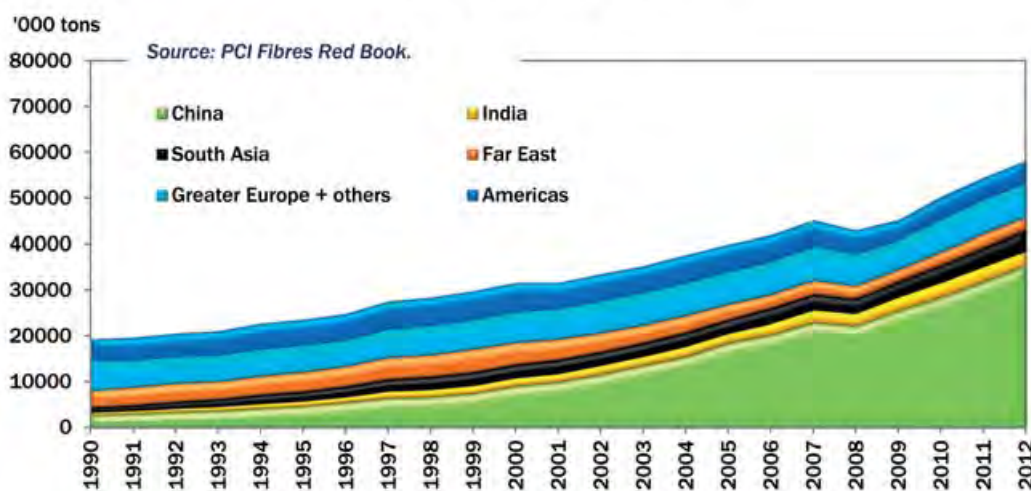
Even if on a smaller scale, there is a similar position in viscose staple where the Indian market is led by the A Birla Group through its Grasim operation; in this case having all the fibre capacity to be found in India. Viscose staple consumption in India for 2012 is estimated to have been close to 250,000 tons with production around 330,000 tons. And textile demand is reckoned to be growing at 7% per annum.

For the other MMF, such as acrylic, nylon and polypropylene, total mill consumption is put at 0.3 million tons. In comparison the textile market for cotton is approaching 5 million tons. Textile mill consumption in India over 2010-20 is reckoned to be growing at 3.5% per annum in cotton and 5.2% in MMF; while within MMF, the growth of polyester textile filament is put at 6.6% and polyester staple at 1.8%.

In so far as cotton has competition from other fibres in India, this is coming on the staple side more from viscose than polyester, with the main threat in polyester coming from filament yarn; something that the cotton market has not yet fully recognised.

B

World TMC - MMF only



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DELINTER



ROTARY SEED CLEANER (Patent Applied)



SEED CLEANER



HULL BEATER



DECORTICATOR & SEPARATOR



LINTER CLEANER



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Indian Ginners: Golden Opportunity for Consignments in China



Harry Zhang,
General Manager, Purchasing Department, Tianjin Cotton Exchange Market

In the season 2013/14, Indian cotton production may reach 6.48 million tons against 6.04 million tons in the previous year, to hit a historical high. Exports should therefore be maintained at 1.7-1.8 million tons.

From the beginning of the last decade, Indian cotton entered the Chinese market. The Tianjin Cotton Exchange Market started to work with Indian cotton imports in 2003. After conducting over a three-month period a special study on Indian cotton, together with the China Fiber Inspection Bureau and CIQ's Tianjin office, we realized that the spinnability of S-6 and MECH-1 is excellent. Its inherent qualities, including strength and colour grade, are as good as US Eastern/M/O/T. Average length is superior. The

Micronaire in most seasons is between 3.7 and 4.2, which is the most suitable. With our promotion and recommendation, more and more Chinese spinners are becoming familiar with Indian cotton. The annual quantity in our exchange market has increased from 5,000 tons in 2004/05 to 110,000 tons in 2011/12.

In recent years, the share of US cotton in the Chinese market overall has tended to decline while that of Indian has expanded. In 2011, Indian cotton's market share among all imported cottons increased to more than one third, overtaking US cotton.

However, after reviewing prices over the past several years, we find that, for a similar grade, the US price is always some 8-10% higher than Indian in the Chinese market. Chinese buyers, faced with the choice of US and Indian cotton of the same staple length and grade, will choose totally and categorically US unless the Indian price is at least 8% lower.

According to our survey of more than 300 spinners, the reasons why preference is given to US cotton are as follows: (1) less moisture content; (2) better packing and less waste; (3) absence of foreign fibre; (4) availability in bonded available at any time. So there are four steps for Indian ginners to take to improve their return by at least 5%.



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We have given guidance to a number of ginning units, one in Nagpur, two in Aurangabad, and three in Rajkot, during the past two seasons. By establishing a systemic quality control system and a long-term consignment strategy, our bales have replaced Eastern/M/O/T SM grade and some of the Australian Middling grade used by two large spinners in Shandong province. Furthermore, our sales price is normally at the same level as US Eastern/M/O/T.

Every year, from the Chinese New Year through to November, the period when local cotton is in short supply, we and our Indian partners basically keep some one thousand tons in each port for buyers' selection. We provide each week market information, our market judgment, strategy suggestions, capital operation options, and financing support to our partners. We also give support on logistics and inspection. During the past 2 seasons, our average stock period is around 40 days. There is always room for new participants in consignment sales.

According to the China Cotton Association (CCA), imports during 2013/14 are predicted to reach around 2.95 million tons, of which more than one third will doubtless be provided by India. That means at least a million tons of demand from China for Indian cotton. Given that the Chinese National Reserve policy continues this season, the price gap between local and foreign cotton will remain wide for the next several months. There is thus a golden opportunity for Indian ginners to participate in consignment sales now. By doing so, you will reach your end user directly and earn extra reward.

We and our agent, Mr. Dinesh (dinesh@indiancommodities.com) from Mumbai, are always ready to prepare a detailed plan to help those ginners and traders who are ready to reach the final buyers here in China, to improve the quality of bales, solve any financial and capital problem, pick the right time to start and increase sales, and meet all the related logistical and inspection requirements.

American Cotton Shippers Association



International Cotton Institute | May 28, 2014 - July 15, 2014

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