

Buying and Selling Decisions

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- India is the world's largest producer, consumer and importer of pulses
- India's production remained stagnant for a few decades whereas the demand was steadily growing with rising population and income
- To meet growing demand, India allowed the import of pulses by private sector in the year 1977
- From the time the Government of India opened up the import of pulses, it has always remained under OGL (Free Import Policy)

- Since early 1990s, the import of pulses has seen exponential growth from 400K tonnes to more than 6 million tonnes in 2016-17
- Due to this, the business has expanded multifold and the number of stakeholders i.e. importers, indentors, brokers, service providers has also grown significantly
- In the 80s and 90s, most of the import business was against the payment terms of Letter of Credit. Since CAD payment terms have been introduced, most of the business is now conducted on CAD payment terms
- Due to these relaxed payment terms and also since there was no local tax/duty on imported pulses, this business was without any barriers. Hence, any novice without much experience could enter the trade

- In the recent years, the business has totally changed. Most of it is being done through indentors. There is no direct contact between the seller and the buyer
- The seller does not know the track record and financial capability of the buyer to honour the contract as most of the business is being done on the assurance of the indentor. Same is the case for the buyers as they are not aware of sellers track record.
- The seller is totally dependent on the indentor for the execution of the contract by the buyer and vice versa

- Many importers as well as indentors are not aware of the terms and implications of the contract
- They do not have the knowledge of the terms of GAFTA contracts
- Many of them do not understand the rules and implications of GAFTA arbitration
- The indenter should educate the buyer and the seller about the GAFTA terms and their implications
- The buyer must read the contract carefully and should be very cautious and aware of all terms and their implications before signing
- The assurance that it is a “standard format” of the supplier does not mean that it should be blindly abided to. The buyer should still read each clause carefully and contradict where he does not agree

- While making the decision to buy, the buyer should have thorough knowledge of demand and supply of the product
- The buyer should know the estimated crop of a product in the domestic market and also do research on the various origin crops and their harvest period
- The buyer should be able to estimate the trade policies that the Government might set in reaction to the market and political scenario, as this may affect the business adversely
- For a sustainable trade, the buyer should remain within his/her means and should not overtrade

- To avoid quality disputes, the seller must explain and educate the buyer/indenter about the quality of the current crop that he is selling
- This will bring mutual trust and confidence in the relationship
- In case of quality claims, the seller must settle the same honestly after verifying the facts as the buyer pays the Document without looking into the cargo purely on mutual trust

- The seller must be able to take an informed decision about the crop for which he's entering into the contract as business usually takes place a few months in advance of delivery
- The seller must not come with an excuse invoking the force majeure condition on flimsy grounds and keep on asking for extensions of delivery period
- The seller must be aware of the current production, expected size of crop, quality and weather related conditions in India while making the selling decision