The review of research literature relating to marketing of cotton in India showed considerable differences in the margins of traders in the final price of cotton paid by mills or received by farmers. While in the Khandesh region of present-day Maharashtra, competition in the primary cotton market appeared to be quite fierce all along, leading to the lowest possible trade margins, in the Vidarbha region as well as in many other cotton growing regions of the country, the trade margins appeared to be much larger, leading to a corresponding decline in the share of the producer in the final price of cotton paid by the mills. Secondly, it was observed that most cotton markets in India were characterized by oligopolistic situation, with a few, about half a dozen, traders accounting for the bulk of market purchases and the very small share being purchased by a very large number of petty traders. There was indirect evidence to believe that there was some sort of tacit understanding among the big traders not to allow the price of raw cotton in the primary market to rise so high as to reduce the trade margin below some mutually understood level. This was indicated by the fact that wherever a farmer's cooperative society operated...
in the primary market in competition with the private traders, the trade margins were lower and the seasonal price spread was also somewhat less.

These phenomena led to policies of State interference in raw cotton trade with a view to reducing the share of trade in cotton price and also reducing the intra and inter-seasonal fluctuations in the price of cotton.

Two types of policy were adopted: one by the Government of India at the all-India level and another by the State Government of Maharashtra for the State. The Government of India set up a State trading organization in cotton to compete with private trade in the primary markets for raw cotton and to work as the single channel for import of raw cotton required by the mills. The State Government of Maharashtra, however, set up an organization to work as a monopolist purchaser of cotton from the producers in the State and marketing it on their (producers') behalf.

In this chapter, an account of the genesis and methods of functioning of these two organizations namely the Cotton Corporation of India at the all-India level and the Maharashtra State Cooperative Marketing Federation at the State level. Our study is divided into two sections: the first section deals with the aims and objectives of setting up the Cotton Corporation of India while the second section deals with the scheme of the Monopoly Procurement of Cotton in Maharashtra, its aims and objectives.
The Agricultural Prices Commission (APC) while submitting its report on cotton price policy for the 1967-68 season had recommended that "the Government should adopt a long-term plan of entering the raw cotton trade - including imports - so as to acquire control over 15 to 20 per cent of the total supply of spinnable cotton in the country every year". This recommendation was further emphasized in its reports on price policy for the 1968-69 and 1969-70 season. The APC felt that "such an agency should be set up in the public sector with the responsibility for the equitable distribution of cotton among the different constituents of the industry and should be enjoined to purchase and sell quantities of domestic cotton for disciplining prices within and between the years and serve as a vehicle for the canalisation of all imports of cotton".

The recommendation for a public sector agency by the APC was due to several factors. Firstly, it was felt by the APC that besides mills, even the trade was holding stocks of cotton and if mills decided to increase their consumption to the extent that their stocks were fully consumed then they may have to depend on the stocks with the traders or on the next harvest. As the close of the season approaches, prices tend to move up but the benefits of this price rise
accrue to the traders and by and large the growers are left out. The figures presented in Table 3.1 show the stocks of cotton with mills and trade at the end of the following marketing seasons.

Table 3.1: Stocks of Cotton with Mills and Trade

<table>
<thead>
<tr>
<th>Season (September-August)</th>
<th>Total stocks (at the end of the season)</th>
<th>Stocks with mills (3)</th>
<th>Stocks with trade (4)</th>
<th>Stocks with trade as a percentage of total stocks (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964-65</td>
<td>25.1</td>
<td>18.6</td>
<td>6.5</td>
<td>25.9</td>
</tr>
<tr>
<td>1965-66</td>
<td>24.0</td>
<td>18.0</td>
<td>6.0</td>
<td>25.0</td>
</tr>
<tr>
<td>1966-67</td>
<td>21.4</td>
<td>16.4</td>
<td>5.0</td>
<td>23.4</td>
</tr>
<tr>
<td>1967-68</td>
<td>18.8</td>
<td>13.6</td>
<td>5.2</td>
<td>27.6</td>
</tr>
</tbody>
</table>


The figures in the Table show that trade was holding approximately 25 per cent of the total stocks at the end of the marketing season during the period 1964-65 to 1967-68. If the mills decided to acquire the stocks with the traders, there was every possibility of trade raising its price and thus causing price instability.

Further, it was felt by the APC that there was the problem that "the distribution of spindlage and loomage over the different states bore no relation to the geographical distribution of cotton output". The figures presented in
Table 3.2 show the number of spindles in a State as well as the production of cotton in that State for the year 1966-67.

Table 3.2: Statewise Number of Spindles and Production of Cotton, 1966-67

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Spindles</th>
<th>Per cent to All India (2)</th>
<th>Production in 000 bales (3)</th>
<th>Per cent to All India (4)</th>
<th>Per cent to All India (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>4,44,675</td>
<td>2.6</td>
<td>157</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Bihar</td>
<td>59,092</td>
<td>0.3</td>
<td>2</td>
<td>Negligible</td>
<td></td>
</tr>
<tr>
<td>Gujarat</td>
<td>35,10,152</td>
<td>20.7</td>
<td>1438</td>
<td>29.2</td>
<td></td>
</tr>
<tr>
<td>Haryana</td>
<td>1,80,228</td>
<td>1.1</td>
<td>289</td>
<td>5.9</td>
<td></td>
</tr>
<tr>
<td>Kerala</td>
<td>3,31,412</td>
<td>1.9</td>
<td>6</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>6,29,980</td>
<td>3.7</td>
<td>279</td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td>Madras</td>
<td>39,67,716</td>
<td>23.3</td>
<td>447</td>
<td>9.1</td>
<td></td>
</tr>
<tr>
<td>Maharashtra</td>
<td>45,48,977</td>
<td>26.7</td>
<td>1070</td>
<td>21.7</td>
<td></td>
</tr>
<tr>
<td>Mysore</td>
<td>6,27,266</td>
<td>3.7</td>
<td>265</td>
<td>5.4</td>
<td></td>
</tr>
<tr>
<td>Orissa</td>
<td>1,00,180</td>
<td>0.6</td>
<td>1</td>
<td>Negligible</td>
<td></td>
</tr>
<tr>
<td>Punjab</td>
<td>1,15,965</td>
<td>0.7</td>
<td>731</td>
<td>14.8</td>
<td></td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>9,51,550</td>
<td>5.6</td>
<td>49</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>West Bengal</td>
<td>8,89,290</td>
<td>5.2</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>


From Table 3.2 it can be observed that in Andhra Pradesh, Gujarat, Haryana, Madhya Pradesh, Punjab and Mysore the production of cotton was in excess in relation to number of spindles. On the other hand in certain States such as Kerala, Uttar Pradesh and West Bengal, there existed substantial number of spindles but the production of cotton there
was negligible. It was, therefore, felt by the APC that there was "the need for matching continuously the requirements of the units in the individual States with the availability, especially in respect of the different varieties. Wherever there is imperfection in private trade, or there is shortage in the availability of particular varieties, local or general crisis becomes inevitable. This underlines the need for the establishment of a public agency with sufficient and effective control over the stocks of raw cotton in the country."4

The APC also pointed out that "most of the established importers under whose auspices cotton, whether under the Open General Licence or under the PL 480 or other bilateral agreements, is imported, have close liaison with institutions specialising in domestic trade, as well as with the industry. In such a set-up, imports may not necessarily exert, at any rate not adequately, a stabilising influence on the level of internal prices ... it is in this context that the APC recommended the canalisation of all imports of raw cotton in the public sector ... which would bring about a measure of discipline in the pricing and distribution of the fibre ... in a year of short crop, it would be the function of this agency to release stocks in an effort to moderate the rise in prices; similarly in a year of good crop, it would purchase extensively so as to maintain prices for the growers. The agency would also ensure that, through its policy of
early season purchases and late season releases, intraseasonal price variations are reduced. It would also be the responsibility of the agency to bring about equitable distribution of cotton among the different constituents of the industry.\(^5\)

The APC further felt that "it was necessary to recognize the limitations of the measures which were deployed to influence the prices of cotton. A principal limitation of the instrument of selective credit control, for example, derives from the fact that credit could be had from sources other than the commercial banks and the volume of such credit was substantial. Similarly, stipulation about ceilings on the stocks of cotton with the mills could be circumvented by their arranging to have the stocks held for them by the trade including the cooperative societies. In the context of these limitations the Commission had been emphasizing the need for an agency in the public sector."\(^6\)

A further argument advanced in favour of State takeover of the foreign trade from the hands of the private sector was that "a lot of foreign exchange is illegally retained abroad (and sold in the black market at fantastic profit) through over-invoicing of imports and under-invoicing of exports. The canalized system would prevent any loss of foreign exchange by collusion between the importers and the supplier abroad."\(^7\) Centralized purchases were expected to be more economical and useful from the point of view of
speedy contracting and economical shipments. It was, however, pointed out in the All India Cotton Conference held in June 1970 that "there is no room for any malpractices by way of overinvoicing. This is because 80 per cent of the global cotton was received under the bilateral trade agreements from the U.A.R. and Sudan. There is hardly any possibility of anyone wanting to accumulate currencies of these two countries. Further the exchange control in both these countries is very stringent. As regards the imports of American cotton under PL 480, the regulations of the U.S. Administration for payment are stricter still and there is absolutely no scope for an importer or anybody else to keep anything in that country." \(^8\)

In the economic policy resolution adopted at the Bombay session of the Indian National Congress in December 1969, emphasis was laid on bringing the import of raw materials and procurement of major agricultural commodities into the State sector. The Ministry of Food and Agriculture had also appointed a Committee to go into the question of undertaking buffer stocking in cotton. In order to give a concrete shape to the above ideas, the Government of India appointed a Committee with the Textile Commissioner as convenor, dealing with the various aspects of the proposed arrangement. The Committee recommended that an agency for canalization of imports should be set up and it should be a fullfledged independent Corporation to be managed by a Board of Directors. \(^9\)
The Government of India accepted the recommendations of the Committee and accordingly the Cotton Corporation of India (CCI) was set up in July 1970, as a public sector agency to be responsible for import of all cotton, as indigenous cotton production was inadequate to meet the entire requirements of the Textile Industry.

Besides being the single channel for import of raw cotton, the then Minister of Foreign Trade in his statement to Parliament on 31st July 1970, stated "in the field of domestic trade, the Corporation will make a beginning with undertaking purchases for certain objectives. The growers of cotton will be assured of an agency which will give them the necessary price support. The more enterprising cultivator growing the new varieties will have an agency to buy the extra-long staple cotton at fair prices. The Corporation will procure the cotton for mills under the purview of the National Textile Corporation. The Corporation would also be prepared to assist private sector mills in their programme of cotton purchases." Thus when the Corporation was set up its main role was to import cotton but in the field of domestic trade besides working as an agent to purchase for NTC and other mills, if required, its role was limited to price support operations. The minister had, however, not specified how the fair price, at which the Corporation was expected to purchase extra-long staple cotton, was to be determined and also which agency was to determine it. If the fair price referred to is the support price then irrespective of whether
it is an extra long staple variety or not, the Corporation would have to give the necessary price support.

After the setting up of the Corporation in 1970, the prices of kapas normally ruled above the support level and hence the Corporation had hardly any role to play in this respect. It was only in the 1971-72 season, as a result of the break-down of normal cotton marketing in the border regions of the Punjab due to the Indo-Pak war, the Cotton Corporation was asked to make purchases at stipulated procurement prices in the border States of Punjab, Haryana, Rajasthan and Gujarat. The Corporation then largely catered to the requirements of the NTC mills. The NTC mills, however, did not always honour their commitments to the CCI and hence since the 1978-79 season, the NTC discontinued quantitative commitments to the CCI. Henceforth the CCI offered quantities available with it to the NTC at ruling market prices.

At this point of time (1978-79) the role of the Cotton Corporation also underwent a change. First of all, due to technological breakthrough in the late 1970s leading to the introduction of new high yielding varieties of longer staple cotton, the need to import cotton was no longer felt. The role of the Corporation was thus confined to domestic purchases. Secondly, the Textile Policy of 7th August 1978 announced that "The role of the Cotton Corporation of India would be expanded and it will be allowed to make commercial
purchases in the market so that cotton prices do not drop below the prescribed minimum. At the same time, CCI would be required to prevent cotton prices going above a prescribed limit and for this purpose would be enabled to operate a buffer stock and make sale in the market. However, in 1978, the Government of India constituted a Technical Committee, under the chairmanship of Dr. Y.K. Alagh, to go into the issue of buffer stock that would be necessary for maintaining cotton prices within the desired range and suggest the likely credit requirement for buffer stock operations. The Committee submitted its report in 1980 after which the Government gave up the proposal of the CCI maintaining a buffer stock. The prices ruling at that time were fairly high. Further, it was realized that the operating costs of maintaining these stocks would be very high. The Cotton Corporation was thus not allowed to maintain a buffer stock. It must, however, be pointed out that since the Corporation had to support the market in case prices fell below the minimum support level (fixed by the APC), its role in maintenance of buffer stock was implicit in its role of performing price support operations. Thus, in its domestic purchases, besides performing price support operations, the Cotton Corporation participates in the open auctions and bids for selected lots of raw cotton in competition with other buyers in the regulated markets. This method of bidding in open auctions helps the Corporation to purchase raw cotton at competitive prices and also lends support to the
cotton growers selling raw cotton in the regulated markets against any tacit collusion by private traders to prevent the primary market price from going above a certain level.

The role of the Cotton Corporation was reviewed on 21-11-1983 in a meeting under the chairmanship of the Secretary (Textiles) in which it was decided that "the Corporation would continue its role of intervening in the market at the time when the cotton prices were falling and withdraw from the market when prices were going up. It was also decided that the CCI should make a realistic assessment of demand for long staple cotton and other varieties of cotton and then decide how much quantity it should purchase. Commercial viability of the Corporation would at any cost have to be maintained."

Thus in order to avoid carrying cotton for long periods (due to which the Corporation often made losses) and to make its operations economically viable, the CCI followed a policy of sales simultaneous to purchases.

The role of the Cotton Corporation can thus be summarized: (1) To render price support to cotton growers; (2) To intervene in the market when cotton prices were falling and withdraw from the market when prices were rising; (3) To meet the requirements of NTC and other institutional buyers as also the demand from private mills on commercial basis.

The Corporation was also to export long and superior long cotton against the export quota allotted to it from time to time.
Table 3.3 shows Statewise the important cotton centres in India (excluding Maharashtra) and the number of centres in which the CCI operates. The number of important centres relates to the year 1986-87 but the centres in which the CCI operates relates to the year 1982-83. However, the number of centres in which the CCI is presently operating have remained more or less unchanged.

Table 3.3: Statewise Purchase Centres Operated by the CCI

<table>
<thead>
<tr>
<th>State</th>
<th>No. of important centres</th>
<th>No. of centres in which CCI operates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punjab</td>
<td>29</td>
<td>28</td>
</tr>
<tr>
<td>Haryana</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>N.A.</td>
<td>24</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>Gujarat</td>
<td>100</td>
<td>56</td>
</tr>
<tr>
<td>Karnataka</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>23</td>
<td>16</td>
</tr>
</tbody>
</table>


It can be observed from Table 3.3 that the CCI is operating in almost all important cotton centres in the country. Only in the State of Gujarat its entry in the various markets seems limited and this is possibly due to the dominance of the cooperative marketing societies.
Sales of cotton lint by the CCI are effected by the Purchase and Sales Committee stationed at the Head Office in Bombay which considers the offers received from the mills or their agents directly or through the Branch Offices. Contracts are signed either in the Head Office or the Branch Office through which the proposal is received, on the basis of terms finalized by the Purchase and Sales Committee. The sale contracts are either collected by the representatives of the mills personally or they are sent under Registered A.D. to the mills.

The sales transactions take place against cash i.e. full payment before delivery. The Corporation has sales offices in important cotton consuming centres like Coimbatore, Kanpur, Ahmedabad, etc., for catering to the requirements of the textile mills concentrated in such centres.

Section II

Scheme of Monopoly Procurement of Raw Cotton: Aims and Objectives

Soon after the setting up of the Cotton Corporation of India, the State of Maharashtra introduced a scheme of monopoly purchase of raw cotton by the State. In the debates held by the Maharashtra Legislative Assembly on September 1971 with respect to cotton trading, the Minister for Co-operation stated that although the Cotton Corporation of India was already set up, its operations were confined mainly to imports of cotton and it was not actively involved in the
internal trade of cotton. The Cotton Corporation alone
could not succeed in "eliminating the middlemen" and hence
the Government of Maharashtra's attempt to set up a monopoly
machinery was not a duplicated effort. It was really an
effort supplementary and complementary to that of the Cotton
Corporation of India.¹⁵

Indeed, it may be noted that when the Corporation
was set up in 1970 it had only a limited role to play in
the domestic market mainly in the form of price support and
purchases to meet the requirements of NTC mills. It was
only in 1978 that the Corporation began to participate in
open auctions in the regulated cotton markets, in competition
with other buyers, so as to secure for the growers, the best
possible price. Hence in the early years of its operations
the Cotton Corporation was not really active in the domestic
markets and its role in preventing the middlemen from
exploiting the cultivators was limited.

The scheme of Monopoly Procurement of Cotton was
framed and given a statutory form under the Maharashtra Raw
Cotton (Procurement, Processing and Marketing) Act, 1971,
which came into effect from August 1, 1972. With the enforce­
ment of this Act, all private trading in cotton was prohibited
and the cultivator was given only one option in regard to
the selling agency, namely, the Maharashtra State Cooperative
Marketing Federation Limited, which was appointed by the State
Government as the sole buying agency for raw cotton in the
State. Much later, a separate organization was formed in August 1984 for implementing the Monopoly Cotton Marketing scheme it was called "The Maharashtra State Cooperative Cotton Growers Marketing Federation Limited".

The then Minister for Cooperation had stated certain reasons in support of the scheme. He elaborated the advantages of cooperative marketing by the producers. "Firstly, by organizing cooperative marketing societies, the growers strengthen their bargaining power with the trader, market their produce to their best advantage and obtain more remunerative prices for their produce and can plough back the surplus for increased and better agricultural production. The undeserving and exorbitant profits made by the middlemen would be reduced, the evils of hoarding by profiteers would be eliminated and the farmer can secure his due share of the price paid by the consumer. For example, during the season 1967-68, the differences in price per bale between post-harvest (January-February 1968) and September 1968, of two varieties of cotton L-147 and Khandesh Virnar were respectively Rs. 84 and Rs. 96. Allowing for a small monthly carrying charges of $1\frac{1}{4}$ per cent for a period of six months, the remaining amount has been appropriated by the trader for no particular services rendered by him, leaving the cultivator high and dry in the bargain. Secondly ... Cooperative marketing of agricultural produce, if efficiently carried out should help to reduce the price spread between the producer and the consumer and thereby ensure a better
return to the primary producer, without at the same time affecting the interests of consumers. If the various marketing functions such as assembling, grading, pooling, processing, storage, finance, insurance, sale, transportation, standardising and export are performed by the growers themselves on cooperative basis, they will not only secure considerable financial benefit but also acquire a business oriented outlook. ... Cooperative marketing also provides a built-in-mechanism for the recovery of production credit."

However the Minister went on to state that "Cooperative marketing societies have been set up at most of the major and even minor market centres. Unfortunately, however, their functioning has not been satisfactory. Although there are over three hundred primary market societies, their operations have so far had no impact either on the prices or on the method of marketing. ... a large number of cotton sale societies in the cotton growing districts of Dhulia and Jalgaon formed on the model of Gujarat cotton sale societies did not succeed and had to be taken into liquidation. ... Most of them are financially weak. ... The overdues of cooperative credit institutions are as high as 38 per cent which is a major drawback of the cooperative credit movement in Maharashtra State. An integrated scheme for the development of cooperative marketing of cotton will therefore, prove of considerable assistance in the rehabilitation and development of cooperative credit movement enabling it to advance credit for increasing the yield per acre. ... The Maharashtra
State Cooperative Marketing Federation will be in complete charge of the operation of the scheme regarding procurement, processing and marketing of cotton.\(^{17}\)

It must however be pointed out that the Minister had not taken note of the fact that in Khandesh region (as observed in our review of literature) the traders worked on a very narrow margin and the cotton marketing organization seemed to function efficiently. Hence the cooperative cotton sale societies of Dhulia and Jalgaon did not succeed in providing a better return to the grower. In case of Gujarat however as the trader's margins were high (as shown in our review of literature) the cooperative marketing societies greatly helped to increase the return to the grower. The Minister has also not aimed at strengthening cooperative marketing but has substituted it by a Monopoly Marketing Scheme with the Maharashtra State Marketing Federation entrusted with the task of purchase of raw cotton and selling of lint and cotton seed.

From August 1, 1972, the Monopoly Procurement Scheme of cotton was brought into force. The broad objectives of the scheme were stated as follows:

1. To ensure fair and remunerative price of cotton to the growers in the State;

2. To effect additional transfer of incomes to the cotton growers by eliminating middlemen and securing in full the advantage of terminal price.
3. To bring about stability in the incomes of growers and thereby bring about stability and growth in the overall production of cotton in the State.

4. To supply scientifically graded quality cotton to the consumer mills.

5. To strengthen the institutional framework of cooperatives by involving the cooperatives fully in the process of procurement, processing and marketing of cotton and establish an effective linkage between marketing and recovery of cooperative dues.

6. To revitalise the rural economy by establishing a close connection between various processes connected with cotton namely, ginning and pressing, oilseed crushing, spinning and weaving so that all workers and growers of cotton share advantage of larger incomes.\(^18\)

Under the Maharashtra Raw Cotton (Procurement, Processing and Marketing) Act, 1971, "except with the previous permission of the State Government, no person other than the State Government or an officer or agent of such Government authorized by it in this behalf, shall purchase, sell or store for sale (not being baled cotton) or carry on business in raw cotton.\(^19\)

The Act specifies that:

1) "No owner or person incharge of a cotton ginning factory shall, except with the previous permission of the State Government, gin or cause to be ginned in his factory any
kapas, other than kapas to be ginned on government account."

2) "No owner or person in charge of a cotton pressing factory shall, except with the previous permission of the State Government, press or cause to be pressed ginned cotton into bales, other than such cotton to be pressed on Government account."

3) "No person, other than the State Government shall, except with the previous permission of the State Government transport or attempt to transport (not being baled cotton) from any place in the State to any place outside the State."\(^{20}\)

**Infrastructure of the Monopoly Procurement Scheme**

The Monopoly Procurement Scheme is operated on behalf of the State by the Maharashtra State Cooperative Marketing Federation (since 1984, the Maharashtra State Cooperative Cotton Growers Marketing Federation) as the chief agent of the State Government. For the purpose of implementing the scheme, the Marketing Federation created three departments, viz., (1) Procurement and Processing, (2) Sales, (3) Finance and Accounting.

In order to operate the scheme, the entire cotton growing area in the State has been divided into twelve zones each headed by a Zonal Manager. Every zone is further subdivided into sub-zones. There are in all 88 sub-zones each headed by a sub-zonal manager. Every sub-zone has a number of procurement stations depending upon the arrivals of kapas from the villages.
The Marketing Federation is assisted by the Taluk Sale and Purchase Societies who act as sub-agents of the Marketing Federation. The main functions of the sub-agents with respect to the Monopoly scheme are mainly to depute representatives for weighing of kapas, to calculate variety-wise and gradewise the value of kapas sold as per the guaranteed price declared by the Government and to calculate the amount of bonus due to the cultivators.

For the administration of this Act a "Maharashtra State Cotton Control Advisory Board" was established. The Minister of State (Cooperation) is the chairman of this Board.

Under the Monopoly Procurement Scheme, every cotton grower in the State wanting to sell his cotton has to tender his 'kapas' at the collection centre. As an administrative measure, a 'green card' was introduced which serves as the authorized identity card for the cotton grower to sell his kapas. This green card contains information regarding the area under cotton, the variety of cotton grown, the details regarding quantity of cotton sold, its value and the recoveries effected from the value of cotton. The green card is issued to the cultivators by the Primary Cooperative Credit Society of the village before the beginning of the season irrespective of the fact whether he is a borrower or a non-borrower of cooperative loan.

Grading and Weighment: The cultivators bring their kapas to the cotton collection centre where the grader of
the Federation examines the kapas for its variety and grade. The kapas is then weighed by authorized weighmen appointed by the Agricultural Produce Market Committee.

If the cotton grower is not satisfied with the variety or grade of cotton given by the grader of the Marketing Federation or the weighment made, he can make a complaint with the "Arbitration Committee" which settles disputes.21

Mode of Payment:

Guaranteed Price: The main feature of the Maharashtra's Monopoly Cotton Procurement Scheme is the "guaranteed price" for the grower. The guaranteed price fixed for a particular variety and grade of kapas is the same throughout the season and throughout all purchasing centres in the State. Once this price is fixed, the cultivator is assured that he will receive it, even if the Federation is unable to sell at that price. Hence it is called the guaranteed price.

The Government of India considers the recommendations of the Agricultural Price Commission and fixes the support price of kapas. The support price so fixed for Maharashtra cotton varieties are considered by the State Government at the time of fixing the guaranteed prices under the scheme. The State Government also takes into account factors such as cost of cultivation of cotton, trends in prices of kapas, cotton and cotton-seed prices in the domestic and international markets, the demand and supply of cotton and prices realized under the scheme in the previous season, while
fixing the guaranteed price. The schedule of prices so determined for different varieties and grades are referred to the CCI for their concurrence and to Government of India for their approval before notifying in the Government gazette as guaranteed price. The guaranteed price for various varieties and grades of kapas, declared by the State Government before the commencement of every season, thus require the approval of the Cotton Corporation and the Government of India. They cannot be fixed independently by the State Government.

The State Government was fixing the guaranteed prices every year since the commencement of the Monopoly scheme in the manner specified. However with effect from the 1981-82 season, a Cotton Coordination Committee was set up to recommend the guaranteed price of kapas to the State Government. The Cotton Coordination Committee consists of the following members:

1) The Secretary to Government of Maharashtra, Agriculture and Cooperation Department;

2) One representative of the Union Ministry of Agriculture and one of the Union Ministry of Commerce;

3) The Textile Commissioner of India;

4) Chairman of the Cotton Corporation of India;

5) Two representatives of the Government of Maharashtra;

6) A representative of the Maharashtra State Cooperative Cotton Growers Federation.

The Act states that "every tenderer of cotton at a
collection centre shall in the first instance be entitled to receive 80 per cent of the guaranteed price for the quantity of cotton tendered by him [which shall be payable to him in lumpsum, or in such instalments not exceeding two, as the State Government may, from time to time, having regard to the availability of funds, by general or special order, determine. The payment of 80 per cent of the guaranteed price in this manner shall be the "advance price" payable to the tenderer].

"The difference between the guaranteed price and the advance price shall be payable to the tenderer (within a period of three months) after the close of every cotton season. (Cotton season means the period from the 1st day of July of any year to 30th June of the next year)."

"If the payment of the advance price or any part thereof is deferred for any reason or the difference between the guaranteed price and the advance price is not paid within three months of the closing of the season, there shall be paid to the tenderer, by or on behalf of the State Government, interest on the amount which remains unpaid, from the date of tender of cotton by him or from the close of the cotton season, as the case may be, till the date of payment of such amount, at such a rate not less than 10 per cent p.a." Therefore 20 per cent of the guaranteed price can remain unpaid for a maximum period of 14 months (assuming actual marketing to begin in August at the earliest) interest
free by the Federation, after which alone will interest on it be due.

"The Market Committee or the authorised cooperative Society or person, as the case may be may deduct from the guaranteed price to be paid to the cotton tenderer, any sums due to any cooperative society."²³

This mode of payment has been subject to changes due to change in circumstances and according to resources at the disposal of the Federation. Since the 1977-78 season, the Government has been paying 100 per cent of the guaranteed price to the cotton growers at the time of sale of cotton.

**Final Price:** In order to obtain the final price, the scheme accounts are closed when about 75 per cent to 80 per cent of the total number of cotton bales are sold and there is no time limit for this. For this purpose the varietywise sale receipts of cotton, cotton-seed and cotton waste are taken together and added to the closing stock not disposed of which is valued on the basis of the average sale price realized for each variety and grade of cotton sold before that day. From this total, the expenditure incurred on processing, marketing, and miscellaneous items is deducted. The final price for different varieties or grades of cotton is thus arrived and notified in the official gazette.²⁴

**Bonus:** If the final price is greater than the guaranteed price, 75 per cent of the difference is distributed to the cultivator as bonus. If in any cotton season, the
amount to the credit of the Price Fluctuation Fund (described below) is equal to or more than 30 per cent of the average total sale value of cotton during the three preceding seasons, the entire difference between the final price and the guaranteed price shall be paid as bonus to the cultivators.  

Price Fluctuation Fund: If the final price is greater than the guaranteed price, 25 per cent of the excess is transferred to a fund called the Price Fluctuation Fund. The Price Fluctuation Fund is created so that in years when the final price is less than the guaranteed price and hence there is a loss to the scheme, the payment of guaranteed price can be ensured by withdrawing from the Price Fluctuation Fund.

Capital Formation Fund: The Monopoly Procurement scheme requires working capital to carry out its operations and for this purpose it has to approach the Reserve Bank of India or NABARD through the Maharashtra State Cooperative Bank after providing the margin money of 25 per cent of the total requirement. The Monopoly Procurement Scheme often had to borrow huge amounts from the banks which was not always sanctioned and it did not have adequate working capital of its own as it was suffering huge losses. Hence, in order to strengthen its capital base, much later in 1981, an amendment and extension was made in the Maharashtra Raw Cotton (Procurement, Processing and Marketing) Act in 1981, under which another fund called the Capital Formation Fund was established.
The cotton growers were required to contribute 1 to 3 percent of the guaranteed price towards this fund. Besides the cotton growers, the Government also makes contributions to the Capital Formation Fund, from time to time. The proceeds of the Capital Formation Fund are used either as margin money or in the actual business of the scheme. Also, if the balance in the Price Fluctuation Fund is inadequate to meet losses in case when the final price is less than the guaranteed price, the proceeds of the Capital Formation Fund are used for this purpose.

Recovery of Cooperative Dues: The scheme envisages the recovery of cooperative credit societies and banks dues from the value of cotton payable to the producer at the time of sale, according to the principle of linking of agricultural credit with marketing. The cooperative dues deducted are to be adjusted in the following manner:

(i) Two-third of the amount deducted as dues from the guaranteed price of the cotton grower should be appropriated towards the recovery of the dues of short-term and medium term cooperative credit agency.

(ii) One-third of the amount should be appropriated towards the recovery of the dues of long term cooperative credit agency.

(iii) In the case of the amount due to the short and medium term credit agency on the one hand or the long term credit agency on the other is fully satisfied by a smaller portion,
the balance should be appropriated fully towards the dues of any other agency.

Financial Resources of the Scheme: The Federation buys raw cotton from the producers and sells pressed bales of cotton lint and cotton seed. However, while the bulk of raw cotton is sold by farmers within a period of four months from the beginning of cotton picking, the sales of lint and seed continue over the year. Indeed, the Federation often carries stocks of cotton lint to the next marketing year. This results in requirement of massive working capital to pay the guaranteed price to the farmer-tenderers as well as to bear the cost of ginning, transport, establishment, etc., before any part of it can be recovered through sale of lint and seed. In order to get working capital, the Marketing Federation has to approach the Reserve Bank of India or NABARD through the Maharashtra State Cooperative Bank to operate the scheme after providing the margin money of 25 per cent of the total requirement. The actual requirement of the credit varies from season to season depending upon the extent of the crop and the guaranteed price. The main financial resources to raise margin-money are the Price Fluctuation Fund, Capital Formation Fund, Government Loan, etc.

Thus with these features the Monopoly Procurement Scheme was launched in 1972.
References


4. Ibid., p. 7.


8. All India Cotton Conference - Canalisation of Cotton Imports, For Whose Benefit, (Speech of H.C. Shah), New Delhi, June 22, 1970.


13. A note on the Operation of Buffer Stock by CCI for Regulating the prices of Cotton - Cotton Corporation of India (unpublished material). The Alagh Committee Report was treated as strictly confidential as hence we could not get access to it.


15. Maharashtra Legislative Assembly Debates, L.A. Bill No. XXXIII of 1971; A Bill to provide for the carrying on for a certain time of all trade in Raw Cotton by the State of Maharashtra, pp. 786-788, (translated from Marathi to English), 28th September 1971.


18. Maharashtra State Cooperative Marketing Federation, Bombay, Unpublished material.


22. Maharashtra State Cooperative Marketing Federation, Bombay, Unpublished material.

23. Sections 24, 25, 26 of the Act, Chapter V.

24. Section 29 of the Act, Chapter V.

25. Section 32 of the Act, Chapter V.

26. Section 35(A) of the Act.