A cooperative cotton sale society is essentially a sales organisation and its success depends upon economy of operation and expertness in selling. Like any other business organisation the cotton cooperative too must frame its sales policy in such a way as to achieve the maximum benefit for its members with the minimum cost of handling and processing the cotton.

The Object and Importance of Sales Policy:

The aim of a cooperative cotton sale society in framing its sales policy, differs from that of a cotton dealer, or a private cotton firm. A cotton dealer expects to secure a gain by way of the margin between the cost of buying, ginning and pressing cotton and the highest price at which he hopes to sell the same. On the other hand a cotton sale society does not aim at earning profits but it intends to sell members' cotton after getting it ginned and pressed on their behalf, at the most favourable price, and to distribute the sale proceeds of the season among the members on a pro-rata basis. The society earns a commission per bhar of kapas sold through it, and out of this income it meets the management and sales expenses. As it does not profess to earn a profit it also bears no risk of loss. Its efforts are solely concentrated to obtain for the cotton growers, the most favourable market price, than the latter would have earned by selling the cotton through ordinary channels. Economy of operation is an integral part of a sales policy so that, a comparatively better returns can be made to members. It has been brought out by the present survey that a majority of cotton growers are motivated to join
cotton cooperatives by the desire to gain better price. But of 472 cotton growers, who were reported to be selling through the cooperative sale societies, 330 cotton growers i.e. 69.9% had joined mainly to obtain better price. Thus the capacity to secure better price for members' cotton forms the basis for reputation of the cotton sale society. If this is not achieved, all other benefits of cooperative enterprise viz. gain in pooling, facility of credit, provision for insurance etc. are likely to be overlooked by the cotton growers.

Another point of difference between the sales policy of a cotton dealer and that of a cooperative cotton sale society is that, a dealer operates in market on his own account and with an eye upon the chance of profit, while a cooperative society has vested its authority with the managing committee which cannot be superseded by the manager or secretary who operates in market on behalf of all the members. He has to bear in mind, on one side, the limits of his authority and on the other side the guiding principle of securing for members' cotton a better price than non-members may obtain for their crop. At least the price secured by the society for its members should not be less than one, obtained by a farmer selling direct to the cotton dealer. The economic gain is the chief attraction for the agriculturist. As long as there continues to be two classes among the cotton growers viz. Those who sell through the cooperatives and those selling through ordinary channels, there is bound to continue a tendency to compare the gains of the sale through these two agencies. Other benefits of the cooperative enterprise are secondary in importance. In its bye-laws the society itself

1. See 'Motives behind Membership'. Chapter: VIII Pages 363
recognises this part of its responsibility i.e. to sell members' produce at as high a price as possible.¹

The sales policy of a cotton cooperative has a specific significance from still one more point of view. While 58.7% of the cotton growers of South Gujarat sell cotton through organised cooperative efforts, their cotton cooperatives, in the attempt to secure maximum price for members, are directly in competition with the most expert agency in the cotton market viz. The professional cotton dealer. It should be noted that the cotton dealer is in possession of the expert knowledge of cotton market and the necessary business technique, as a result of experience gained through generations. It is against such experience and keen insight that the manager of a cooperative cotton sale society has to give a fight. As the cotton cooperatives gain experience and become capable to stand face to face with expert traders, the opposition from the latter increases. It is, therefore, necessary that the cooperatives conduct their business with the same zeal and technique with which a merchant operates in the market. As Prof. D.R. Gadgil emphasised, both the officers and members of the management committee must learn the sales technique as early as possible and only such persons qualified with the necessary calibre should be appointed to the management committee.²

1. Clause 2(1) of the bye-laws of a cotton sale society states, among others, the following object - "to pool members' kapas and to sell it at the maximum possible price, with the least possible expenses, and to distribute the average price of the pool, among the members." Chapter: VII "Bye-laws and Objects" Page 330

2. The inaugural address by Prof. D. R. Gadgil to the Maharashtra Regional Conference of the Cooperative Marketing Societies, held at Poona on 24th and 25th April, 1956.
However, it is exactly on this point that members of the cooperatives remain complacent. It is necessary to remember that the sales organisation working on a commission basis always, tends to remain indifferent to the factor of securing maximum possible price, since, nothing is lost to the society as gains or losses are directly borne by the members. Members may remain indifferent to the gains, but are likely to be critical towards losses. Hence the special responsibility is devolved to the manager of a cooperative concern to maintain the balance between the limits of his authority and expectations from him by the members as well as market.

**BYE-LAWS REGULATING SALES POLICY:**

**Dealings in the spot Market:**

The methods of selling seed cotton, lint as well as cotton-seeds, and the delegation of authorities in that respect are set by the bye-laws of a cotton cooperative sale society. The bye-laws No. 53,54,55 and 56 of the Sonsek group cooperative cotton sale society are as follows:

"The cotton shall be pooled and sold, ginned or unginned, according to the grades fixed by the general meeting. The average pool price of the same shall be remitted at the end of the season, after deducting the total ginning, pressing, and selling expenses, as well as dues owed by the members."

"If the produce is to be sold, auction the management committee shall fix the terms and conditions of the auction from time to time."

"If not otherwise specified, all the sales shall be deemed to have been done according to the conventional rules of the market."
The society is entitled to obtain the payment for the cotton delivered in sale, on the day of delivery."

"When the sale in outside market, i.e. other than local market is considered desirable the manager is empowered to do so on order from the managing committee and through any agent preferred by the society or the Union."

The dealings in the 'Spot' market are regulated by the above clauses. The society may choose to sell ginned or unginned cotton, but the same shall be pooled in one lot. There is no option left to any member to insist that his crop may be ginned or sold separately. The members have been given the right to fix the grades in general meetings. At present the distribution of pure seeds and subsequent agmark certification, automatically lays down the grades. Separate pools, are to be made for different varieties of cotton. However, by now South Gujarat has become a 'One-Variety' tract, sowing '2087' or 'Vijalpa' and therefore pools are made according to agmark labels only. In the initial years and whenever the price has been found attractive sales by auction have been resorted to. Auction sales are at present, absent in South Gujarat, but they are prevalent as a rule, in Karnataka and Maharashtra. The conventional rules of cotton market have been accepted by the cooperatives and as it has been discussed elaborately in the chapter on 'Surat Cotton Market' the rules and regulations of the 'Surat Dharo' are quite commensurate with the working and interests of the cotton cooperatives. The last clause, vests in the manager, a large measure of authority i.e. to sell in Surat market or any other market that may appear favourable. The guidance of the Union i.e. The South Gujarat Cooperative
cotton sale and Ginning Societies Union to which the society is affiliated is implied in the bye-laws.

No unusual risk-assumption:

The assumption of an unusual risk is not compatible with the cooperative organisation. A cooperative marketing society is not designed to make speculative gains and therefore cannot assume the risks other than those associated with the physical handling of the commodity.\(^1\) The risk of damage, theft or fire in storage or transit is covered by godown insurance, and transit insurance. It is one of the duties of the manager.\(^2\) The greatest risk for the cooperative societies is the price risk. The price of cotton varies sharply from week to week, day to day, and even from hour to hour. The cotton cooperatives, holding large stocks of cotton are exposed to a considerable risk. The functioning on the agency basis reduces much of the risk in comparison with the business of outright purchases of cotton from the members. But in this the risk is passed on the members. In ordinary method of selling, the risk of market price is shifted to middleman to whom an agriculturist sells his crop immediately on harvest. When a cultivator assumes the function of marketing, he cannot escape the risk, on the contrary the magnitude of risk has increased with the specialisation developed in commodity markets. Therefore the cotton cooperatives provide in their bye-laws the authority for advance sales and hedging.

\(^1\) 'No unusual risk assumption' is one of the fundamental principles of Cooperative Marketing - See Chapter VII Page 319.

\(^2\) See 'duties of Manager' Chapter IX Page 392.
Provision for the advance sales and hedging:

The byelaws Nos. 57, and 58 of the Sonsek Group Cooperative Cotton Sale Society lay down that ...."Before the season opens, the managing committee is empowered to sell in forward delivery contract not more than $\frac{1}{4}$ of the crop, likely to be delivered by demand for advance sales in local market and if the cotton members in the season. If there is no futures in Bombay market appear attractive, the same lot can be hedged by the managing committee by selling in 'Futures'. The 'Futures' shall be squared immediately on the sale of hedged cotton in the spot.

"If during the season, the managing committee finds that the spot market is dull and the nervous tone is likely to continue the committee is entitled to sell in the 'futures' market even against the remaining stock. On the subsequent sale of cotton in the spot market, the hedge should be squared up by buying back in the 'futures'. The Hedge sales should be covered only after the cotton has been delivered in the 'Spot' transaction."

The byelaw No. 59(1) further empowers the managing committee to sell cotton by any desirable method other than above, in consultation with the sales staff of the South Gujarat Cooperative Cotton Ginning and Sales Societies Union."

The cotton market is usually firm, before the opening of the season and at the end of the season. When the cotton moves to the market, prices begin to portray the pressure of supply. The firmness prior to the commencement of season is due to apprehensions regarding the likely supply and the existent demand. The government policy of either permitting export or prohibiting the same is not then clear and the comparative pressure of different varieties of cotton is only to be anticipated. Hence the initial
price level reflects the doubtful state of traders' mind. At the end of the season the total supply in comparison with the likely demand is visible and with the depleting of stocks in market, the prices indicate bullish tendency. Thus the cooperatives should be in a position to benefit from the movement of prices throughout the season. Flooding the market with cotton in the season will have a depressing effect on the price. The authority to sell in advance 25% of the probable deliveries, given by clause 57 of the byelaws is to enable the society to take advantage of the favourable prices ruling in the beginning of the season. The second intention in providing for the deliveries commence, so that funds are available for the payment of advance against the price of cotton, delivered by members to the society.

The provision for advance sales is the first step in spreading the sales over the entire season, in such a manner as to reap the benefit of the maximum average price for the season. This is calculated to lessen the risk of sudden fluctuations in price. Hedging is a more positive step aimed at the minimisation of risk of dealings in the 'Spot' market. Hedging means the practice of entering simultaneously into two contracts of an opposite though corresponding nature, one in the 'Spot' or cash market and the other in the 'futures' market. The contracts are opposite in nature in that, one involves purchase and the other sale, but they correspond in regard to the quantity of merchandise covered. Thus hedging is an activity in a 'futures' market.

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1. Maynard, Weider, Beckman: Principles of Marketing P. 144 - Hubbner S. S. defines hedging as the practice of making two contracts at about the same time, of an opposite corresponding nature, the one in the actual trade and the other in the speculative market. - Hubbner: The Stock Market. Page. 62.
by the actual sellers of cotton in spot market to protect themselves against price changes. There are two types of hedging transactions viz. hedge sale and hedge purchase. When cotton is bought in the primary or central market an equivalent sale of 'futures' is made and this is known as 'hedge sales'. Similarly when spot cotton or cotton goods are sold in advance and an equivalent purchase of 'futures' is made, the transaction is called as hedge purchases. The purchase and sale of 'futures' is intended to offset and thereby protect a transaction in the spot market, and therefore any loss realised in one, may be offset by an equivalent gain in the other. A cotton sale society ranks as seller in the 'Spot' market. As soon as cotton arrives in the possession of the society, it may sell 'futures' against the same if the price of futures is more attractive than the spot price. This is a 'hedge sale'. When spot price appears favourable cotton is sold and an equivalent quantity is bought in the 'futures'. This is what is known as squaring the position or reversing the hedge. In this case, a cotton cooperative sale society, is enabled to 'Wait' or 'Hold On' the stock till the price moves upto the expected level without incurring any loss owing to the unexpected fall in the price. The risk, that exists in the actual handling of the commodity is thus, covered or hedged.

Apart from merits of the hedging as a device to protect one's dealings in spot market, it is debatable whether cooperatives should resort to hedging. We shall take up that point a little later. It is only intended at this stage to point out the meaning, and merit of hedging, and to endorse the propriety of making a provision for the same in the byelaws of a typical cotton sale society.
Restraint on entering in a competitive business:

It is not infrequent to come across the instances of officials of a sales organisation indulging in the same business as their organisation does, and derive a gain in double operation. Transactions involving profit taking, may be entered on own account while those involving losses, may be shifted to the books of the organisation. Many a consumers cooperative stores, admitting merchants as members has come to trouble, due to double dealings of its manager. The temptation for such duel operations is greater in case of dealings in the 'futures' market where the supervision as to the nature and parties to the transactions is very difficult. It is, therefore, in the fitness of things, that the byelaws of a cooperative cotton sale society lay down that whosoever the party or individual entrusted with the task of selling cotton by the resolutions of the managing committee shall not deal in the 'futures' of kapas, lint or cotton seed on own account. If the salesman is a paid servant of the society he shall not engage himself even in the 'spot' business of cotton.\(^1\) Thus a manager, or secretary and any member of either the office staff or managing committee are not to deal in cotton on own account either in 'spot' or 'futures' market, so long as they are in the service of the society.

Sale of agricultural produce besides cotton:

While operating as purely a single commodity marketing cooperative, a cotton sale society, renders a facility of granting credit for cultivating cotton or any other crop as well as for meeting the current needs of the agriculturists. When loan is offered for sowing any other crop, it is granted on the condition that the

\(^1\) Bye law No. 59(2) of the Sonsek Group Cooperative Cotton Sale Society.
crop for which loan was taken, must be sold through the channels
directed by the managing committee. Similarly the objects of a
cotton sale society lay down that the society shall work as an
agent in the sale of other agricultural produce, besides cotton.
Thus a cotton sale society assumes the responsibility of selling
crops, other than cotton, Byelaw No. 60 (1) and (2) of the Sonsek
group provide that the sale, in such cases, shall be in the manner
and for the crops decided upon by the managing committee. How-
ever in practice, the cotton cooperatives have not so far taken
up the sale of any other crop except cotton and cotton seed. They
have been acting solely as single commodity organisations.

**Sales Authority:**

An authority to sell kapas, lint and cottonseed on behalf
of the society is expressly vested in manager. He is required to
prepare the statement of the grade and quantity of cotton to be
sold for each member and to arrange for ginning and pressing. He
is to secure insurance covering the risk of fire or theft till
kapas, lint and cotton seeds are sold; and also to arrange for
the sale of cotton by looking to the trend of market and keeping
the managing committee informed of that from time to time. As
the manager has to perform his duties under the guidance and
control of the President by keeping the managing committee abreast
of the trends of prices in the market, the authority of manager is

1. Bye law No. 61 (2) referred to, in financial policies; Chapter
   X "Working and Finance" Page. 412

2. Bye law No. 2(6) of the 'Sonsek group', quoted in chapter VII
   "Bye-laws and Objects" Page. 320

Derived from the managing committee. One of the powers and duties of the managing committee is to adopt grading and other essential policies for the sale of cotton as well as any other agricultural produce.\(^1\) The committee presents its report to the yearly general meeting and members get the opportunity to scrutinize and comment on the sales policies adopted by the committee during the last season. However, the byelaws do not in any way suggest members' right to advise or direct the committee as regards to the sales policy to be framed for the coming season. That appears to be within the sole discretion of the committee.

As members of the managing committee are likely to be from different villages, not being able to attend frequent meetings in the brisk season it is a convention to delegate powers, in this regard, to a subcommittee which is to meet often, at least once a week, in the brisk period of the season and to supervise ginning, pressing and the sale of the manager while releasing the stock of deliverable cotton in market has to take authority and guidance from the sub-committee. The sub-committee is supposed to consist of such members of the managing committee as are experienced in sale of cotton. Evidently they should be first elected, to the managing committee by members in the general meeting and therefore the former must command confidence of the latter. In actual practice, members hardly show any insight for the same and manager plays a sweeping role virtually seeking the ratification for all his actions from the chairman, the sub-committee, and the managing committee.

\(^1\) See 'Powers and Duties of the Managing Committee' set by Byelaw No. 45 Chapter IX, Page 388.
Sales Organisation:

The cooperative cotton sale societies operate in the mofussil at the assembly centres, where ginning and pressing is done and cotton sales are warehoused for the purpose of sale. The central market for cotton in South Gujarat is Surat. It is imperative that managers of cotton cooperatives should keep a regular contact with surat cotton market and watch its trends with a view to seizing the opportunity of the timely and the most favourable sale. In the initial years of their growth the societies were handicapped for want of telephone facilities connecting the cotton pressing centres with Surat and also for lack of a suitable sales agency stationed at Surat which might keep them informed of the movements of Surat Cotton Market. To overcome these difficulties a sales union for the cotton sale societies was started in the year 1930 which now operates as a permanent sales office in Surat, rendering expert guidance to member societies, in respect of the sale of their cotton.¹ This body which is now a federation of about 49 cotton cooperatives and 7 cotton gin-press societies,

¹ For circumstances leading to the establishment of this union. See 'Sales Union for the Cotton Sale Societies in 1930. Ch. V "Growth of Cotton Cooperatives" Page. 266.

The rise of such union is naturally contemplated when the marketing cooperatives specialised in handling of single commodities, grew in number in a certain region. Such unions are able to perform important services for their member societies and thereby enhance the efficiency of the latter. They are in a better position to survey and contact the general market, find new outlets, and by bulking the produce of the affiliated cooperatives, obtain better price. They may undertake sorting, processing and packing where local facilities are not available or are inadequate and provide technical advice and guidance in management and administrative matters. 'Cooperative Organisation'. Published by the I.L.D. Geneva, 1950. Page. 39-40.
was known as the 'Southern Gujarat Cooperative Cotton Sale and Ginning Societies Union Ltd., up to 1954. It has now changed its name to the South Gujarat Cooperative Cotton Marketing Union. Most of the cotton sale societies, provide in their bye-laws that they shall become members of this union. Even otherwise the assistance of the Union is implied in the byelaws regulating their sales policies. ¹ The dealings in the 'spot' as well as in the 'futures' market are to be undertaken by manager, in consultation with and under the guidance of the Union. Therefore the sales organisation for the cotton cooperatives consists of the manager operating under the control of the sub-committee of his society and the salesman of the Southern Gujarat Cooperative Cotton Marketing Union.

THE ROLE OF SOUTH GUJARAT COOPERATIVE COTTON MARKETING UNION

Area and Object:

It will be appropriate at this stage to consider slightly in details, the structure and activities of the Southern Gujarat Cooperative Cotton Marketing Union. The Byelaws limit its area of operation to the region situated to the south of the river Narmada, popularly known as South Gujarat. The aim and objects of the Union stated in its byelaws No. 4 are: ²

(1) to make arrangements for meeting the financial needs of affiliated societies, to render advice and necessary guidance and, to do all acts which would promote their interests;

(2) to facilitate the sale of goods of affiliated societies and also to secure insurance for the protection of goods;

¹ See Byelaws No. 56 and 59 of the Sonsek group, quoted earlier in this chapter.

² Byelaw No.4 of the South Gujarat Cooperative Cotton Marketing Union.
(3) to maintain regular supervision and to suggest remedies for removing defects of affiliated societies; if any;

(4) to make provision for the supply of indented goods of the affiliated societies;

(5) to examine and audit the books of affiliated societies and to give advice and aid for their proper maintenance;

(6) to arrange to meet the need for the experienced staff required by the societies and to plan study classes for training of the members and workers of the affiliated societies;

(7) to call conferences for discussing matters promoting the wellbeing of the affiliated societies;

(8) to start, develop and direct in the right direction new cotton cooperative societies.

Membership and meetings:

All the non-credit and sale societies, as well as gin press societies in the area of operation are eligible for membership of the Union. A society intending to become member has to give in writing that it agrees to abide by the rules and regulations of the Union and this undertaking has got to be attested with the signatures of the Chairman and two members of the managing committee. The application for membership with the aforesaid undertaking is to be approved by the majority of members of the managing committee of the Union. An affiliated society can withdraw its membership by the resolution of 2/3rd of the majority of its members present in its general meeting. For complete disaffiliation the society so proposing to withdraw, should have no liabilities of any kind, towards the union. The Union, on its side can dispell the society from membership when the 3/4th majority of those present in the Union's general meeting
resolves to that effect, for the reasons of the submission of the false and incorrect returns to the union or for the deliberate violation of orders and directives given by the Union. A member society is liable to pay a contribution as fixed by the Managing Committee of the Union towards the maintenance of the Union's office. The rate of contribution may differ for various kinds of societies and decision of the managing committee in this respect is final. Every affiliated society in its general meeting has to elect its delegates to attend the annual general meeting of the Union. Besides the delegate, a society can send another representatives to participate in the proceedings and the discussions of the meetings but only the delegate has the right of vote. Every delegate has one vote and the decisions of the general body of the union are made by simple majority. Half the number of total affiliated societies represented by their respective delegates constitutes the quorum for the yearly general meetings. Besides the regular annual meetings, either any five affiliated societies or one fourth of their total number can requisition a special meeting through resolution passed by their respective managing committees. The letter of requisition should mention the agenda of the special meeting. The business transacted in the general meeting of the union usually consists of the consideration of the report of the work of the previous year, election of chairman and the managing committee for the current year, framing budget for the year and consideration of a complaint if any, against the decisions of the managing committee.

1. Bye-laws No. 5 to 12 of the Union.
2. Bye-law No. 20 of the Union.
3. Bye-laws No. 15 to 20 of the Union.
Managing Committee and its Powers:

The managing committee of the Union consists of 15 members including a Chairman and the representative of the assistant Registrar of the Cooperative Societies Surat. The members are so elected as to represent various groups operating at different cotton assembling centres. The continued absence of a member at the three consecutive meetings of the managing committee leads to the cancellation of his membership of the committee. It is laid down that the managing committee of the Union must hold its meeting as often as required or at least once a month in the cotton season. Five members constitute the quorum and the chairman has a casting vote.  

The powers and duties of the managing committee are extensive and can be summarised as follows:

1. To appoint Manager, Secretary, Salesman and other office staff and to fix their remuneration;
2. To lay down the rate for travelling and other allowances for the committee members and to decide upon the office expenses within the limits sanctioned by the budget;
3. To prepare the budget for the consideration in the general meeting;
4. To fix the rate of contribution to be raised from the member-societies and to procure the payment thereof;
5. To extend a general supervision and guidance over the working of the affiliated societies and towards this objective, to attend the general meetings of the societies whenever necessary, to audit their books of accounts, and to see that the...
suggestions made by supervisor, auditors, bank inspector and the cooperative department are properly carried out by the societies;

(6) to plan study-classes and to provide for library for the spread of education in cooperative principles among the officers and workers of the societies;

(7) to maintain the accounts and to prepare the statement of receipts and expenditure for submitting to the yearly general meeting;

(8) to call conferences of cooperative workers to discuss the problems of common interest;

(9) to suspend, for not more than 12 months, all or any of the members of managing committee of an affiliated society if the said society is guilty of mismanagement or commits the breach of the resolutions legally passed by the Union. This right is to be exercised in consultation with the Assistant Registrar of cooperative societies and with the financing agency of which the said society may be debtor;

(10) to appoint the agent or sub-committee to run the management of the affiliated society whose managing committee has been suspended under the clause (9) mentioned above;

(11) to frame the rules for the efficient working of the management committee of the Union;

(12) to procure, on commission basis, any goods for agricultural operations or for domestic use for the affiliated societies, on obtaining from them at least one fourth of the total purchase price as an advance;

(13) to arrange for the sale of the goods of the affiliated societies according to their instructions and to appoint an advisory committee of the experienced members for that purpose;
(14) to study the trends in market and guide the affiliated societies in this respect from time to time.

Thus it can be seen how the Union is constituted to act as a centrifugal force and the nerve centre of the activities of the cotton cooperatives. The authority to suspend the managing committee of an affiliated society acts as a corrective force for all likely ills in the management. The multifarious responsibilities that the union has assumed in regards with the supervision and guidance of the societies virtually gives it the position of being the metropolis of the movement of the cooperative marketing of cotton. The supervisor of the union is authorised to sign the contracts of sale on behalf of the affiliated societies. As a number of cotton sale societies are not members of the Surat District Cotton Dealers' Association, the Union, as a member of the Association renders all the privileges of sellers in Surat Cotton Market to its affiliated Units.

The Manager and the Salesman

The Manager of the union is to look after day to day administration, office work, and the sale of cotton in the season, and to the proper implementation of the suggestions received from the cooperative auditors, inspectors and the Registrar's office. He is to see that the affiliated societies conduct their work according to their byelaws and the instructions of the Union, and in general, to act as a liaison between the Union and the member societies. The salesman has a limited authority. He functions under the control of the manager and is more concerned with sales than with other routine business. He takes his orders from the
manager as the byelaws of the union do not specify his duties as they do for the manager. Thus the manager himself plays the prominent role in framing the sales policies and their implementation.

The working of the Union - in the 'on season':

The Union has its headquarters at Surat Cotton market and works as a liaison body between the cotton dealers and the affiliated societies. Since last three years it has been converted into a body working on share capital basis, each share being valued at Rs. 100/- At present, 49 cotton sale societies and 7 ginning and pressing societies are members of the Union. The main work of the Union is to help the sale of cotton of the member societies. In the process of sale the Union only settles the bargain between a society and a buyer of cotton at the prevailing rates. These bargains are mostly settled in consultations with the managers or representatives of the cotton cooperatives who generally pay frequent visits to the Union's office, during the brisk season. As the kapas is hauled to the gin press factories and bales get ready for sale, the respective sale societies intimate to the Union office, the likely size of the lot on sale. Similarly as the deals are finalised the Union supervisor despatches the daily reports to the respective societies stating the number of bales sold, the agreed rate, the name of the buyer etc. The summary of the day's work in the market is also communicated to all affiliated societies daily so as to keep them in touch which the market. The inspection, sampling, approval and weighment of the cotton in respect of completed deals are made by buyers at the premises of pressing factories.

1. Recently, the posts of manager and salesman are merged into one.
where the bales are supposed to be delivered under the 'Surat Dharo'. Effecting the delivery and procurement of the sale proceeds are done by the societies directly. The Union does not advance any money to the constituent societies at any stage. Whenever approved by the societies the Union also arranges to effect, godown insurance, and transit insurance for their cotton and in that respect acts as an agent of the "All India Cooperative Fire and General Insurance Society Ltd., Bombay."

The Union also arranges to sell cotton of non-affiliated societies in consideration of a nominal charge.

In the 'off season'.

When the 'Sale Season' comes to an end the staff of the Union takes up the internal audit and inspection of the work of the affiliated societies. Secondly the members of the managing board of the Union do the inspection of the societies during the working season. For this purpose each member is assigned with a few societies every year. The supply of blank forms, registers, etc., required uniformly by all the societies is done by the Union in bulk. Besides the Union takes up the important issues relating to the cotton marketing in South Gujarat and represents the views of cotton cooperatives to the government as and when necessary. The promotion of cooperative sale of cotton in other parts of Gujarat, convening conferences of All Gujarat Cotton Sale Societies etc., are some of the activities of the Union. The income of the Union consists of membership fees, commission charges for the sale of cotton, audit fees and the commission on insurance business. The following figures will demonstrate the progress of the Union's work during the last 25 years of its existence.
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Share of Cooperatives in the total business:

The progress of the work is continuous and the share of the South Gujarat Cooperative Cotton Marketing Union in the control of the crop is ever increasing except for the abnormal years of 1945 and 1949. The 'Grow more Food' campaign had reduced the cotton crop in 1945 whereas, the year 1949 witnessed a good deal of dislocation of work on account of merger of Indian states. As yet, four Multipurpose Cooperative Societies selling cotton and two gin press and sale societies, have not affiliated themselves with the Union. Thus at the end of 1955 out of 49 cotton sale societies 45 were members of the Union and out of 10 cooperative gin press societies, 8 were enrolled as members with the Union. In the year 1956, two gin press societies were merged into one and four new sale societies were taking into account the cotton sold by some non-affiliated societies which comes to about 25,000 bales, the total share of the cooperatives in marketing of South Gujarat Cotton comes to about 50 per cent.  

SALES POLICY FOR THE COTTON COOPERATIVES:

The sales policy adopted by a cotton sale society for the sale of cotton can be judged from three points of view viz. (i) the type of dealings, (ii) time of sale, (iii) the market in which sales are done. Let us now consider each aspect in detail.

Cooperatives and speculation:

The dealings may be in the 'Spot market' as well as in the 'futures' market. The South Gujarat Cooperative Cotton Marketing Union has not restriction on it, as regards the nature of dealings, and the byelaws of the cotton sale societies do provide for dealings.

1. 1,01,577 bales of cotton sold through the union; plus 25,000 bales of the non-affiliated societies, 1,26,577 out of 2,53,453 i.e. 49.9 per cent.
in the 'spot' as well as in the 'futures' market. But the expressed policy of the Union as well as of the affiliated societies is to sell cotton in delivery contracts. The speculative dealings are ruled out in case of cooperatives. In the opinion of Warbasse, cooperation does not provide a field for speculation. A cooperative sale society functions in market for a necessary purpose, and not for speculative returns on capital. The interest of investor is less important than a member producer in a sale society. The status of member as a shareholder is that of a mere lender, earning a fixed dividend out of the surplus. Securing the best available price for the crop is the main aim. The speculators i.e. the risk bearers have always acted on an individual competitive basis and their activities in the organised markets have been the most bitter bone of contention among the cooperative sellers. The whole technique of 'futures trading' is often condemned by the cooperatives because the speculators are believed to be making profits without performing apparent services. However the cotton cooperatives have undertaken to reduce the risks in physical handling of cotton for the cotton growers, by pooling the crop for bulk processing and sale, and by reducing the number of transactions between the primary producers and the final consumers. The bulk sale reduces the per unit cost of handling the crop. But it is wrong to presume that middlemen were bearing the risk before cooperatives came to operate. The cotton grower has been usually made to bear the real burden of risks.


2. Cooperation treats capital in the same way as capital treats labour i.e. the servant of capital. The cooperative system makes capital the servant of labour. Warbasse Op. cit. Page 17.
because the private dealer has always shifted cost of his business to the former by paying lower prices for cotton. Whenever a trader has been able to pay better prices it is because of his taking advantage of the 'futures' market in cotton and shifting the same risk to speculators by way of hedging. Now with the growth of cooperatives the risk involved in price changes has been assumed by the cotton growers themselves. Admittedly, the cooperative sale has placed them in the better bargaining position as against the dealers but not against the forces, which the dealers themselves have to face, in sale of cotton. As already pointed out while discussing the rationalisation in methods of marketing\footnote{1} every economy in the marketing cost and elimination of some middleman may not mean retaining of profits previously earned by traders. Reason is that the prices in commodity marketing are fixed at the top, and not at the bottom of the marketing ladder, and a primary producer receives a residual price. Can, therefore, cotton cooperatives do without speculation, much less prevent it? In a competitive market hedging is essential to protect oneself from the losses arising out of price fluctuations and a student of marketing knows that hedging is not possible without speculator.\footnote{2}

\footnote{1} See Chapter IV "Marketing of South Gujarat Cotton and the extent of Cooperation.  Page 117.

\footnote{2} "Hedging demands the existence of a constant market which is provided by the speculator. If there were no speculators hedging interests would have been obliged to shoulder the risk themselves. Speculators sell as well as buy, taking thereby a 'Short' or 'long' positions in the market. This is essential particularly for hedges whose operations require at one time a buyer and at the other a seller". Dholakia H. L. "Futures Trading and Futures Markets in Cotton", 1949. Page 89.
Cooperatives and Hedging

In order to elicit the views of the cotton cooperatives about hedging a question was asked to them whether they adopt hedging to protect their sales. Out of 45 cotton sale societies only 6 expressed themselves in favour of hedging, 19 did not approve the idea of hedging because in their opinion it was nothing different from 'Gambling' and, 20 societies did not know anything about hedging at all. Of course, none of the cotton sale societies at present, indulge in hedging transactions. Those who were opposed to the idea of hedging, held that, once having entered the 'futures' market the cooperatives may forget the main aim of obtaining protection and entangle themselves in speculative dealings, in the temptation of a higher price. Besides, the hedge transactions call for expert knowledge of the 'futures' as well as 'Spot' prices of cotton. Primary cooperatives are not well-manned for that. Personnel of the cotton sale society consists of agriculturists' class. A keen insight about the market operations is not expected of them as in case of a dealer in cotton. Those societies which favoured the idea of hedging expressed the above as difficulties in way of entering in hedging transactions. The foremost difficulty is that the stocks to be delivered by members are not certain. If the crop does not turn out to be equal to the quantity sold in the 'futures' market the society will be involved in difficulty. For this very reason, even the farmer cannot individually take advantage of Hedging. In his study of the futures trading in Indian

1. Question No. 22 of the questionnaire issued to cooperative cotton sale societies, see Appendix for specimen.

2. "He has to take this precaution before selling 'futures'. In case the amount grown by himself is not sufficient, he can either cooperate with his neighbours for assembling sufficient cotton for the purpose of hedging or he can buy back a portion of his hedge in proper time." Dantwala M. L. 'Marketing of Raw Cotton in India. Page. 149.
Cotton, Dr. Dholakia came to the conclusion that a cotton futures market in India is used for hedging as a regular practice by exporters, merchants, and indirectly by manufacturers, but the average Indian Cotton grower makes very little use of hedging.¹

**Limitations of Hedging**

Although it may be inferred that a cotton sale society with large and fairly definite size of stocks can deal in hedge market, there is still another difficulty i.e. hedging does not give complete protection from the risk of price changes.² The principle of hedging rests on the assumption that there shall exist a 'Normal Spread' or 'Basis', as it is known, between spot and futures prices. Basis may not advance or decline in the same proportion or in other words the 'spot' and 'Futures' may not move in an expected correlation. Many times futures prices are 'Out of line' with the ready prices for various reasons.³ Besides hedging is possible only in the 'Contract grade' whereas, the cooperatives may handle various grades of cotton. The prices of all grades do not move together. Improvement in the quality or damage to the crop by a disease may cause variations in basis. Those who do successful hedging have to enter in a series of transactions to get a net profit in hedging. The cotton cooperatives are obviously not in a position to deal indiscriminately like dealers.

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¹ Dholakia H. L.: "Futures Trading and Futures Markets in Cotton" 1949 P. 99. Generally in India, farmers do not hedge. The difficulty of trading at a distance and through brokers, small holdings, lack of finances and above all illiteracy all these make it impossible for the average farmer to make hedge transactions. Salvi P.G.: "Commodity Exchanges": Page. 54.

² It is not to be assumed that hedging eliminates all risks of loss in the merchandising of cotton. Garside A.H.: Cotton goes to Market, Page. 233.

³ For detailed discussion of factors, preventing hedging to work as an effective method of insurance against price risk, See Converse and Huegy: "Elements of Marketing" Page. 230. Also see "Causes of variations in Basis" Dholakia H.L. op.cit. P. 91 to 95.
However, the present study has revealed that the gin press merchants in Surat Market do resort to hedging with a view to cogerating up their risks on buying kapas. Inversely when they sell to mills in advance they buy on hedge market and afterwards on actual purchases at Surat they reverse the hedge. They are 17 in number and constitute the direct rivals to the cotton cooperatives. The risk with the dealers in cotton is genuine as they buy kapas on own account, whereas, the cooperatives do not buy members' crop but only arrange to pool, gin and sell the same on agency basis. Thus although the cooperatives work to minimise the risk they do not actually assume any risk. The sale societies working on 'Purchase and Sale' basis may consider hedging more imperative. But usually in a highly sensitive market, it often becomes helpful to protect the interest of members by ensuring the sale at the favourable turn of the prices and to take recourse to hedge till market takes a favourable turn. The cotton cooperatives of the U.S.A. had to adopt the policy of freeing themselves from such risks, in the early thirties of the present century by making hedging commitments on the futures exchanges. Cotton cooperatives in that country, have gone to the cotton exchange at times not for the purpose of hedging but for the very opposite reason i.e. to continue the assumption of the risk, after the sale in the 'Spot' market. Finding that mills wished to buy cotton, at times when the cooperatives do not find it worth while to sell, a number of them would adopt the expedient

1. Replies to question No. 13 of the questionnaire issued to a dealer in cotton. See Appendix, for specimen.

2. For the detailed discussion see "Cotton traders-cum-ginpress owners" Chapter V Page. 296-297.

of selling their spot cotton and replacing it with future deliveries bought on the exchanges. To maintain a speculative position in the interest of the plan of 'orderly marketing' is likely to considered too bold a policy, by our cotton cooperatives, but this illustration is cited merely to show what cooperatives should be ready to bear if at all they entertain the ideal of dealing with the spinners directly.

The Union's policy regarding hedging:

It has to be admitted that only the South Gujarat Cooperative Cotton Marketing Union, with its 40% control over cotton delivered in Surat market, can effectively deal in hedging. However the discussions with the Chairman and officers of the Union revealed that they do not advise the member-cooperatives to take up hedging so long as the government of India, continues the policy of fixing floors and ceilings for Indian Cotton. Price fluctuations at present are confined to a narrow margin and do not warrant the need of taking benefit from the Indian hedge contract. The opening of 'Vijay' contract (27/32) since 1955-56 season in which Surti Cotton is tenderable has further reduced the basis between the 'spot' and 'Futures' for Surti Cotton. Despite this, some of the well-wishers of the cooperatives from amongst the traders believe that hedging will have to be resorted to by the cotton cooperatives sooner or latter. ¹ The cooperatives on the other hand are determined to follow a very cautious policy and are not ready to handle 'futures' unless market compells them

¹ Vide the personal discussions dated 19-12-56 with Messes. Chunilal Pranjivandas & Co., Cotton Merchants, Indian Globe Chambers, Fort, Bombay, who handle the business of the South Gujarat Cooperative cotton Marketing Union at the Bombay Market.
to do so. The Union chief, however, accepts that monopolistic attempts at price fixing, holding cotton off the market and to speculate on future advances in price, are not consistent with the structure and aim of the cooperatives and are not in their interests as sellers. If they are to be avoided hedging is indispensable.

Planning the 'Spot' Sale:

The foregoing discussion establishes the conclusion that the cotton cooperatives should concentrate more on the planning for the 'Spot Sales'. The index of efficiency in the spot transactions is 'timely sale'. It is necessary to judge the tone of the market and to move with the market without letting it go adverse to one's expectations. A rise in price after sales are committed, has a depressing effect upon the seller. It is advisable, therefore, to spread out the sales throughout the season so as to benefit from various price levels yielding the maximum average price. In its yearly meeting before the opening of season each society should prepare a tentative programme setting how much kapas is likely to be pooled, and how much quantity should be sold in advance, and subsequently during the after the season. The prices get firm after the season and a little quantity of cotton should be held on, to benefit from the same. The managing committee will have then, a full authority to execute sales, spread well over the entire season. Getting the sales programme approved in the general meeting, is necessary because members at times get critical of the sales policies of their society, when the prices paid to them compare unfavourably with those paid by the neighbouring societies or by dealers. In the U.S.A.
members of the cotton cooperative associations have the choice as to the time and method of the sale of cotton. The member if he chooses, may fix the price of his cotton upon delivery or even before. This is known as 'Fixation Sale'. The member may also deliver cotton and reserve the right to call the price at some future time i.e. a 'Call Sale'. A Call sale eventually becomes a fixation sale when the members call the price. At the end of each day, the association sells futures equal to the total amount of cotton on which its members have fixed a price during the day. However farmers in our country are less qualified to guide the sale policies of their cooperatives. They only criticise the things and that too, at a later stage. The discussion of sales programme, at the general meeting has, at present only an educating value.

Orderly Marketing:

The work of executing the sales programme is entrusted to a subcommittee and manager, who should spread out the sales, and release the stock in the market as the prices appear 'worth while'. To wait for a 'still higher price' may not be worth while. It is evident that some tentative limits of minimum and maximum prices for each deliverable stock should be fixed in advance in consultations with the Union Salesman. The proper balance between the advance sales, current sales and post-season sales is to be maintained. A sub-committee meets frequently in the brisk season, to supervise the progress in sales work. It has been observed that smaller groups of cooperatives are eager to sell out and in doing so, they actually depress the market. Eagerness to sell is

occasioned by the need for cash during the season for making advance payment of price to members against the delivery of kapas. Advance sales and financial accommodation from the central cooperative bank will provide for the necessary funds. 'Earnest Sales' should be avoided to prevent their depressing effect upon the market and resultant losses to other cooperatives.

Clearing the bales in time:

While avoiding the earnest sales it is also equally important to clear off the cotton from godowns in reasonable time. Unlifted stocks cause delay in finalising the accounts and the distribution of price among the members. It has been already pointed out how the desire for immediate payment of price keeps a large section of small cotton growers away from the cooperatives.¹ A cotton sale society cannot settle the account with members until the entire stock is sold out and the season's total expenses are balanced. The post-season sales, should be completed before new sowings and harrowings engage the farmers on land. Even the society's staff, mostly consisting of cotton-growers would like to be freed to enable them to attend agriculture. Unlifted stocks may not always indicate any strategy but the same way be due to persistent failure of 'parakh' i.e. disapproval of quality by the buyer, or damaged cotton or the same being one of the last pickings locally known as 'Pumadi! Such stock should be pushed first and sold when the market is on 'easy run'.

Sales Policy of the UNION - Members' Views:

The success in sales programme of a cotton sale society rests to a large extent on the sales policy adopted by the Southern

¹. See 'Motives behind not joining the cooperatives' Chapter. VIII Page. 37
Gujarat Cooperative Cotton Marketing Union. Advice by the manager and salesman of the Union plays an important part in the plan of 'timely sale'. When a sale society is eager to sell the Union officers cannot hold it up for long for the fear of being blamed when subsequently the price declines. On the other hand, the Union may consider it worth while to sell at a certain time, but the managing committee of the cotton sale society concerned may not have resolved to release the required stock. In such cases, the Union has to push the bales of cotton, of one society or the other, with a view to meeting the order. This however, creates an impression with the member societies that the Union has its order of preferences. Out of 45 societies examined in the present study, 3 complained that the Union does not pay attention to them and their stocks are not cleared in time. They believed that priority is given to the cooperatives operating in the Olpad, Jehangirpura and Kosamba centres. Of course no proofs were offered in support of these accusations. Another group of 15 member-cooperatives from the Olpad, Kosamba and Jehangirpura stated that the Union rendered excellent services, whereas 9 of Zagadia and Nandod taluka said that their experience of the Union was for a short period and therefore they had nothing to say. Four among the rest, said that the guidance they took from the Union was nominal and they usually sold the stock in consultations with the manager of gin press societies, where their cotton was ginned. The remaining found the services of the Union quite satisfactory. In general the cotton sale societies from the eastern and southern talukas emphasised the point that the Union should adopt more business like tactics in selling cotton. They felt that the union should give lead to the market rather than

1. Replies to question No. 26 of the questionnaire for the cooperative cotton sale society. For specimen see Appendix.
following the policy of selling as buyers turn up.

**Traders Views:**

At this stage it will be interesting as well as useful to know what cotton dealers have to say about the sales policy of the Union. When asked to state their opinion regarding the methods of marketing adopted by the cotton sale societies and the Union only 8 cotton dealers agreed to reply. Among them 3 were gin press merchants and 5 were buyers of cotton. The summary of their opinions is as follows.¹

1. The Union does not sell in time, and therefore stocks of the cooperatives always lag behind, whereas, traders are able to clear off their cotton earlier.

2. The Union shows personal preferences in selling. The cotton cooperatives should sell to those who quote to them favourable prices. Instead, they choose the parties, and do not consider the prices.

3. The cooperatives do not possess business acumen. They are able to command better prices for cotton simply because of scarcity and agmark certification of cotton. In the years ahead, with the possibility of bumper crops they may not succeed in retaining the present gains.

4. Their methods of dealings are rough and they are often adamant, holding on even for a rupee. Later, when market declines, they suffer losses. Their sales behaviour is not conducive with the psychological attitude necessary for a successful sale.

5. The cooperatives are unable to judge the market properly. Traders compare the position of other competitive varieties of cotton such as Jaidhar, Laxmi etc., with Surti Cotton and then

¹ Replies to questions No. 17 and 18 of the questionnaire for a dealer in Cotton. For specimen See Appendix.
transact the business. The cooperatives only look to Surat market, and not beyond that. They hold on and suffer. They should spread out their sale over the entire season.

(6) Managers and Chairmen of the Cotton Cooperatives are likely to be changed year to year or over a short period. They fail to gather sufficient experience of the market.

(7) The cooperatives keep the pools of cotton, label wise and mix the crop of various pickings. Traders keep the heaps according to pickings and pay to cotton growers accordingly. Consequently cotton sold by a dealer is scarcely rejected in selection. (parakh Deliveries of the cooperatives are more often rejected in selection

(8) The cooperatives can succeed only in a rising market. In depression, members are likely to desert the societies. The Union's is an orthodox approach towards sales. They sell as the buyers approach them. They work on the theory that traders are their enemies.

The above are the views of the opponents and competitors, and should be taken in that estimate. It is better not to offer comments, and to leave it for the cooperatives to assess the truth of the views, expressed by dealers. May be exaggerated they provide some room for improvement.

Business Approach' of the Non-affiliated Cooperatives:

As already stated, 4 cotton sale societies and 2 gin-press and sale societies are not members of the Union. These and other 4 amongst the members of the Union, referred to above, have more faith in the business tactics as a part of sales policy, rather than in cooperative ethics. While discussing the growth of cotton cooperatives it was pointed how in Southern talukas there was less
incentive for the development of cooperatives. Cotton growers themselves are dealers in cotton and so find their interest identified with those of traders. At centres like Navsari and Bardoli and close ties of business understanding between the cooperatives and dealers are developed. E.g. The Farmers’ Cotton Cooperative Society and the 'Jokha Group' sell in close cooperation with the Patidar gin-press company. The Khedut Cooperative Gin press factory of Baben has their paid salesman, operating in Surat Market, independently. The Navasari Khedut Gin-press and Sale Society sells mostly under the guidance of Shri Thakorebhai Desai of Shankar Vijay Gin-press Factory which is a private concern. The Bharadia group cotton sale society of Wankal takes the guidance of Kanchanlal Marfatia, who was so far, owner of the Aryodyaya Ginning Factory. The 'B' group of 'Hansot' Cotton Sale Society deals directly with the traders and only records their transactions with the Union. In contrast, with these groups, the cooperatives operating at Olpad, Sayan, Jehangirpura, Surat, Chaltha, Netrang and Kosamba rely mostly on the Union’s guidance for their sales. It is claimed that the former group is able to sell earlier and obtain better prices than the cooperatives selling under the Union’s direct guidance. Of course, the quality of Navsari and Bardoli cotton is the most superior and might also be contributing to the quick sale and higher prices. However the societies concerned ascribe the same partly to their smooth communion with the traders. The unregistered cooperative groups like 'Jitali' and 'Pungam' of Ankleswar taluka, 'Vijalpore'.

1. See "Why Navsari lags behind" Chapter vi Page. 284

2. ON THE NEXT PAGE.
'Moldhara' and 'Abrama' of Navsari taluka and a few at Palsana sell their cotton under traders' guidance and are reported to be earning better prices. The non-affiliated cooperatives, with their 'business approach' in sales policy are preferred by traders and buyers of cotton. These cooperatives welcome the middlemen if the latter provide 'support' to the market. On the other hand, the Union-led group proclaims itself against the traditional system of middlemen, and is inclined more in favour of the 'Direct Sale' to outside markets or to the spinners.

**DIRECT SALE** IN TERMINAL MARKETS AND TO TEXTILE MILLS:

This brings us to the third aspect of the sale policy of cotton cooperatives viz. the market in which sales are made. There are three likely policies that the Union may adopt for selling the cotton of member societies viz. (1) selling to buyers in Surat Market; (2) Selling to buyers in outside markets such as Bombay, Ahmedabad, Cawnpore, Coimbatore etc., and (iii) selling to the textile mills directly. The champions of the movement for cooperative marketing have, on and often, asserted their final aim of eliminating of all sorts of middlemen between

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**FOOT NOTE OF LAST PAGE.**

2. For quality differences in cotton of various centres see 'Grades of Surti Cotton according to centres' Chapter IV Page 126.

Our inquiries with the buyers have revealed that price mostly corresponds to the quality and grade of cotton and demand for the same from outside market. No amount of skill on part of seller can give him the expected price if the quality of his cotton does not justify the same. The skill in selling consists in selling at the time when the ruling price appears to be favourable. Such 'Opportune Sales' may ensure the maximum average gain for the season. The average price distributed among the members, by a cotton sale society is arrived at after deductions on account of ginning, pressing and selling and therefore cannot by itself, indicate any skill in selling.

1. Personal inquiries with the Cotton Superintendent, Surat.
the cooperatively organised producers and the final consumers of the produce. In case of cotton, the final consumer is the textile mill. The Cotton Marketing Committee of 1949 also expressed itself in favour of 'direct marketing' thereby eliminating a large number of middlemen and with the unnecessary merchandising charges, ultimately borne by the producer.\(^1\) While discussing the nature of agricultural production, influencing marketing, the limitations on the direct sale by the farmer to the manufacturer have been pointed out.\(^2\) Similarly in the discussion of the personnel of cotton trade in Surat market, the problem of elimination of middlemen has been considered.\(^3\) The principal objective in cooperative marketing should not be the elimination of middlemen, but the efficient marketing and the maximization of gains to the primary producer. The aim of good marketing should be to eliminate the traders' margins arising from exploitative situations.\(^4\) While eliminating the dealers and attempting to sell direct to mills, the cooperatives may not be able to assure themselves of the same prices, which mills are ready to pay for cotton, purchased from the dealers. No amount of economies in the marketing cost will ever mean retaining the traders' margin, unless the control of the marketing processes is gradually secured in favour of agriculturists so as to give them superior bargaining power in a commodity market.\(^5\)

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2. See Chapter II Pages \(39\) to \(49\).
3. See Chapter V Pages \(237\) to \(240\).
5. See 'Rationalisation in Methods of Marketing' Chapter IV P. 117.
The Byelaws of a cooperative cotton society empower the manager to sell cotton in markets other than Surat when necessary by the order from the managing committee and through any agent, preferred by the society or the Union.\(^1\) In reply to a question as to whom the society sells, whether to a buyer in Surat market or to outside markets or to mills,\(^2\) the answer given uniformly by the members of the Union, was that they do not sell but the union sells to whatever market it deems profitable to sell. Of course major portion of the Union's business is transacted in Surat Market. When asked whether they favour selling directly to Bombay market and to mills, 13 cooperatives out of 45 expressed in favour of direct selling, 12 cooperatives saw no advantage in direct selling, and remaining 20 were unable to state anything.

**Limitations of Direct Sales:**

Those who disapprove the idea of direct sales to Bombay market or to mills expressed the following reasons for their belief. In the first place, Bombay is a buyers' market wherein sellers, approaching the buyers will be always at disadvantage. It is more preferable to sell in Surat, which is believed to be sellers' market. Secondly the cost of transporting the bales and stocking them at Bombay will offset the gains of direct sale. The expenses of setting up an office in Bombay should be also taken into account. Thirdly it was argued that when the textile mills insist on buying through the vested interests such as the managing agents and the commission houses, it would be one and the same thing, either to

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1. Byelaw No. 56 of the Sonsek Group Cooperative Cotton Sale Society quoted earlier in this chapter Page. 430

2. Question No. 21 of the questionnaire issued to the cooperative cotton sale societies. For Specimen See Appendix.
sell at Surat or Bombay. Fourthly, mills will not be able to buy one variety of cotton, all at a time. The requirements of the spinner are diversified and he will not be able to buy one variety beyond a certain proportion. The commission agents among the buyers in Surat market, argued that mills often buy on credit account and pay as the sale proceeds of cloth are realised. The cotton cooperatives may not be able to invest their funds in mills' buying because of their expediency to distribute the sale proceeds among the members. A cotton-grower prefers an immediate payment of price, and cannot afford to wait for a long. Finally it was thought that once the cooperatives appear in Bombay market as seller a part of demand in Surat market, will be diverted to Bombay and this will have depressing effect upon the prices at Surat. After having removed the stock to Bombay, it must be sold there, and cannot be brought back.

Merits of Direct Sale:

The cooperatives favouring the policy of direct sale, expressed the following opinions, in support of their view. Firstly they pointed out that 'Agmark' certified cotton of the cotton sale societies has earned a goodwill with buyers in Surat as well as outside markets. As the spinners are bound to select cotton of the required standard of purity, strength and staple, mills shall be too willing to buy directly without relying upon the selection of the staple, done by traders. Mills, too are eager to save their buying cost and so will prefer to eliminate middlemen. Secondly, Bombay is the great spot market for the entire Indian Cotton. The mills from all the textile centres,
are represented by the firms at Bombay. When the buyers are in competition the sales at bargain prices are certain. Thirdly it is not correct to say, that selling at Bombay will divert the demand and hence depress the prices at Surat. On the contrary, with the rising quantity of cotton sold at Surat, the pressure on market is increasing. The cooperatives want to reduce the pressure and thereby, to prevent the depression in price. Fourthly, the ultimate destination of Surti Cotton is Bombay as major position of it is consumed there. By selling in the final market, the cooperatives can retain for the grower, the margin which traders earn by operating between the cooperatives and the final buyer.

Gains of Direct Selling:

Below is produced a table showing the cost of selling one candy of cotton F. O. R. Bombay, incurred by a cotton dealer, buying at Surat and that which a seller will have to incur for selling direct to Bombay.

**TABLE NO. 42**

Marketing charges incurred by a buyer in Surat, for reselling F. O. R. Bombay delivery and the charges that a direct seller to Bombay, will have to bear for the same order.2

"For one Candy of 784 lbs. from Surat to Bombay F. O. R. Delivery"

1. See the table No. 19 "The centres to which Surti Cotton has been despatched during the last two seasons", Chapter V, Page __8__

2. Figures from the information furnished in reply to question No. 11 of the questionnaire for a dealer in cotton. For specimen, See Appendix.
### Selling cost per bale borne by a cotton dealer:

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pressing Charges</td>
<td>12 0 0</td>
</tr>
<tr>
<td>Weighing</td>
<td>0 0 9</td>
</tr>
<tr>
<td>Local Charity &amp; Association Fee</td>
<td>0 1 0</td>
</tr>
<tr>
<td>Sundry expenses (Including Market cess)</td>
<td>0 2 0</td>
</tr>
<tr>
<td>Discount and Bank charges</td>
<td>0 2 3</td>
</tr>
<tr>
<td>Insurance charges</td>
<td>2 0 0 7</td>
</tr>
<tr>
<td>Interest on Capital</td>
<td>1 6 0 1</td>
</tr>
<tr>
<td>Cartage</td>
<td>1 0 0</td>
</tr>
<tr>
<td>Railway Freight</td>
<td>4 6 0</td>
</tr>
</tbody>
</table>

**Total Rs.** 21 2 0 Per bale

*Selling Cost per bale incurred by a Direct Seller:*

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pressing Charges</td>
<td>12 0 0</td>
</tr>
<tr>
<td>Transit Insurance</td>
<td>0 9 0</td>
</tr>
<tr>
<td>Cartage</td>
<td>1 0 0</td>
</tr>
<tr>
<td>Surat Market cess</td>
<td>0 0 6</td>
</tr>
<tr>
<td>Railway Freight</td>
<td>4 6 0</td>
</tr>
<tr>
<td>Interest on Investment</td>
<td>1 6 0</td>
</tr>
<tr>
<td>Forwarding Charges at Surat.</td>
<td>9 2 0</td>
</tr>
</tbody>
</table>

**Total Rs.** 19 7 6 Per bale

*Saving Rs. 3-5-0 per candy*

**N.B.: Rs. 10 per candy be added to both, if it is Sewri Godown Delivery.**
Thus selling direct to Bombay saves Rs. 3-5-0 per candy, which otherwise a cotton dealer recovers from a seller of cotton in Surat Market. To this should be added the charges i.e. Valtar to be borne by seller according to 'Surat Dharo' i.e. Rs. 1-2-0 per candy. No question of paying to market functionaries, in Surat, arises when bales are despatched direct to Bombay. Thus other things influencing the parity between the 'Spot' prices ruling at Bombay and Surat remaining the same, the net saving amount to Rs. 5-1-0 per candy of cotton (i.e. 2 bales of 784 lbs. each) sold direct to Bombay. Imagining for the sake of argument that all the 1,26,577 bales of cotton, sold through cooperatives at present, are sold direct to Bombay in a fixed parity, the cotton cooperatives will save Rs. 3,20,397-8-0 at Rs. 2-8-6 per bale. It is of course too much fantastic to imagine that the parity shall remain fixed. It, however, establishes the fact, that selling direct when the parity permits does prove financially beneficial. The basis between the Bombay and Surat prices should be wide enough to permit the gain of Rs. 2-8-6 per bale. The traders retain their margin of profit partly by buying on commission for mills and partly by hedging and straddle operations. The gin-press merchants add to this, by reducing the price, paid to cotton growers for third and fourth pickings, and by cutting a margin in ginning and pressing. The cooperatives can hardly do that. They pay an average price for all pickings and grades and cooperative ginneries save in cost of ginning and pressing to member societies, in form of rebates. Unless the Bombay price is well over parity the gain by way of direct sale, is doubtful.
'A second line of defence':

It has to be, however, admitted that taking chances at both the markets, or at as many markets as possible is an advisable policy. When Surti Cotton is over-sold in Bombay market, or when demand from Ahmedabad, Cawnpore, Indore etc., is more pressing the 'Spot Rates' at Surat may get firm and out of line with the rates in Bombay. In such cases, selling in local market, will be advantageous. It is of course, erroneous to believe that Bombay Market is a buyers' market in the sense that buyers predominate over sellers. The rules of the East India Cotton Association are so framed as to serve the interests of both the parties. If the sellers assert the rights given to them by the bye-laws of the E.I.C.A., there is no reason for fear. Secondly, if the mills insist on buying on credit account the cooperatives can utilise their surplus funds in such orders and earn the interest on the same. Thirdly, if the cotton trading firms maintain their offices at various centres and reap the benefit of selective buying, there is no reason why the cotton cooperatives should not seek outlet in a number of alternative markets for the 'discriminative selling'. Besides, Bombay gives the 'First Market News' on which cotton dealers all over India base their operations. The cotton cooperatives can discount such first-hand information at the earliest opportunity by operating in Surat or Bombay market. Finally Bombay provides hedging facilities also. For the successful utilisation of the 'futures trading' in the interest of organised sale in the 'spot', the cooperatives must have their sales office in Bombay.

ATTEMPTS AT 'DIRECT SALE' BY THE UNION:

In the cotton season of 1951-52 the quality of South Gujarat Cotton was hit due to adversity of weather conditions while there
was a good crop in respect of the competitive varieties. The mills had adequate stocks of the foreign cotton and, owing to slackness in the cloth market, mills showed the tendency of buying hand to mouth. The government policy of keeping down the prices of piece-goods in the interest of consumers had also, along with above factors, depressed the prices in Surat Market. The stock of cotton, with the cotton sale societies, was lying unlifted in their gin-premises. Hence for the first time attempts were made to clear off the cotton in Broach as well as Bombay market. A deputation of the representatives of the cooperatives prevailed upon the textile commissioner of the Bombay State in securing direct orders from the mills.\(^1\) In the next cotton season, it was decided to open a branch office in Bombay as a policy of precaution.\(^2\) However, on account of exports of Indian cloth and confidence generated by the First Five Year Plan, the prices were gradually rising in Surat Market and hence in that year, very little work was done at Bombay. In the season of 1953-54 definite steps were taken to open office in 'Sewree Cotton Green' and one Shri Durlabhbhai Gopalji Patel, an experienced member of the Management Committee of the Union, was placed in charge of the office.\(^3\) In the next season 14,526 bales were sold by the Union, direct through its Bombay office.\(^4\) During the season 1955-56 the total bales sold directly numbered 13,386.

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3. In my interview with Shri Durlabhbhai Patel I learnt that his experience of the Bombay Market is encouraging. Interview on 31-12-1956.
Lessons of 'Direct Sale':

In their two years' experience of working in the Bombay market the union came across certain difficulties which need consideration at this stage.

Contracts based on 'lot samples' instead of on 'Season's average Quality'!

According to the bye-laws regulating the delivery contracts, at Sewree market all the contracts are for the specific description of the cotton sold and it is not a valid tender if the cotton tendered in delivery is not of the description sold, not pressed at or grown in the vicinity of the place specified, and not bearing the special mark prescribed for the factory in which it is pressed.¹ Thus the spot contracts at Bombay, are based on the actual lot samples and not on the fair average quality of the season as in case of contracts in Surat Market. It is therefore necessary that 'lot samples' must be closely confirmed by the stock tendered in delivery. The cotton cooperatives will have to take special care to see that the quality of cotton to be sold at Bombay, is uniformly corresponding to the samples submitted in advance. Failure to tender a delivery of the cotton gives buyer a right to buy at a reasonable rate in the market, before 1-30 p.m. on the day following the failure to tender, on account and at the risk and expense of the seller, cotton of the description sold, or invoice back, at the spot rate of the cotton contracted for, plus such penalty, if any, not exceeding Rs. 25

¹ Bye-law No. 66 (a) of the East India Cotton Association Ltd.
per candy as the Board may see fit to impose. After making a valid tender, any dispute about the quality of cotton so tendered must be referred by buyer to arbitration not later than three days after the date of the delivery order or in the case of cotton tendered by railway receipt or bill of lading, after the unloading of the cotton on its arrival at a Railway terminus or a dock in Bombay or three days after the tender of the Railway Receipt or B/L whichever is later. That means the Sewree Market provides for only one selection. If the same fails, the lot is rejected.

Successive selections not permitted:

The Sewree market rules provide for contracts in specified growth, for specified dates of delivery, and for single selection. In contrast, Surat 'Dharo' provides for the entire season as a delivery period and permits three successive selections in case the first delivery fails to tender cotton of fair average quality of the season. The market rules of Surat are thus more liberal to seller than the Sewree market rules, in respect of delivery and selection. In the interest of selling in Bombay market, importance of retaining a uniform and better quality has been, therefore, rightly emphasised by the South Gujarat Cooperative Cotton Marketing Union, in their annual reports for the last two years.

Large-sized orders:

Another point is regarding the size of orders, likely to come up in Bombay Market. Direct selling naturally involves the meeting of larger size of orders from the buyers. The cooperatives

1. Bye-law No. 74(1) of the E.I.C.A. Ltd.
2. Bye-law No. 70 of the E.I.C.A. Ltd.
3. See 'Selection and Approval in 'Surat Dharo' Chapter IV p 186.
should be in a position to provide large number of bales of even-running lot if direct sale to mills, is contemplated. The cotton sale societies, operating at each assembly centre in South Gujarat do not individually command the necessary quantity to meet such orders. The quality or grade of cotton differs from society to society. This brings to the forefront a problem of unified sale for all the cotton cooperatives working at a particular gin-press centre in the interest of direct selling and meeting large orders.

Need for unified sale at each assembly centre:

The first reference to the expediency of selling jointly under one seal the cotton bales of even running lots, was made in the 1949-50 season by the Union, when in its report for that year, it mentioned that six cotton sale societies operating at Jehangirpura centre, had ginned and pressed their cotton to-gether and sold under one name. The experiment proved profitable and a saving was effected in the management expenses. Since then the Union has emphasised the importance of uniformization of selling for cotton cooperatives, working at the same centre. The drawbacks of 'Separate Sale' by each society were brought to my notice, by the managers of the 'Olpad' cotton Sale Society, the 'Sonsek' cotton Sale Society, the 'Sava' group and the 'Shenthi' group of Kosmaba and the Parab cotton sale society of Chalthan Centre. There are at present, 9 cotton cooperatives working at Kosamba centre, 4 at Sayan, 4 at Olpad, 5 at Jehangirpura and 6 at Chalthan.

3. See Table No. 16 showing the number of Cotton Sale societies, ginneries, and pressing factories in each taluka - West Group-Chapter IV PAGE 149.
The ginning outturn and grade of cotton of these cooperatives continually vary in consonance with the difference in soil conditions, rotation of crop, and weather. Even within a radius of 15 miles such variations are prominent from the point of view of their effect upon the price of cotton.\(^1\) The better 'lot' of the season is sold earlier and at a premium.\(^2\) In its eagerness to clear the stock earlier, the society with an inferior grade of cotton offers to sell when the society with the better grade chooses to hold on for a certain price. This has depressing effect upon the prices and all the cooperatives at a specific centre, have to suffer. The ginning and pressing of cotton in a common pool by all the groups operating at the same centre will remove variations in grades, and will enable even-running lot of bales, to be sold under the common authority.

**Advantages of Unifications:**

The unified sale, by the cooperatives at each centre, will result in a number of benefits. (1) It will prevent unhealthy competition among the societies to clear off their respective lots and will help to diminish 'Shift in Membership' on that account. (2) The management expenses will be reduced as a limited staff will work in stead of each society maintaining separate as a limited staff for pooling, weighing, ginning, supervision etc.

\[^1\] See "Grades of Surti Cotton according to centres" Ch. IV P. 126.

\[^2\] It is not certain that the society in question may be able to get cotton of the same grade in the succeeding season. The land, like a machine, does not yield the crop of same quality every year. Grades continue to change and a few cooperatives may reap the benefit of better 'lot' in one season, while a few others in the next season. Members however, indulge in unnecessary comparisons and leave one society to join another for obtaining better price. See "Fluctuations in Membership" Chapter VIII, Page 358.
(3) Large-sized orders, that are most likely in direct dealings with the spinners or Bombay market can be met with profit. (4) It will enable the utilisation of expert services of selected managers extending the advantage of skillful selling to all the cotton cooperatives. (5) It may encourage the spirit of cooperation and mutual understanding among the management as well as the members of several societies. (6) And finally, the same principle of average price per member will now be applied in case of societies whose gains will, thereafter, depend upon their contribution to the common pool instead of the grade of their respective cotton. The goodwill earned by one society will benefit the other and the depressing effect on market due to competitive sales, will be averted.

Objections to unifications:

So far, the schemes of unification in selling, could not find favour with the cotton cooperatives, because of objections raised by a certain section of membership as well as of management. Reduction in staff is not palatable to a few societies because it may deprive some employees of their jobs. Secondly, personal differences in the management itself are too rigid to welcome any common policy. It may be noted that personalities play a great role in cooperative movement. Management of cooperatives fails due to same virtues by which it gains strength. Pioneering service, rendered by a few zealous workers has nursed the growth of cotton cooperatives but when the point of maturity is approached, there occurs a clash of interests of several who are overzealous. Merely because the unified sale will retain the supremacy of some experienced but untolerated individuals, some cotton sale societies continue to oppose the move. The fear of disintegration into more 'off-springs' keeps the sober elements away from dogmatic insistence
on unification. Besides, the opposition from the cooperative groups which have been pooling distinctly superior grade is hard to meet, if their members refuse to sacrifice their extra-benefit in favour of sharing in the average price, along with the members of other cooperatives. However in the interest of more progressive sales policy, the cooperatives will have to agree to scheme of unified sale. A little losses sustained by a few societies will be more than compensated by the gains of 'Direct Sale'. The following table gives the figures of the quantity of bales sold by the cooperatives at centres, where the scheme of 'Unified Sale' is required to be attempted.

At other centres, there are one or two societies, ginning at separate factories and therefore, the figures of their output are eliminated from the above table. It will be noted that the 'Unified Sale' was attempted at Jehangirpura centre, in the 1952-53 season. Except in case of the Hansot Group, the figures of which refer to the bales pressed at Kosamba as well as at Hansot centre, no cotton sale society of Sayan, Kosamba and Chalthan centres can singularly meet an order for 2000 to 3000 bales at a time. The cooperatives at Jehangirpura and Olpad centres possess that capacity and under unification these will constitute most active groups in the 'Direct Sale'. The claims of some cotton cooperatives who insist that there should be unification of sales at Kosamba and Chalthan are justified. While writing this, it is learnt that Jehangirpura and Olpad groups have resolved to sell jointly in the coming season.

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1. e.g. The 'Kuwarda' group of Kosamba and 'Bhandia' group of Wankal, in Mangrol taluka do not favour the idea of unified sale. See 'Groups of better quality cotton'. Chapter VI Page. 309
TABLE NO. 41

Figures of Membership, Total Bales sold through the Union, and the Percentage of the total crop handled by the Union.

(Vide Annual Reports of the Union)

<table>
<thead>
<tr>
<th>LAR</th>
<th>Number</th>
<th>Their Membership</th>
<th>Total crop of Surti cotton in Bales</th>
<th>Sale through Union in Bales</th>
<th>Percentage of Col. 5 to Col. 4</th>
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</thead>
<tbody>
<tr>
<td>203</td>
<td>11</td>
<td>2731</td>
<td>1,66,300</td>
<td>8,223</td>
<td>5.0</td>
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<tr>
<td>203</td>
<td>11</td>
<td>2375</td>
<td>1,47,324</td>
<td>10,466</td>
<td>7.0</td>
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<tr>
<td>203</td>
<td>12</td>
<td>2680</td>
<td>1,92,000</td>
<td>18,837</td>
<td>9.5</td>
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<tr>
<td>203</td>
<td>16</td>
<td>3580</td>
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<td>5547</td>
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<td>16,572</td>
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<td>203</td>
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<td>16,781</td>
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sales may proceed. At this stage, the minimum and maximum limits of prices at which sales are to be executed, should be fixed by a careful consideration of the various factors such as; pressure of total crop in India, position of the competitive cotton varieties in other parts of the country, the government policy as regards to export and import of cotton, the buying tendencies on part of the textile mills, and experience of sales in previous season. The Bombay Office of the Union will find it very helpful to operate in Bombay market on the basis and in the light of such plan. The plan should be made known only to selected personnel. The actual commitments should be done by day to day communications by trunk calls. This will ensure the necessary promptness of action and coordination.

CONCLUSION:

To sum up, the success of a cotton sale society as an alternative agency for marketing depends upon how it frames and executes its sales policy. The successful sales policy will establish the merit of a cotton cooperative as a business institution. Being the largest seller of South Gujarat Cotton, the cooperatives should take initiative and lead the market instead of still going the traditional way of selling as the buyers move. It has been frequently observed that the cotton dealers dodge the cooperatives by effecting fictitious sales at a high pitch and raising the expectations of the latter so that the Union advises the member societies to hold on. Later, when the demand recedes there is distress selling enabling the dealers to bag profits. The only way to prevent such 'eyewash' is to plan the sales programme in advance, arranging priorities for member societies according to the period of their ginning work, and quality of their output. The stocks of inferior grade should be pushed first either at Surat, or
in Bombay market. Targets for the weekly sales should be fixed in advance, and there should be a Daily Rates Committee consisting of a few expert members of the management committee to announce thrice, every day in the season, the immediately deliverable stock at various assembly centres, their grade, names of relevant societies, and the prices at which the Union would be pleased to sell them. This will remove the secrecy shrouding the business talk, which is so characteristic of dealings in cotton market. It will open the way for smooth and regular selling. A constant touch with Bombay office, and with Ahmedabad market too if arrangements are made to sell there directly, will enable the diversion of necessary stock for direct selling and thereby will lend strength to selling at Surat. Bombay should be used as an alternative outlet for selling. It will be helpful if the salesman of the Bombay office as well as the managers of cooperatives are asked to attend the meeting in which sales plan is drafted so that the latter can take their part take the necessary authority from the respective sub-committees of the sale societies.

Hedging, if attempted, should be done with caution and under expert guidance. The salesman of the Bombay office should be evidently, well versed in futures trading. Besides he should be a man of integrity, honesty and tact commanding the confidence of cotton growers at large. He is in a position to misuse the authority in self-interest but that he will do at the cost of a fair name of the cooperatives. As yet, the Union could not secure the telephone and warehousing facilities in Bombay. It has to operate through the agency of a broker, for, it does not hold a membership ticket of the E.I.C.A. Much of the cost in form of godown charges, brokerage etc., will be saved if the S.G.Coop. Cotton Marketing Union becomes member of the E.I.C.A., and owns a godown and separate telephone facility at Bombay. It is learnt that attempts are being made in that direction.