

CHAPTER XIV

MILL PURCHASES

According to our terms we have been asked to examine the lack of contact between the grower of raw jute and its consumer. This by itself is neither a significant nor a unique factor peculiar to the jute industry. The same feature is observable in other industries e.g. cotton textile and woollen industry where similar tiers of middlemen operate between the grower and the consumer of raw material. The raw material again is one whose price is dominated by world market prices, except when prices are controlled and the finished product is mainly consumed in the country. It is only in the respect of having at present a larger number of non-productive intermediaries, that the jute industry in India perhaps differs from the cotton textile industry. Procedure of mills.

To determine the influence of the mills' operations in the market, the system of purchase of jute by mills has also been analysed to find out (a) to what extent they buy for ready and forward delivery, and in the latter case what is the period of forward delivery, and (b) how far purchases are made (i) to cover specific orders for finished goods, (ii) for keeping up mill production, and (iii) through the jute season as and when favourable rates obtained. Annexures XVII to XIX summarise the information received. The following conclusions emerge from the replies received from different mills. Only a few mills producing high grade hessian for export appear to be buying jute in *pucca* bales. Purchases of the mill's requirements are predominantly made in the form of *kutch*a bales or loose jute, the percentage for mills in regard to purchase of *kutch*a bales ranging from 40 to 90 and in the case of loose jute, from 15 to 30. The percentage of Pakistan jute consumed by mills ranges from 15 to 35 (*vide* Annexure XVIII). As regards the qualities of jute purchased it will be seen from Annexure XIX that the most popular varieties are white jute and that even in respect of Pakistan jute a substantial part of the purchases made are in the form of bottoms, cross bottoms and cuttings. The last two

grades seem to have been very attractive to the mills on account of the price factor. Only a small percentage seems to have been bought through mills' own agents in Pakistan. The number of mills with agencies in Pakistan being small the bulk of Pakistan jute is bought through normal channels in the trade, i.e. balers and agents in India.

Use of
bimli, and
mesta,

Besides the mills in Andhra which use a good portion of the local *bimli* jute, *bimli*, *mesta* as well as *jungh* jute seem to be absorbed in production of other mills also, though only a few have indicated the extent of their purchases of these varieties. In the case of one mill we heard that admixture of *bimli* upto 25 per cent. in the manufacture of hessian and upto 75 per cent. for twist have been considered possible. The extent of admixture is probably circumstanced by factors like the technique of production and the machinery used in preparation and spinning, the prices and availability of different grades of jute, the standard of production and special preference if any of overseas markets. Since the price factor has been the chief attraction for the use of Pakistan cuttings, the relatively lower price of the inferior grades of Indian jute fibre should enable of their being used to the exclusion of Pakistan imports of lower grades.

Forward
purchases of
jute.

The statement in Annexure XX gives the figures for the years 1948-49 to 1952-53 of (a) purchases for ready delivery and (b) forward delivery. From the survey of the data given by individual mills it could be seen there is a considerable variation in the proportion of raw jute bought on ready and forward basis. While some mills buy forward and ready on fifty fifty basis, a large section appear to make their purchases on a forward basis upto 70 per cent., while a few have reported the practice of buying jute on a ready basis to the extent of two thirds of their requirements. No basis of differentiation is noticed as such between mills under Indian or European management or on the basis of their size or interest in the export trade. Forward purchases are generally reported as common to cover specific orders received for finished goods. But otherwise the quantum of purchase from time to time is stated to depend on factors such as prospects of sale of goods, crop position for subsequent season, the stocks held by the mills and their financial capacity. Some mills have replied that they buy merely to maintain the progress of production and to maintain stocks. The bulk of their

purchase falls mainly in the first two quarters of the jute season, (i.e. July—December). Others, whose policy is to make purchases whenever prices are favourable, do it, not for speculation or profit, but to have the raw material in stock at the cheapest price possible.

The basis of the forward purchase is best explained in the reply of Champadani Jute Co., (James Finlay & Co., Managing Agents):

Basis of forward purchase.

“A mill has certain fixed machinery and certain hours of work per week which allow the mill to produce a more or less fixed weight (and quantity) of certain types of goods. Owing to rises and falls in the production and the productivity of the workers, there are small variations in the quantities of goods produced in a given period, but generally a mill's production of hessians, heavy goods and twine can be very accurately assessed over a long period ahead. Working backwards, therefore, from the above mentioned firm base which indicates the quantities and varieties of goods which have to be produced and sold, it is then possible to assess very accurately the quantities and types of jute which will be required to be bought and received in the mill over a similar period ahead. A mill has an accurate knowledge of its costs of production and knowing also the quantities to be produced and the market price for this production as well as the quantities and types of jute to be purchased and the price that will have to be paid for the raw material, the mill can then formulate a buying and selling policy over a long period ahead, usually 9 months and in some favourable circumstances as much as 12 months. When we state that a forward buying and selling policy for as much as 9 or 12 months can be established, we do not mean to say that the *entire* production and *entire* raw jute requirements for the ensuing 9 or 12 months is sold and bought. What usually happens is that the mills will sell at one time only a proportion of e.g. its monthly production over the months ahead and at the same time purchase a weight of jute equivalent to the weight of the goods sold

Simultaneous business explained.

forward. For instance a mill's bought and sold position might be as follows:

Date	Production sold	Jute bought and in stock.
November . . .	December . . .	70,000 Mds.
	Jan/March . . .	
	April/June . . .	
	July/Sept. . . .	
January	Feb/March . . .	60,000 Mds.
	April/June . . .	
	July/Sept. . . .	
	March	
April/June . . .		
July/Sept. . . .		
Oct/Decr. . . .		
	Jan/March . . .	

It follows, therefore, that all the three points raised in the question* are taken into consideration at the same time when a decision is made by a mill to buy against forward sales or *vice versa*. A mill must always buy to keep up its production—practically no mill manufactures for stock as in present circumstances there is absolutely no hedge available to the mill against fall in price of unsold jute goods already manufactured. Similarly, a mill when it sells hessian and heavy goods forward, must of necessity purchase jute of a particular quantity to manufacture the hessian or the gunnies. As regards the third point in the question, namely, how far are purchases made through the jute season as and when they can be made at favourable rates, we should say that this is probably the predominating factor. It is axiomatic, we think, that a mill will always buy when it considers price most favourable to itself, but the weight of jute involved in all such purchases is set against the weight of jute required to meet an equivalent sale of goods. This is what is known as simultaneous business and is of course only possible profitably when the cost of raw jute plus the cost of production is less than the proceeds receivable on delivery of the manufactured goods, i.e. when the parity between the price of raw jute and jute goods shows a profitable margin."

*Question No. 32/-

Due to the disturbances in the parity referred to above, it has been explained that the mills have to attempt to overcome this disparity in relation to forward sale of goods by taking a "view" of future market trends by (a) purchasing jute in expectation of a rise in price and selling an equivalent weight of goods at a later date after the rise has occurred; and (b) by selling jute goods in expectation of a fall in price and purchasing an equivalent weight of jute at a later date when the fall has materialised. On the above basis it has been explained that normal size and quality of purchases of jute are dictated by the extent of forward sales of hessian and sacking. As an instance it has been mentioned that when there were heavy Government orders, such large forward purchases of jute have had to be made. Hedging

The period of forward sale for jute goods or forward purchase of jute also varies extensively; but it has been explained that while a mill may make large forward sale of goods, say 9 months ahead, it does not follow that it would be able to buy jute for delivery also similarly 9 months ahead, when making forward purchases as a cover. In the present state of the raw jute market, it has been stated that it is difficult to purchase jute for delivery more than one or two months ahead. It is common before the new season's crop comes in for dealers to offer it at a discount for delivery in, say, August-September. This type of forward purchase by mills is not comparable to the forward sale of gunnies for 9 to 12 months ahead. Forward delivery period.

We have dealt earlier with the seasonal pattern of the production and marketing of jute. As the working of the organised mill industry has to be kept at a uniform level of production throughout the year, the industry attaches the greatest importance to its policy of purchase and stocking of raw jute. The quantum as well as the timing of purchases is affected by various factors such as availability of jute and favourable price trends in the market. Apart from this, the requirement to meet the raw material needs for the current production of the mills as well as over a future period through which the mills' output would be sold on a forward basis and the jute requisite for this purpose has to be bought through the season. We have explained earlier the changes that have taken place since partition in the general pattern of the raw jute market. The Indian Jute Mills which before partition obtained the Changes in mill demand for raw jute
—a Resume.

bulk of their raw material from growing areas now in Pakistan, had to switch to the utilisation of the types and varieties of jute that could be grown in India. The *daisee* jute, for instance, which was more in demand in export markets like *Dundee* than by the Indian mills is now extensively used. Similarly, there has been greater utilisation of Assam and Bihar jute in the absence of sufficient quantities of *jat* varieties from districts now in Pakistan which used to be traditionally preferred for mill production. Again, with the stoppage of exports and dwindling of the baling industry, purchases of baled jute by mills have gone down. Increased dependence by the Indian mills on indigenous supplies has also stimulated the production of jute under the intensive 'Grow more jute' campaign. As a result of absorption of lower priced varieties to a greater extent than in the past the production and intake not only of improved qualities of indigenous jute to replace Pakistan jute but also of grades or varieties like *jungli*, *mesta* and *bimli* has increased. Technological developments have indicated that the use of lower grade jute could be extended. The statements given illustrate these trends.