MINISTRY OF TEXTILES

CHAPTER: XIII

Cotton Corporation of India Limited

Trading activities

Highlights

The National Commission of Agriculture recommended (1975) that the Corporation should endeavour to purchase about 25 to 30 *per cent* of the total production of the country by strengthening its network of offices. However, the Corporation's market share during the six years ending March 2005 ranged from 4.31 to 11.91 *per cent*.

(Paras 13.6.1 and 13.6.1.1)

Forty nine and 58 per cent of the cotton produced during the five years ended March 2004 remained outside the purchase purview of the Corporation, as it never reached the regulated markets where the Corporation undertook its commercial activities.

(Para 13.6.1.2)

During the years 2001-02 and 2002-03, though the Corporation resorted to MSP operations, it purchased only nine lakh bales (8.51 lakh bales in financial year 2001-02 and 0.49 lakh bales in the financial year 2002-03) as against the total reported figure of 109 lakh bales (excluding Punjab, Haryana and Maharashtra where there were no MSP operations) thus limiting the coverage of the MSP operations.

(Para 13.6.2.2)

During the six years ended March 2005 the Corporation paid commission of Rs.35.89 crore to the agents in the regulated market in the procurement from the cotton growers thereby increasing the cost of procurement.

(Para 13.6.3)

In the procurement of cotton, the Corporation had not considered the marginal contributions/profit of each variety to enhance profitability through product-mix. The Corporation suffered a loss of Rs.0.87 crore during 2002-03 due to non-procurement of varieties where marginal contribution was higher.

(Para No. 13.6.4)

In the event of the failure of a party to lift the cotton bales within the period agreed in the contract of sale, the Corporation pursued a policy of reselling the contracted bales to a third party at the risk and cost of the failed party. The losses so recoverable from the parties accumulated to Rs.111.53 crore at the end of March 2004.

(Para No. 13.7.1.2)

Gist of recommendations

- Market share of the Corporation needs to be increased to 25 to 30 *per cent* of the indigenous crop as recommended by the National Commission of Agriculture. This would help the growers to get remunerative price as well as quality supply at reasonable prices to the user mills.

- The local APMCs and State governments should ensure through further spread of regulated markets or if necessary through legislation, that all cotton produced in the country is traded in regulated markets.
- The Corporation may review the policy for setting up of the procurement centres with a view to optimise its market share
- The Corporation should explore the possibility of enrolling themselves as agents in the regulated market yards for dealing with Cotton growers directly and avoiding payment of commission.
- The Corporation for maximising its profits should ensure selection of an optimal product mix based on mid term or monthly review of profitability, cost-wise and variety wise breakeven analysis of each variety of cotton in which it deals.
- During the periods of MSP operations, the Management should ensure maximisation of procurement activity in order to achieve the objective of extending remunerative prices to the largest possible population of effected cotton growers.
- When sales are made under GSF scheme, it should be ensured that adequate Bank Guarantees are taken to cover the financial risk of the Corporation.
- The Corporation should strive to achieve more exports, as its exports are a major tool for stabilisation of prices.

13.1 Introduction

The Agricultural Price Commission considering the erratic fluctuations in the prices of cotton recommended (May, 1969) the setting up of an agency in the public sector charged with the responsibility of ensuring equitable distribution of cotton among the different constituents of the industry and also for purchasing and selling domestic cotton for disciplining the prices. The Government of India accepted the recommendations and constituted (October, 1969) a Committee to prepare a detailed scheme for establishment of such a public sector agency. The Committee recommended (February 1970) the establishment of a full-fledged independent Corporation, which was to develop necessary skill and operational expertise to enable it to progressively replace the cotton traders in course of time. The Government accepted the Committee’s recommendations and set up Cotton Corporation of India Limited (Corporation) in July 1970.

The administrative control of the Corporation vests with the Ministry of Textiles. The Corporation functions through its Head office and twenty branch offices located all over India. The Branch Offices with purchase centres under their control are responsible for purchasing, arranging for ginning, pressing, storage and delivery of cotton to customers under the overall control of the Head Office. The Chairman-cum-Managing Director is assisted by two functional Directors, heading Finance and Purchase and Sales activities respectively.

13.2. Scope of Audit

During the course of the performance audit of the trading activities of the Corporation, test check of records relating to the procurement and marketing of cotton of six out of the

15 major branches of the Corporation covering a period of six years from 1999-2000 to 2004-05 was conducted with a view to assess the efficiency, economy and effectiveness of these operations.

13.3 Audit Objectives

Performance audit of the trading activities during the review period covered the commercial operations of purchase and sale of cotton undertaken by the Corporation and a critical review of Minimum Support Price (MSP) operations undertaken on behalf of the Government of India (GOI) with a view to assess whether :

- Targets fixed were realistic and in tune with the role envisaged in the textile policies of the Government of stabilising the prices and of increasing its market share.
- The Corporation effectively implemented price support operations on behalf of the Government;
- Cotton growers could get remunerative prices for their produce. Cotton was made available at reasonable prices to the textile mills and other end users; and
- Purchase and sales operations were taken up ensuring commercial viability both in domestic and international market as contemplated in the Memorandum of Understanding (MOU).

13.4. Audit Criteria

Performance of the Corporation's trading activities was assessed vis a vis internal targets for procurement of cotton, the share of the Corporation in procurement of cotton in the total production of cotton, its export performance in terms of its share in the total cotton export of the country. Evaluation of the achievements of MSP operations was also done vis a vis the directives of the GOI in this regard

13.5 Audit Methodology

Files relating to purchase/sales activities with reference to purchase and sales policies approved by the Corporation from time to time were reviewed. Besides, statistics from independent sources relating to textiles industry were collected and analysed.

13.6. Audit findings:

13.6.1 Procurement Activity

The National Commission on Agriculture recommended (1975) that the Corporation should endeavour to purchase about 25 to 30 *per cent* of the total cotton production in the country, if necessary by strengthening the network of its offices. The Corporation through its 20 branch offices controlling 244 procurement centres (March 2005) in various agricultural markets undertook the procurement of cotton. A review of the performance of the procurement activity revealed the following:

13.6.1.1 Performance vis a vis purchase targets.

The Corporate Office fixed purchase targets every year based on an in-depth interaction with all the Branch Heads in the form of an annual Branch Managers' (BMs) conference wherein likely cotton scenario in the country as well as at global level were discussed in detail. These deliberations were mainly on crop prospects, anticipated price behaviour, demand for cotton from the mill sector and likely imports and exports. Based on these deliberations and availability of infrastructure in different branches, tentative purchase targets were fixed for each branch. Depending upon crop estimates, arrival patterns, price behaviour, demand etc. these targets were also revised if necessary during the course of the season. Table I below indicates the total production of cotton, procurement projections as per corporate plan, revised target and actual purchase of cotton there against during the six cotton seasons ended 2004-05.

Table I

(Quantity in lakh bales)

Year	**Total Production**	**Projections as per corporate plan**	**Target fixed for purchases in BM Conference**	**Actual Purchases**	**CCI's Market Share (In Percentage)**
1.	2.	3.	4	5.	6
1999-00	118.00*	4.88	7.00	5.08	4.31
2000-01	109.23*	8.50	-- #	6.03	5.52
2001-02	124.50*	10.00	8.50	9.67	7.76
2002-03	136.00	9.00	8.35	5.99	4.40
2003-04	167.50	9.00	12.00	9.00	5.37
2004-05	232.00	9.50#	--#	27.63	11.91

(Source: Branch Manager's Meeting & Corporate Plans of respective Years)

* Excluding production of Maharashtra State where Maharashtra Cotton Marketing Federation was the monopoly procurement agency up to the cotton season 2002-03

\# No target as there was Minimum Support Price (MSP) operation

Table I reveals that against the recommendation of the National Commission on Agriculture that the Corporation should endeavour to purchase about 25 to 30 *per cent* of the total cotton production in the country, the targets fixed by the Corporation and its market share in the procurement of cotton during the six years ended 2004-05 ranged between 4.31 and 11.91 *per cent*. Further, the actual procurement of cotton during all the four years excluding two years[♣] in which MSP operations were undertaken was below the targets fixed in the corporate plan and revised in the BMs conference.

The Management stated (August 2005) that depending upon the cotton production, expected price behaviour, performance of the textile mills and expected demand in any crop year, the Corporation decided on procurement targets. It further added that due to adverse market conditions the Corporation could not enhance the target but continued its operations depending on commercial viability and expected demand from the mill sector.

The above contention of the Management was not tenable as the Corporation had fixed its targets keeping all the factors listed in the reply and also revised them concurrently. Hence, the shortfall in achieving them indicated either the targets were unrealistic or the implementation was faulty. A possible reason was creation of insufficient number of centres due to which coverage of the market yards where cotton was traded was inadequate (refer para 13.6.1.3)

[♣] ***2001-02 and 2004-05***

Recommendation

Effective measures should be taken by the Corporation to increase its share in the purchase of indigenous cotton.

13.6.1.2 The Corporation's access to the cotton production of the country

The Agriculture Produce Marketing Committees (APMC), which are bodies constituted under the APMC Act of the respective State Governments, regulate marketing of cotton in the markets authorised by it. While many traders in the private sector resort to village buying or buying outside the market yards and pay lower prices as well as avoid levy of cess or market fees payable to APMC, the Corporation had to make purchases of cotton in the regulated markets. The cotton is sold in the regulated markets either in an open auction or by way of inviting open tenders. The total production of cotton in the country and quantity received in the regulated markets where the Corporation operates its centre were as under:

Table 2

(Quantity in lakh bales)

Particulars	1999-00	2000-01	2001-02	2002-03	2003-04
Total production in the Country	156.00	140.00	158.00	136.00	167.50
Total arrivals in regulated markets	65.04	71.82	71.75	58.37	78.90
Percentage of arrival in regulated markets to total production.	42.00	51.00	45.00	43.00	47.00

Table 2 above shows that out of the total production of the country, the arrivals in regulated markets ranged from 42 to 51 *per cent* during the last five years ended March 2004. The remaining produce ranging between 49 to 58 *per cent* was sold by the growers mainly through unregulated markets.

The Management while accepting the facts stated (August 2005) that the Corporation as a policy carried out its purchase operations only in the regulated market yards in the presence of APMC officials and was rather deprived of a large part of the crop production, from its purchase purview, which was sold directly at village levels or out side the market yards.

Recommendation

The local APMCs and State governments should ensure through further spread of regulated markets or if necessary through legislation, that all cotton produced in the country is traded in regulated markets

13.6.1.3 Trading Infrastructure

The trading (i.e., purchase and sale) activities of the Corporation are carried out through 244 purchase centres under the administrative control of the 20 branches of the Corporation. The main function of the purchase centres is to participate in the auction of cotton conducted in the regulated market yards set up by the respective State Governments to purchase cotton from the cotton growers. The table given in **Annexure-32** contains statewise data of the purchase centres, the total production of cotton and the cotton procured by the Corporation in each state during the three years ending 2004-05.

Scrutiny of the data given in **Annexure-32** revealed the following:

i. The National Commission on Agriculture recommended that the Corporation should strengthen its network of offices with a view to achieve procurement of 25 to 30 per cent of the total production of the cotton in the country,. The procurement centres in only two states♣ could procure more than 25 per cent of the cotton produed during the year 2004-05. During the years 2002-03 and 2003-04, in none of the states the Corporation run centers could achieve this level.

ii. Against the 400 regulated markets trading in cotton situated throughout India, the Corporation had set up only 244 centres up to March 2005.

iii. The wide variations in the ratio of cotton produced to the number of centres in each state (ranging from 185714 bales of cotton per centre in Orissa to 45652 per centre in Rajasthan for the year 2004-05) indicated that the opening of purchase centres by the Corporation in various states was not in proportion to the total production of the cotton in the respective States.

iv. Further, variations in the ratio of procurement of cotton and the number of centres in each State ranged from 2857 bales per centre in Orissa to 17420 bales per centre in Andhra Pradesh in the year 2004-05 indicating a need to rationalise the spread and operations of the centres.

In the absence of any laid down criteria for the opening of purchase centres and wide variations in procurement of cotton by each centre the viability of the opening of the purchase centre could not be analysed in Audit.

The Management stated (August 2005) that besides the total production, factors like availability of market yards, warehousing facilities, ginning and pressing factories etc were also considered in determining the location of the purchase centres and accordingly numbers of centres were established.

The Management's reply was not acceptable because if the Corporation were to optimise its market share and to serve the farmers by ensuring remunerative prices for cotton produced by them, the network of procurement centres had to be comprehensive and rationally created which could not be done without a laid out policy of opening centres and reviewing their performance and impact.

Recommendation

The Corporation may review the policy for setting up of the procurement centres with a view to optimise its market share.

13.6.2 Remunerative prices to the farmers

13.6.2.1 While endorsing the recommendations of National Commission on Agriculture mentioned in para 13.6.1, the Committee On Public Undertakings (COPU) in its 93 report submitted to the Seventh Lok Sabha on 27 April 1984 recommended that by endeavouring to purchase about 25 to 30 *per cent* of the cotton produced through a large network of procurement centres, the Corporation would also ensure remunerative prices to the farmers and stabilisation of the cotton prices for general welfare of consumers.

♣ ***Rajasthan and Andhra Pradesh***

This should also be the objective of the Corporation though not explicitly laid down in its Memorandum of Association.

As the market share of the Corporation during the last six years ending March 2005 ranged from 4.31 to 11.91 *per cent* only, the Corporation could not have played any significant role in the stabilisation of prices and in ensuring remunerative prices to the cotton growers. One of the reasons for non-achievement could be attributed to not creating a network of centers to actively participate in all the markets created by the State Governments under the APMC Act.

In reply, the Management stated (August 2005) that the Corporation conducted its operations only through its continuous presence in the regulated market yards and not in the yards which were non functional and where infrastructure facilities were not available. It further stated that the regular presence of the Corporation in the market yards helped the cotton growers to get competitive and remunerative prices.

Even if the contention of the Management was accepted, the Corporation's success in ensuring remunerative prices would be limited only to the markets in which it had its centres i.e. only in 244 centres in 400 markets. Hence, the Corporation was not in a position to ensure remunerative prices to large numbers of cotton producers who sold their produce either in irregular markets or in markets where the Corporation did not have a presence.

Recommendation

The Corporation in order to ensure remunerative prices to the cotton growers should take the initiative to strengthen its network of purchase centres.

13.6.2.2 Minimum Support Price Operations (MSP)

The Corporation under the Textile Policy of June 1985 was required to undertake price support operations without any quantitative limit, whenever the market prices of cotton touched the support prices announced by the Government of India. Accordingly, the Corporation undertook Minimum Support Price Operations in the crop year 2001-02 and purchased nine lakh bales (8.51 lakh bales in financial year 2001-02 and 0.49 lakh bales in the financial year 2002-03) as against the total reported production of 109 lakh bales (excluding production of Punjab, Haryana and Maharashtra), representing 8.2 *per cent* of total production. Thus, the remaining quantity of 100 lakh bales remained outside the purview of the Minimum Support operations of the Corporation. Due to non-receipt of remunerative prices for their produce during the year 2001-02, the cotton growers diversified to other crops. This resulted in reduction in area under cultivation for cotton crop. The Cotton Advisory Board attributed the reason for fall in area under cotton cultivation from 87.30 lakh hectares in 2001-02 to 74 lakh hectares in 2002-03 due to non-receipt of remunerative prices in the MSP year 2001-02.

13.6.3 Purchase through commission agents in regulated markets

In the National Textile Policies of 1985 and 2000, while ensuring remunerative prices to the cotton growers, making available cotton at reasonable prices to the textile mills and other end users was also stipulated as an objective. The Corporation participated in the auctions conducted at the APMC markets throughout the season and thereby ensured remunerative and competitive prices to the cotton growers by eliminating formation of cartels by traders. Its participation in the auctions also ensured non-exploitation of mill owners by the traders. While certain states like Punjab, Haryana and Rajasthan, the APMC Act provided for purchases through commission agents against payment of commission/dami by the buyers, in other states like Gujarat, Andhra Pradesh and Karnataka the practice of direct purchases from the farmers and through commission agents prevailed. In states like Maharashtra and Madhya Pradesh there was no system of payment of commission and purchases were done directly from the farmers, which reduced the cost of purchase to the extent of commission and increased volumes of purchase.

During the last six years ended 2004-05, the Corporation paid commission of Rs.35.89 crore as Commission/dami to the agents and traders on the purchase of cotton in the regulated markets thereby increasing the cost of procurement.

In reply the Management stated (August 2005) that the commission agents were the license holders under the APMC Act authorised to transact business on behalf of the cotton growers and hence the Corporation had no option other than to procure through them and pay commission.

The above contention of the Management was not tenable because the Corporation should have explored the possibility of enrolling itself as agents in the regulated market yards dealing with purchase/sale of cotton if so mandated in order to procure directly from the growers and avoid payment of commission. This would have also helped the Corporation to compete effectively with the traders in the regulated markets.

Recommendation

If mandated by the APMC Act in the State, the Corporation should explore the possibility of enrolling itself as agents in the regulated market for procuring cotton directly from the growers at reasonable prices.

13.6.4 Maximization of Profitability of product mix

A review of the cost sheets prepared by the Ahmedabad branch of the Corporation during the last five years ending March 2004 revealed that the branch was purchasing S-6 super, S-6 A, S-6 GA and S-6 GAB varieties of cotton. Table 3 below summarizes the quantities purchased and profit made thereon as depicted in the said cost sheet: -

Table 3

	S-6 Super	**S-6 A**	**S-6 GA**	**S-6 GAB**
Staple Length	**28 mm**	**27mm**	**26 mm**	**25 mm**
PURCHASES (Qty in lakh bales*)				
1999-2000	0.92	1.25	0.24	0.06
2000-2001	0.91	2.29	0.41	0.34
2001-2002	0.20	1.68	2.91	1.00
2002-2003	1.00	2.94	0.83	0.21
2003-2004	2.90	1.95	1.21	0.31

PROFIT/CONTRIBUTION (Rs. Per candy**)				
1999-2000	1034	738	610	880
2000-2001	745	751	(-) 131	845
2001-2002#	NA	NA	NA	NA
2002-2003	1231.15	921.09	1370	2390.77
2003-2004	975	592	193	984

Source : Cost sheet
*One cotton bale= A lint of 170 Kgs.
** One candy= 355.62 Kgs.
# During 2001-02, MSP operations were taken up

It would be seen that the Corporation did not emphasise purchase of varieties with higher contributions. While S-6 A generally contributed less, it was purchased in higher quantities as compared with S-6 Super and S-6 GAB. For instance, the Corporation by making lesser purchase of S-6 Super variety (which had a higher contribution) as compared to S-6 A variety during 2002-2003, had to forgo an opportunity of earning a higher contribution of Rs.0.87 crore.

In reply the Management stated (August 2005) that the volume of purchases under particular grade depended upon the quality of arrival in various markets, demand for cotton and market sentiments and that simply for higher margins in particular varieties/grade purchases of other grade could not be restricted.

The reply was not acceptable, as the Corporation should have explored the possibility of changing the product mix of cotton to increase its profitability. It was noticed in Rajkot Branch of the Corporation that on 26 February 2004 that out of total arrival of 6.66 lakh bales of S-6 super variety of cotton, which had a higher contribution, the Corporation purchased only 1.94 lakh bales.

Recommendation

The Management should undertake mid term or monthly reviews of profitability, cost wise and variety wise breakeven analysis.

The Management accepted audit’s suggestion.

13.7. Sales

13.7.1 Domestic sales operation

The following are the salient features of the Corporation’s objectives in carrying out marketing operations:

i. Domestic sales operations at negligible margin in order to pass on larger benefit to cotton growers.

ii. Increase supplies of contamination free cotton in a phased manner to meet the growing demand of textile mills, especially the 100 *per cent* Export Oriented Units (EOUs), and

iii. Supply cotton to textile industries and other users at reasonable prices.

With a view to accomplish the marketing objectives, the Corporation undertakes the sales operations under the following three heads:

i. Spot sales: Buyers are allowed to lift the pressed bales against 100 per cent payment.

ii. Godown Storage Facility (GSF) Scheme: Started in 1985-86, the Corporation under this scheme enters into sales contracts after collecting five to ten per cent of the value of cotton as earnest money from the buyers.

The sale price of the cotton bales and the terms and conditions of sale were fixed by the purchase and sales (P&S) committee constituted at the Corporate Head Office.

13.7.1.1 Sales Targets and Achievements

The sales targets were initially decided in the Corporate plan keeping in view the cotton scenario envisaged by the Cotton Advisory Board and subsequently revised and re revised in the BMs conference. Table 4 summarizes the target so fixed and the achievements there against during the last six years ending 2004-05: -

Table 4

(Qty. in lakh bales)

Years	As per Corporate Plan	As per BMs Conference		Achieve-ment	Percentage of Achievement to corporate plan Target	Percentage of Achievement to Re-revised Target
	Original	Revised	Re-revised			
1999-00	6.00	08.00	9.23	4.95	82.50	53.62
2000-01	7.00	10.45	9.60	5.65	80.71	58.85
2001-02	8.00	8.50	9.50	9.63*	120.37	101.36
2002-03	11.30	12.50	8.10	5.96	52.74	73.58
2003-04	9.00	15.60	12.25	8.37	93.00	68.32
2004-05	10.00*	--	--	10.57*	105.70	--

*This figure included MSP Operations therefore target is irrelevant.

Except during the year 2001-02 and 2004-05, in which MSP operations were carried out, the achievement with reference to sales targets fixed under corporate plan ranged from 52.74 to 93 *per cent*. With reference to the revised targets fixed under BMs conference, the achievement ranged from 53.62 to 73.58 *per cent*.

In reply, the Management stated (August 2005) that the achievement in each year was increasing as compared to the previous year therefore the performance of the Corporation was rated as Very Good in terms of MOU targets.

The above contention of the Management was not tenable as the targets set were never achieved indicating more concerted efforts were necessary in this direction.

Recommendation

Though the growth in sales over the years is commendable but the Corporation needs to make further concerted efforts in its sales function so that the targets set can be achieved.

13.7.1.2 Losses on resale of un-lifted bales

If the parties which agreed to lift the cotton bales within a stipulated time period, backed out for reasons of lower market prices, the Corporation as per terms and conditions of the sale contract could resort to resale of the un-lifted bales at the risk and cost of the original buyer. Table 5 below indicates the sector-wise details of the parties which defaulted in lifting the contracted quantities of cotton bales sold to them and the differential amount and carrying charges etc., recoverable from them as at the close of 31 March 2004.

Table 5

(Rs. in crore)

Sr. No	**Sector**	**Price Difference**	**Carrying Charges**	**Other Expenses**	**Interest**	**Total**
1.	Cotton Seed Parties	0.23	0.20	-	0.11	0.54
2.	NTC Subsidiaries	2.15	2.48	0.01	23.48	28.12
3.	Private Mills	5.65	14.50	0.22	17.79	38.16
4.	Export	5.73	4.31	-	8.99	19.03
5.	Institutional Buyers	2.94.	4.41	0.01	18.32	25.68
	TOTAL	16.70	25.90	0.24	68.69	111.53

Source : Branch summary of Resale losses furnished by the Management

The lapse on the part of the Corporation to include a suitable clause in the sale contract for obtaining adequate security in the form of bank guarantee, letter of credit etc., in the event the original buyer backed out resulted in non recovery of Rs.111.53 on accounts of loss sustained by it in the disposal of unlifted bales at the risk and cost of the original buyers. The Corporation had initiated litigation/arbitration proceedings against the concerned parties. Further, developments in the matter were awaited (December 2005).

Recommendation

When sales are made under GSF scheme, it should be ensured that adequate Bank Guarantees are taken to cover the financial risk of the Corporation.

13.7.1.3 Cotton seed sales

Cotton purchased is ginned to remove seeds and other impurities and the lint obtained is pressed into bales. The cotton seeds so obtained in the course of ginning are sold in the market by the BMs depending upon the demand and the supply position. The BM of each centre decides the price of the cotton seeds sold but the methodology of determining the price is not recorded.

Sale proceeds realised from the disposal of cotton seeds during the six years ended March 2005 were Rs.118.16 crore, Rs.161.03 crore, Rs.189.53 crore, Rs.200.25 crore, Rs.255.98 crore and Rs.486.33 crore respectively and ranged between 21 and 33.24 *per cent* of the total turnover of the Company. Despite the high volume of cotton seed sale, no methodology was adopted for fixing the selling prices for proper transparency of transactions, especially in cases of finalisation of sales offers telephonically by the centre in charge.

Recommendation

A clear cut policy for determination and documentation of the procedure for fixing the sale price of cotton seeds should be implemented.

13.7.2 Export sales

Prior to July 2001 export of cotton from the country was based on export quotas released by the Government at the beginning of cotton season to various Central/State Government institutions as well as private traders. With the opening of the export window in July 2001, the Corporation had to compete with the local agents in the open market. The table given below summarises the export sales executed by the Corporation vis-à-vis total export of raw cotton during the five years ending 2003-2004.

Table 6

EXPORT	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Target fixed (in lakh bales)	1.25	2.50	2.00	1.00	1.00	1.20
Achievements (in lakh bales)	0.07	0.06	0.23	0.04	0.65	0.27
Shortfall (per cent)	94.40	97.60	88.50	96	35	77.50
Total Export of Cotton-Including waste (Rs. In crores)	77.07	224.13	42.69	50.49	65.76	NA
Total Export turnover by CCI (Rs. in crores)	7.22	7.82	13.76	14.36	23.48	10.52
Percentage of CCI Export to total Export	9.37	3.49	32.23	28.44	35.70	NA
Profit / Loss in Export (Rs. In crores)	0.23	0.25	-0.93	-0.18	1.82	NA

Source: Monthly statistics of Foreign Trade of India DG&S, Kolkata Branch Manager's conference and Annual Budgets of the Corporation

Note: From 1999-00 to 2000-01, Export quota allotted

It would be seen from the above tables that the Corporation could not achieve its export targets in quantitative terms in any of the six years ending March 2005 and the shortfall in the exports during the six years ended March 2005 ranged from 35 *per cent* to 97.60 per cent. The export turnover of the Company which gradually increased from Rs.7.22 crore in 1999-2000 to 23.48 crore in 2003-04 came down to Rs.10.52 crore in 2004-05.

In its reply the Management stated (August 2005) that reasons for not achieving the export targets were attributable to the following factors:

i. Disparity in prices of the Indian cotton vis-a vis comparable foreign growth in the international market;
ii. Fluctuations in exchange rates, at times making the Indian cotton more expensive in international market;
iii. Better price realisation in the domestic market; and
iv. Indian cotton is considered more contaminated as compared to international cotton.

The above contention of the Management was not acceptable as targets were fixed only after considering these factors.

Recommendation

Since export is a major tool for stabilisation of prices, the Corporation should strive to achieve more exports and make all out efforts to improve the quality of cotton at the time of its processing.

Conclusions

- Against the recommendation of the National Commission of Agriculture in 1975 that the Corporation should buy 25 to 30 *per cent* of the indigenous crop, the actual purchases were less than eleven *per cent* of the national production, showing under performance of the Corporation in the field of procurement activity.
- Purchase network was created to cover only up to 51 *per cent* of the national production of cotton which arrived in regulated markets. The Corporation could not thus, ensure remunerative prices to 49 *per cent* farmers whose produce was mainly marketed through cotton traders. Further, against the 400 regulated markets trading in cotton situated through out India, the Corporation had set up only 244 procurement centres up to March 2005.
- An amount of Rs.111.53 crore was locked up in litigation being the amount of loss on resale including interest and carrying costs under the GSF scheme. The Corporation did not protect its financial interest by taking bank guarantee, letter of credit etc., from the original buyers.
- Under export activity, no significant achievements were made during the period under review although exports were a major tool for stabilization of prices.

The review was issued to the Ministry in December 2005; its reply was awaited (February 2006).

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