Chapter - II
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REVIEW OF LITERATURE

In this chapter, a review of important studies carried out under marketing of cotton is presented. For analytical convenience, the available literature is grouped into three different sections as follows:

1. Studies on market structure, marketing channels and price spread.
2. Studies on pricing efficiency, price structure and behaviour.
3. Studies on facilitative organisations.

These divisions are not completely independent and a particular study has been included in one section or the other on the basis of its main area of interest.

SECTION 1. STUDIES ON STRUCTURE OF MARKET, MARKETING CHANNELS AND PRICE SPREAD.

A pioneering research on the structure of market organisation for cotton was made by Dantwala (1937)\(^1\). The study traced the movement of cotton from the farm to the
exchange. The study exposed the various malpractices indulged in by the private middlemen and indicated further that the numerous middlemen had not been able to give an efficient marketing system and the substitution of cooperative effort for such private middlemen would make for efficiency. This study could be considered as the foremost scientific enquiry on market study of crops in India.

Patel (1957)\(^2\) in his study observed that there was a saving in marketing costs with the establishment of regulated markets. The cost of marketing cotton in Gadag market before regulation was Rs.3.92 per Nag (1 Nag = 48 maunds = 480 Kgs.) of kapas whereas it was Rs.3.11 after the regulation of the market. In case of lint it was Rs.2.17 per nag prior to regulation and Rs.1.66 after regulation.

Rahate (1960)\(^3\) studied the price spread of some agricultural commodities in the Nagpur Market. In case of Cotton, the producer's share in the mill owner's rupee was found to be as high as 86 per cent.

Based on an adhoc study on the marketing costs incurred during the movement of Kapas from the farm to the textile
mills made by the Directorate of Marketing and Inspection at five places namely Surat in Bombay, Hubli in Mysore, Tirupur in Madras, Tarntaran in Punjab and Indore in Madhya Pradesh, Natur and Ghatge (1960)\textsuperscript{4} reported that about 30 per cent of the average overall cost was made up of ginning and pressing charges and nearly 26 per cent of the merchandising charges at the assembling and distributing centres. They opined that dispersion of surplus ginning and pressing factories located in an area to provide a whole season's work for the remainder factories and entrusting of some of the merchandising functions to farmer's co-operatives would help in reducing the processing and merchandising costs respectively.

Saoji (1965)\textsuperscript{5} studied the economics of cultivation and marketing of cotton in Nagpur. He estimated the marketing cost paid by a producer of cotton in the cotton market of Nagpur at Rs.7.43 per cart load of cotton. The producer's share in the mill owner's rupee was found to be as high as 38 per cent.
B.C. Saxena (1964) studied the practices and problems of cotton marketing in Punjab. He pointed out that nearly 85 per cent of the produce was brought by the growers themselves to the regulated markets. It brought to light that even though co-operative marketing societies were existing, their impact was minimal since they hardly handled one per cent of the total arrivals. The main reason for this lean business of the societies in Punjab was their inability to advance loans to the producers. He found that the cost of ginning and pressing varied from market to market.

Jasdanwalla (1966) conducted a study on marketing cotton and groundnut at Rajkot district, Gujarat state. The study showed that 27.8 per cent of the cultivators sold their crop even before harvest. This practice of preharvest sale was more prevalent in areas farther away from the market centre. The study also indicated that there were a few cultivators who restricted their sales to only one buyer known to them.
Sharad Chandra Merh\textsuperscript{8} made an effort to examine briefly the costs of marketing of cotton in Bombay Karnataka (comprising three districts of Bijapur, Belgaum and Dharwar). He was of the view that cotton growers in the Bombay Karnataka secured a better percentage of the consumers price due to (1) keen competition in cotton trade (2) regulated markets (3) co-operative marketing. The study suggested that though the costs of marketing were definitely lower, improvements could be made in the marketing system by government regulations and co-operatives.

Khalon and Kataria (1968)\textsuperscript{9} designed a study to describe and critically evaluate the market structure for cotton in Bhatinda district. He studied the related share in marketing and examined the factors influencing the level of costs and margins. Aggregate method was used by them to workout the marketing costs, gross and net margins of the agencies engaged in marketing of cotton. The study concluded that the producers's share in consumer's rupee could be further increased by selling cotton direct to the miller and thus shortening the trade channels.
An empirical study (1970) was conducted by Pavaskar and Radhakrishnan\textsuperscript{10} during two different periods (i.e.,) 1962-63 and 1967-68, to assess the cost of marketing vis-a-vis the efficiency of the cotton marketing system. This study revealed that the farmers share in the eventual realisation from sale of both cotton lint and cotton seed is as high as 90 per cent. It has also observed that some of the marketing costs were found to be lower at those centres where co-operative societies were well entrenched and hence recommended for establishment of co-operative societies in order to eliminate, in due course, the private middlemen.

Adinarayana and Parthasarathy (1973)\textsuperscript{11} brought to light the marketing of rice-fallows cotton in Andhra Pradesh. The chief assembling agent engaged in the marketing of the cotton was the local commission agent and the entire business was monopolised by the Tirupur merchants and hence price was mainly dependent on the demand from Tirupur which in turn depended on the production in Tamilnadu and its price. They found the producer's share was 66.95 per cent to 76.19 per cent in the consumer's price due to high transport charges and the margin of profit. Price of this
cotton generally varied not only from year to year but even within the same year. The study also examined the problems in marketing. The main problems of marketing circled around lack of processing units, inadequate market finance, absence of regulated market yard, meagre local demand and monopoly buyers. No steps had been taken to extend the activities of the market committees in the regions to cotton.

A study (1976) conducted by Tamilnadu productivity council to indentify the factors responsible for the poor arrivals of cotton to the Rajapalayam Regulated Market revealed that the hold of private commission agencies over the growers and the arrivals made the regulated market mechanism ineffective. This study also listed out suggestions to improve the quality of services of the Regulated market.

Ramamoorthty (1984) conducted the study on cotton market structure during the year 1982-83 covering 137 cotton growers, 5 village traders, 43 whole sale cotton merchants, 4 ginning factores, Tirupur cotton market, Tirupur regulated market, Sulur regulated market and three
NTC mills. The study reveals that out of the total annual arrivals at Tirupur cotton market, only 3 per cent was transacted through regulated market and the rest 97 per cent was transacted through private cotton deals. The cotton marketing cost (or) price spread between farm gate and mill gate was estimated through both lagged and concurrent margin methods. It is a common trend that cotton prices would fall steep when the ownership of the major portion of marketable surplus of Kapas remains with the farmers and the Kapas price would go up as soon as the ownership goes into the hands of traders.

Central Institute for Cotton Research (1984) conducted a case study in cotton marketing at Coimbatore region. This study revealed that monopsony power was more at the primary market where farmers sold their kapas than at the secondary market. Between farm gate and mill gate the gross value added per quintal of MCU-5, Varalakshmi and Suvin were Rs.193, Rs.178, and Rs.500 respectively. Of this price spread, nearly 35 per cent was trader's cost and the rest 63 per cent was their profit. The farmers operated
their cultivation of cotton at 46 per cent risk. Whereas the cotton traders operated their business with only 20 per cent risk.

A study was conducted by Balarama Reddy (1983) on cotton marketing in Guntur district of Andhra Pradesh. The study indicated that the intermediaries involved in markets of cotton were village brokers, traders and ginning mills. The village broker passed on the information about the farmers who are willing to sell to the agent traders and ginner and assist them in packing, weighing and loading at the village level. The mill broker acts on behalf of the mills at agreed rate of commission and goes around the villages and acquires the stock on behalf of the mills. The traders also acquire the stock through village brokers and resell the stock to the millers and sometimes ginner directly purchase from the farmers with the assistance of village brokers.

Prabakar Rao (1985) conducted a study to examine the marketing efficiency of cotton in Guntur district of Andhra Pradesh. The study identified six market intermediaries and
they were producer, village broker or village merchant, ginner, broker, agents of textile mills and textile mills. The study revealed that the average share of the producer worked out to 89.17 per cent in the year 1975-76 and 85.27 per cent in the year 1974-75. The comparison of the producer's share in Guntur district with other markets in India was also done and it revealed that the average producer's share in Guntur district was greater than in Mysore and Tarn-taran but less than that in Tirupur, Surat, Dhulia, Shripur, Pachora and Jalgaon. The reasons for the higher share of the grower in other regions could be explained by the fact that the market infrastructure, co-operative marketing and regulated markets were well developed in those areas.

The review on price spread indicated that the producer's share varied depending on the place of sale, time of sale and the length of the channel through which the commodity passes through. Therefore it is necessary to undertake a study on price spread on a continuous basis at regular intervals and at different market centres.
SECTION 2 : STUDIES ON PRICING EFFICIENCY, PRICE STRUCTURE AND BEHAVIOUR

Cox (1953)\textsuperscript{17} in his study traced out the origin and development of the cotton marketing and textile industry in important countries of the world. The study also explained the general theory of price movements of cotton, both spot and futures.

A study conducted by Mahabaleshwariah (1958)\textsuperscript{18} on price movement in Dharwar market indicated that the cotton prices showed a tendency to rise over during harvest months, when market arrivals were heavy. The study also indicated that nearly 50 per cent of the produce arrived in the market during the first four months of the year i.e., from January to April. Heavy competition in buying by cotton merchants during these periods was one of the reason for high prices despite heavy arrivals.

Department of Marketing \textsuperscript{19} Government of Mysore (1961) in its report on the marketing of cotton in Mysore State indicated that the prices were lean during May to August and rose from September as soon as the cotton season started. Prices of unginned cotton was the highest during October to
February when cotton arrived at the various markets. Prices of ginned cotton depended on the stocks held by the buyers in various markets and the demand by the consuming mills.

A study by Ashok Dar (1966)\textsuperscript{20} examined the behaviour of prices of industrial raw material crops. The study showed that the current prices of food grains were influenced more by the changes in private stocks than by the level of the current production. Whereas in the case of industrial raw material crops, the conclusion differs since the farmers were not interested in storing them.

Prakash Mehta (1970)\textsuperscript{21} studied the movement of American cotton prices in Punjab. He pointed out that more than 80 per cent of the cotton growers disposed of their produce within two months from the harvest due to consideration of demand and storage facilities. The price variations were pronouncedly high.

The National council of Applied Economic Research (1971)\textsuperscript{22} conducted a study on the marketing of cotton in Andhra Pradesh in 1968. The study identified the
monopsonistic market situation in Adilabad market. This study also disclosed that the arrivals and prices did not reveal any meaningful relationship. Eventhough this study has pinpointed a few market imperfections like unauthorised deductions and unfair auctions in the cotton marketing system, it has concluded that no special or specific problem inviting the intervention of Government has been detected.

Garg and Singh (1970)\textsuperscript{23} examined the price behaviour of cotton and producer's share in the consumer's price in Galla Mandi, Bulandshahar, which is a regulated market. The study found that the price was lowest in October and November because of lower demand and more supply. The main agencies involved in the retail marketing of cotton in this mandi were Arhatiyas and retailers. The producer's share in consumer's price was found to be 85.42 per cent.

Pavaskar (1972)\textsuperscript{24} reported that prices declined substantially during 1967-68 at Bomaby after the rush of arrivals was over. Evidently, he opined that a seasonal upward movement in cotton prices after the sale of crop in the assembling markets cannot be regarded as an unexceptional regular phenomenon of the cotton market.
Gill and Sidhu (1974) conducted a study on marketing of American cotton in Punjab. The study revealed that the marketable surplus of cotton showed a direct positive relationship with the size of holdings except in the category 14-24 hectares where it was slightly low and the per unit marketed surplus was highest at larger holdings. The peak period of marketing was between October to January and about 90 per cent of the produce was received during this period under study and it was due to overall shortage of cotton in the country and inflationary trends in the general economy. The study indicated that great variation from one month to another and the price differentials indicated the helplessness of the farmers and the possibility of the extent of manoeuvrability of prices by the trade.

Rai (1980) in his study on cotton marketing in Haryana examined the trends in cotton prices and arrivals of Desi and American cotton in the selected markets of Sirsa, Fatehabad (large markets), Hissar, Ellenabad (medium markets), Adampur and Uklanah (small markets). The study found that the prices have been significantly increasing in
all the selected markets for both the American and the Desi cotton. The arrivals of the American cotton have also been increasing more than the arrivals of the Desi cotton in Sirsa, Fatehabad and also in Ellenabad. But in Hissar, Uklanah and Adampur the arrivals of the Desi cotton have been more than the arrivals of the American cotton. The study also examined the seasonality in prices and arrivals of cotton. The arrivals of Desi cotton were highest in the month of November and December in all the markets and decreased from January onwards. However the arrivals of American cotton were maximum in December and January and were lower in February and March. The prices of the Desi and American cotton were higher in the months of December and January.

A study conducted by Raveendran and Yasoda (1994) revealed that the seasonal price indices of cotton kapas varied from 96.65 to maximum of 102.64 only, while it was 89.29 to 109.39 in case of lint. The study indicated that the kapas price exhibited only mild fluctuation, while the monthly prices of lint had experienced rigorous
fluctuations. In order to verify the inference, coefficient of variation was also worked out and it was 1.59 per cent and 5.69 per cent in case of kapas and lint prices respectively.

All the study on price behaviour did not confirm with the theoretical expectation as the arrival increases when price increases. Hence location specific studies should be conducted in order to examine the relationship between prices and arrivals.

SECTION 3: STUDIES ON FACILITATIVE ORGANISATIONS

The study conducted by Madanlal Kataria and Prakash Mehta (1969) examined the impact of marketing of cotton through a co-operative society. It was pointed out that by sale through a co-operative society, the producer was able to get 96.56 per cent share and the share was 91.05 per cent when he was marketing cotton through commission agents. This increase in the producers' share was due to the fact that the number of middlemen between the producer and the mills were reduced greatly in the cooperative channel.
The study conducted by Gill and Sidhu (1974) examined the procurement operation of Cotton Corporation of India (CCI) and co-operatives. The study found that CCI generally purchased only small quantities of cotton and this had little effect on market prices and the co-operatives sold only negligible quantities of the farmers' cotton and that too as commission agents and did not make out-right purchases and played no role to improve the prices.

Bhatia (1984) in his study analysed the state intervention through public sector agencies—CCI and the Maharashtra State co-operative Marketing Federation in the Marketing of Cotton. The study found that they have helped the producers through reasonable prices which were generally higher than the minimum support prices. He opined that it also reduced the downward fluctuations in the prices during the peak marketing season and thus stabilised the prices over season. Further the operation of public sector agencies has resulted in reducing the range of farm harvest prices (producers price and wholesale prices) and thus reduced the price spread in the case of marketed cotton.
Bhupal (1989) conducted the study on marketing of cotton in Haryana and it reveals that though all assembling markets in Haryana are regulated markets, cotton to a large extent was sold in the villages by the farmers. Only 24 per cent of American cotton and 30 per cent of Deshi cotton was brought to the regulated markets by the farmers. The sale in villages was not found advantageous to the farmers both on account of price difference which was recorded to be as high as. Rs.38.34 per quintal and on account of malpractices in weighment in the village sale. Sale through cooperative marketing societies in the regulated markets was noticed to be most advantageous to the farmers and in addition to competitive prices and other benefits, the farmers could get one per cent extra returns in the form of repatriation of commission from the society.

Pavaskar in his study examined the nature and depth of intervention by the public sector agencies and cooperatives in the kapas and cotton markets. The study also analyses the impact of their intervention on cotton and cloth prices in particular and on the cotton growers and
cloth consumers in general. He diagnoses the malady from which the cotton marketing system in India suffers due to state intervention. The study ends offering the remedy a policy prescription to restore the health of the Indian cotton economy.

The above studies discussed the role played by the facilitative organisations like co-operatives, regulated markets, CCI and so on. The impact due to intervention of these facilitative organisations against the private trading of cotton was upto the expected level. The impact of these organisations on cotton marketing were not uniform throughout the country and hence an objective related to the role of CCI an important facilitative organisation in cotton marketing is included in this study.
REFERENCE


24. M.S.Pavaskar, "Returns to Cotton merchants - concurrent vs lagged margin", paper submitted at seminar organised by Indian Society of Agricultural Economics at Nagpur.


