

Cotton Outlook

Special Feature

July 2006



World Long Staple Market
Meeting Demand

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Contents

Meeting demand	4 - 5
<i>By Matt Robinson, Assistant Editor, Cotlook Ltd.</i>	
Egyptian statistical review	6 - 7
<i>By Cotlook's editorial staff</i>	
Diener finds success with SJV Pima	8 - 10
<i>By Beth Pandol, Assistant Director of Communications, Calcot Ltd.</i>	
Outlook for China's long staple cotton market in 2006/07	12 - 14
<i>By Ms. Liang Wenyong, Xinjiang Nongken Import and Export (Group) Ltd. Co.</i>	
ELS in India: At the crossroads of sustainability	16-18
<i>By Mani Chinnaswamy, Managing Partner, Appachi Cotton Company, India</i>	
Prospects for Sudan extra-fine cotton under the Gezira & Managil Scheme's New Act	20 - 22
<i>By Fatma Abdalla Shoke, Director of Research and Planning Administration, The Sudan Cotton Company</i>	
Central Asian long staple output – prospects for recovery	24 - 25
<i>By Galina Fisher, CIS Editor, Cotlook Ltd.</i>	
Pima in Israel	26 - 27
<i>By Menahem Yogev, Israeli Cotton Board</i>	
Interspecific Hybrid Cotton Hazera™ – The dream that became real	28 - 30
<i>By Alejandro D. Szechtman, Leader, Cotton Breeding Team, Hazera Genetics Ltd.</i>	
West Indian Sea Island Cotton (WISIC)	32
<i>By Vitus Evans, Chief Executive Officer, Jamaica Agricultural Development Foundation</i>	
Using long staple cotton – the experience of a Chinese spinning mill	34
<i>By Du Ming, Manager, Raw Material Purchasing Department, Luthai Textile Co., Ltd.</i>	
The Pima evolution: a century of development	36 - 38
<i>By Marc Lewkowicz, Executive Vice President, Supima Association</i>	
Investing in textiles? Egypt, now !!	40
<i>By Ahmed K. Elbosaty, General Manager, Modern Nile Cotton Company</i>	

Advertisers

A	
Al Kahira Cotton Company	38
Aldcroft Cotton Limited	25
Alexandria Commercial Company	14
Appachi Cotton Company	17
B	
Beijing Cotton Outlook	42
C	
Calcot Limited	9
Commodity Export Corporation	35
D	
Domestic Cotton Trade Committee	34
Dunavant Enterprises, Inc.	21
E	
Eastern Cotton Company	22
Eastern Linkage	38
Ecom Cotton Group	31
Edco Cotton Export Co. S.A.E.	40
H	
Hazera Genetics Limited	29
Houchin Cotton Co. LLC	I/F
J	
J.G. Boswell Company	39
Jess Smith and Sons Cotton, LLC	32
L	
Liverpool Cotton Services Limited	14
Lummus Corporation	33
M	
Modern Nile Cotton Company	41
MISR Cotton Export Co.	22
O	
Olam International Limited	19
P	
Paul Reinhart A.G.	I/R
Plexus Cotton Limited	15
Port Said Cotton Export Company	27
Q	
Queensland Cotton	11
S	
Supima	O/R
Swig Cotton	13
T	
Trustco	30
U	
Uster Technologies AG	23
W	
White Gold Association Inc.	25

Page design and layout by Richard Butler, Cotlook Limited.

Published by : Cotlook Limited, Outlook House, 458 New Chester Road, Rock Ferry, Birkenhead, Merseyside, CH42 2AE, U.K.

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Meeting demand

By Matt Robinson, Assistant Editor, Cotton Ltd.

The early part of the 2005/06 season proved volatile for long staple and extra-long staple prices, owing in the main to much-reduced estimates of production (in Egypt especially), against a backdrop of already low stocks at the major origins, but with substantial inventories held by mills in a number of countries. The market shifted so dramatically we felt compelled to introduce an update to our 2005 Annual Review in the pages of the Cotton Outlook weekly magazine during November.

The high prices eventually established last autumn have been sustained through the remainder of the season, with mills reliant on LS and ELS varieties gradually forced to cover forward at those levels as inventories were depleted. The premium commanded by US Pima in 2005/06 over the A Index has reached its highest level since the 2001/02 season (when upland values touched their lowest point in modern history). Carryover stocks into the 2006/07 season are expected to reach a record low.

The reaction to the price premium of farmers in some countries has been to plant more of the *barbadense* varieties. Our initial 2006/07 estimate thus portends a recovery in global output, from the low level recorded the previous season, of no less than 22 percent. Early new crop offers of US and Israeli Pima suggest that the price tone seems set to remain firm, and in view of the low stock levels, offering prices will doubtless be sensitive to any setbacks to the main LS and ELS crops.

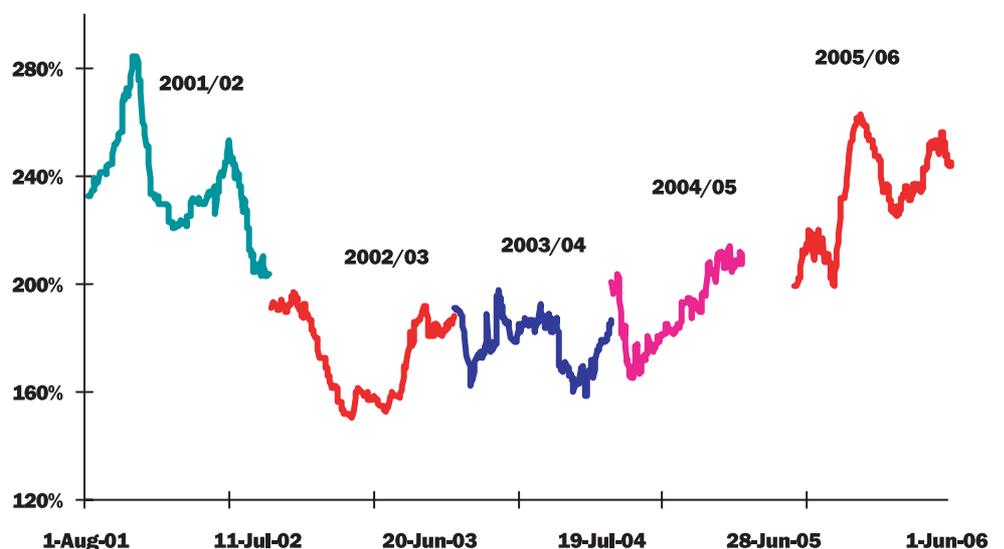
A difficult year might be anticipated for Egypt's cotton industry, as both public and private sectors adapt to a continuing programme of reform, while working towards rebuilding yields after a disappointing 2005/06 season, during which pest infestations have taken their toll and the quality of the outturn in some varieties has been disappointing. The Alexandria Cotton

Exporters' Association has recently announced that a programme is to be established to improve the Giza 70 variety. One of the factors inhibiting a recovery in plantings has apparently been an insufficient supply of cotton seed.

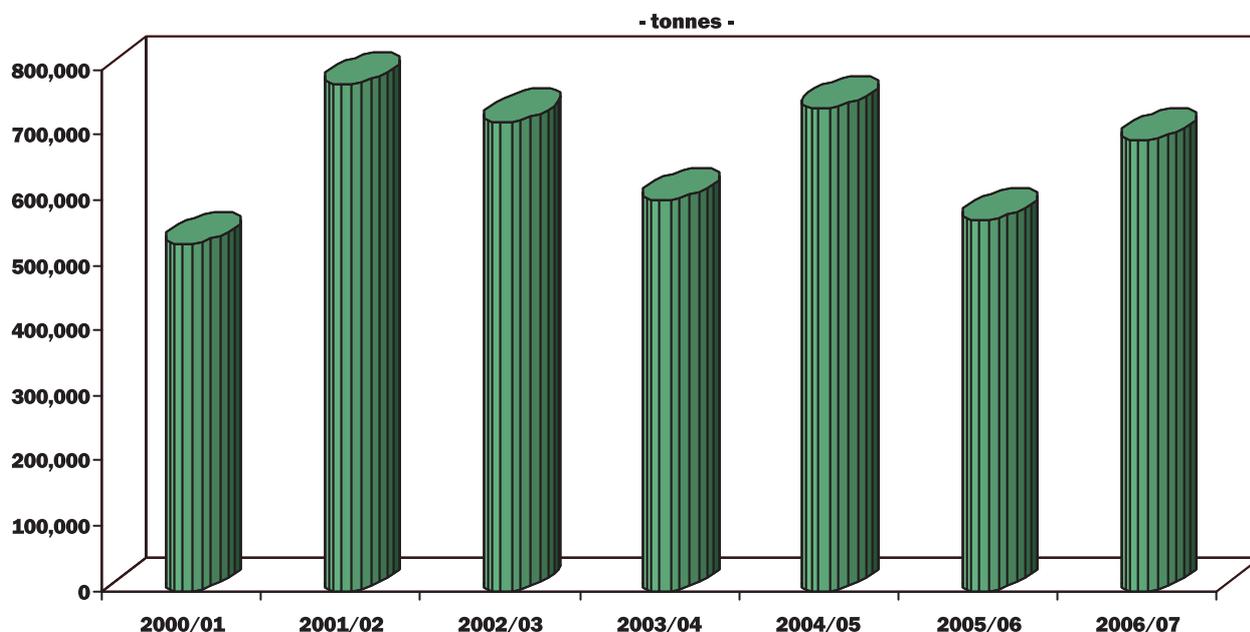
Estimates of potential outturn from the US Pima crop have been trimmed from their initial levels, owing to the delays in planting caused by unusually wet, cool spring weather in the Californian San Joaquin Valley, as a result of which some farmers reverted to using the shorter-season upland varieties. Nonetheless, Cotlook's 2006/07 forecast places output at 169,000 tonnes, which would still represent a new record.

Both India and China are hoping that increased output this season will go some way to satisfying burgeoning domestic demand, while Sudan is optimistic that recent policy changes with regard to the Gezira/Managil irrigation system will spur enthusiasm for Barakat. Increased plantings and benign planting weather augur well for LS crops in Central Asia, where Tajikistan is now the main player. Farmers in Israel have continued to prefer Pima over Acala.

US Pima Premium over A Index



World Extra Long and Long Staple Output



In this year's Annual Review, we have examined the efforts under way to increase production in order to meet demand and also to tailor the product to the needs of the textile industry. As some of our authors reflect, textile industries in a number of countries are seeking to preserve profit margins and avoid intense competition in more basic goods through product differentiation. A growing focus is evident on the production of higher quality goods, which often rely on LS and ELS cottons - attempts to revive the West

Indian Sea Island Cotton brand, though only a very small crop, might prove timely in this regard. The focus on quality requires good cooperation right through the production chain, from the garment or textile manufacturer, down to the seed breeder and the farmer. We have attempted to cover each link of that chain in this edition.

We would like to take this opportunity to thank all the contributors to this Review for their considerable efforts.

World Extra Long and Long Staple Output tonnes

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	Change v 2005/06	Change v 10- yr avge
United States	84,717	152,943	147,683	94,122	162,335	137,275	169,000	+23%	+40%
Egypt	210,072	316,618	289,765	197,568	295,153	201,170	216,078	+7%	-18%
of which:									
ELS*	30,973	51,262	65,812	58,386	77,555	43,534	51,859	+19%	-1%
LS*	176,751	261,909	220,535	138,562	214,077	157,635	164,219	+4%	-21%
Sudan	21,000	30,000	54,000	48,000	50,000	44,000	50,000	+14%	+65%
Uzbekistan	11,200	17,000	16,500	17,000	14,000	10,000	12,000	+20%	-20%
Tajikistan	10,000	18,000	33,000	17,000	13,500	8,000	17,000	+113%	+12%
Turkmenistan	20,000	30,000	24,000	27,300	22,900	12,000	20,000	+67%	+9%
India**	85,000	80,000	60,000	70,000	69,700	51,850	68,850	+33%	-23%
Peru	12,537	6,000	3,600	4,048	8,000	9,211	7,000	-24%	-29%
China	61,600	97,100	70,000	113,500	86,500	80,000	110,700	+38%	+104%
Israel	8,000	19,000	16,500	7,300	14,000	11,500	18,500	+61%	+72%
Australia	3,300	7,945	1,362	114	392	300	300	unch	-93%
Others	4,000	3,000	4,000	4,000	4,000	3,000	3,000	unch	-32%
TOTAL	531,426	777,606	720,410	599,952	740,480	568,306	692,428	+22%	+9%

*the breakdown between LS and ELS varieties represents a tentative estimate, pending more detailed arrivals data

**includes cotton with staple of over 33mm

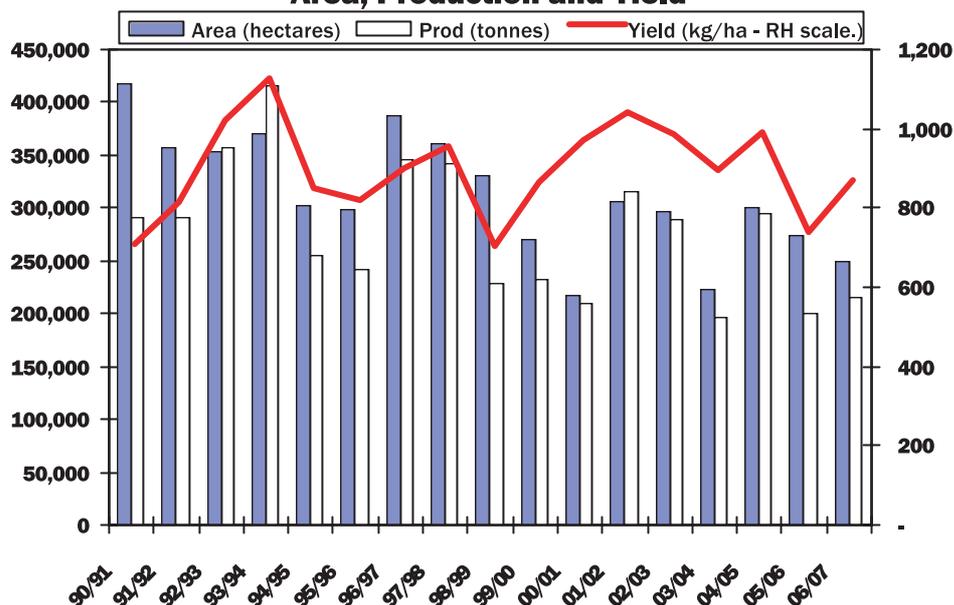
Egyptian statistical review

By Cotton Outlook's editorial staff

Although a target area of 247,000 hectares was set for 2006/07 (nine percent higher than the area sown last year), official data suggest that actual plantings have fallen short of that level by just over 10 percent, at 220,155 hectares. Hopes have been expressed that average yield will return to a more normal level, having fallen by almost 25 percent in 2005/06. However, considerable doubts in that regard have been expressed in some quarters as the planting period has progressed. Output is currently projected by Cotlook to reach a figure of around 216,000 tonnes of lint, which would be more than the 201,000 produced in 2005/06 but significantly less than the 292,000 tonnes achieved the season before.

Variety-wise, the proportion of the area devoted to long staples has not been predicted to show much

Area, Production and Yield



change (falling from 76 percent in 2005, to 74 percent in 2006). The proportion of long staples reached as high as 88 percent in the 1999/00 season.

Tentative predictions are that, with an increased supply, exports during 2006/07 will recover slightly, perhaps to somewhat above 100,000 tonnes. The share of extra-long staple varieties might be expected to increase, compared with 2005/06. Obviously, the development of the internal market (the price at which seed cotton can be procured from growers) and the course taken by international prices will determine the actual level of export sales.

Domestic consumption during the 2005/06 season is estimated to reach around 215,000 tonnes, or over 5 percent more than in 2004/05. A major difference, however, is the greater proportion of imports of upland cotton (mainly from Greece, Sudan and Syria), which in 2005/06 will account for more than half the total consumed. A further modest rise in consumption should be attainable next season.

Carryover stocks of domestic cotton on September 1 this year are forecast to be modest in size, at around 10,000 tonnes, consisting predominantly of extra-long staple cottons.

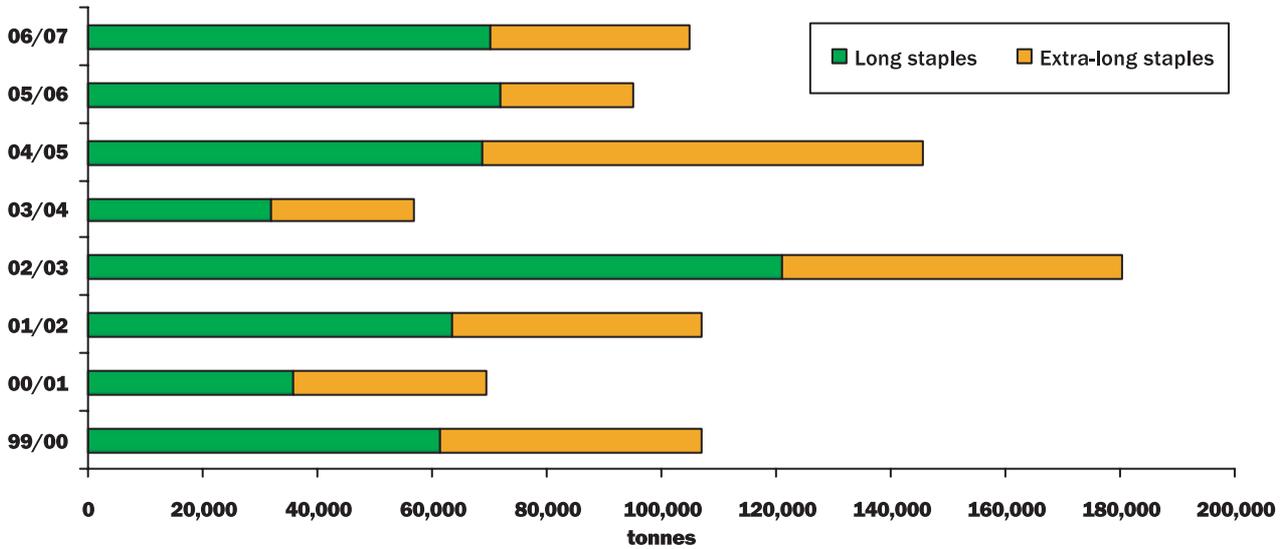
Prospective Supply & Demand

tonnes

Carryover September 1, 2005	4,917	
2005/2006 Production	201,170	
Imports	99,000	
Total Supply		300,170
Domestic Consumption	200,000	
Exports	95,000	
Total Disappearance		295,000
Carryover September 1, 2006	10,087	
2006/2007 Production	216,078	
Imports	115,000	
Total Supply		331,078
Domestic Consumption	220,000	
Exports	105,000	
Total Disappearance		325,000
Carryover September 1, 2007	16,165	

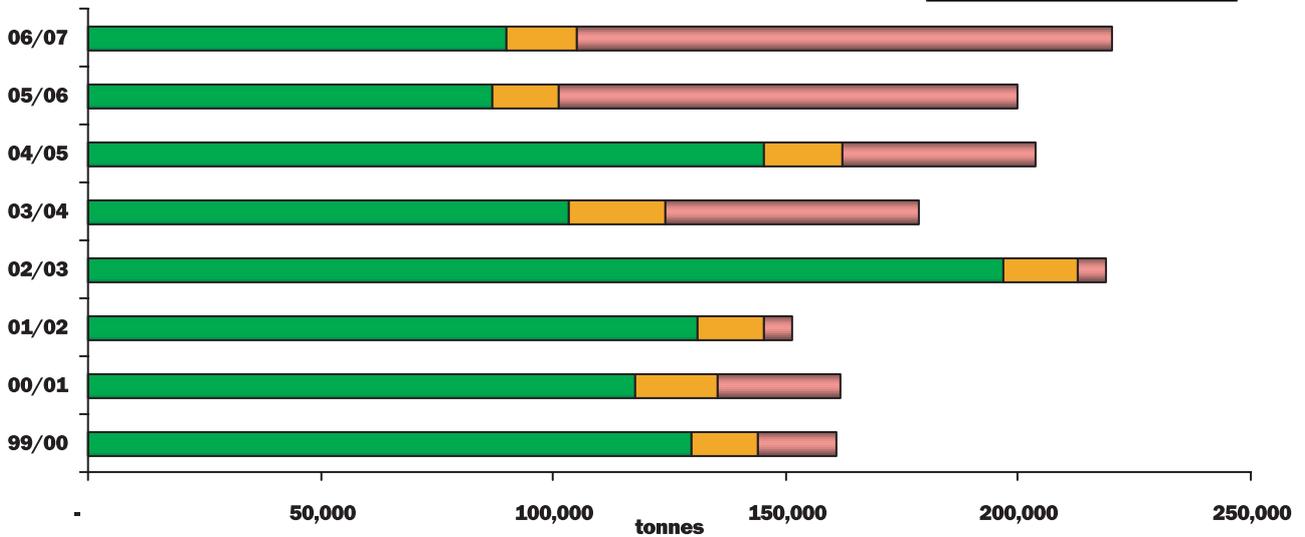
Export Performance

(season beginning September 1)



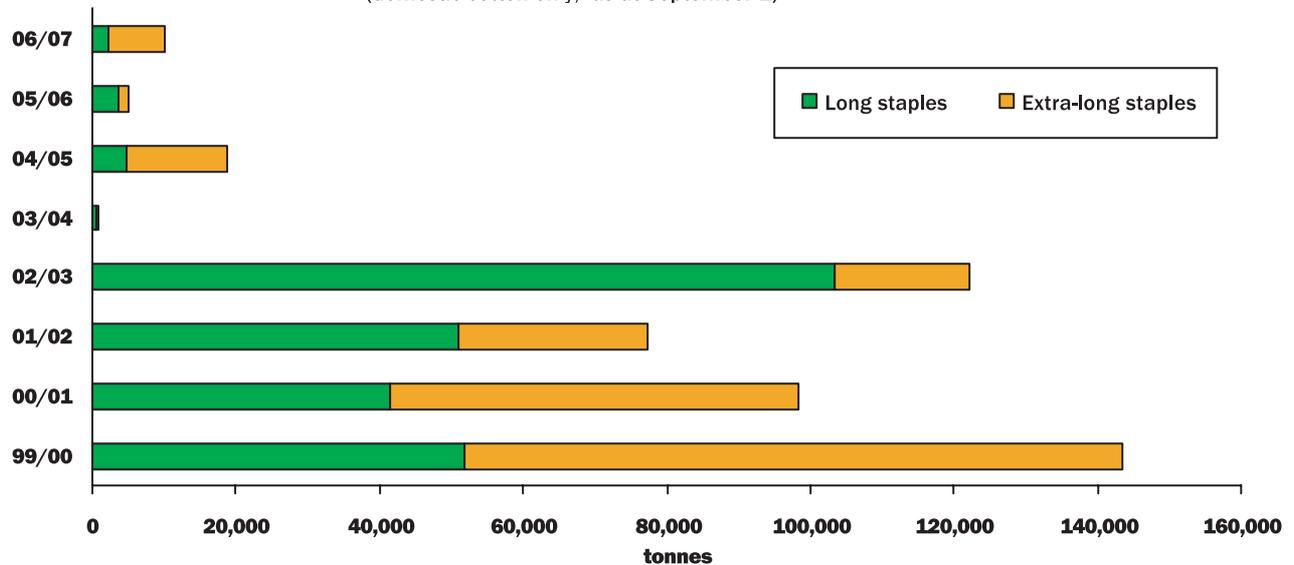
Consumption

(season beginning September 1)



Beginning Stocks

(domestic cotton only, as at September 1)





Diener finds success with SJV Pima

*By Beth Pandol,
Calcot Ltd.,
Assistant Director of Communications*

Thirty years ago, if a cotton farmer in California's San Joaquin Valley (SJV) had talked about growing extra-long staple Pima cotton for the export market, he would have heard a great deal of chuckles among fellow growers, not to mention a few comments about his sanity.

Now, growing Pima for the export market is as common as fence posts and is proving to be perhaps the most popular choice, given market conditions and the migration of U.S. mills to foreign shores.

For John Diener, president of Red Rock Ranch, Inc., in Five Points, California, Pima cotton comprises all of his cotton acreage this year. A firm supporter of allowing Pima to be grown in California's formerly "one-variety district" back in the early 1990s, Diener admits he never thought he'd go a season planting all Pima and no upland.

"I heard all the horror stories out of Arizona about what Pima could or wouldn't do back then," he said. The desert state's weather, especially its hot, humid summers, could play havoc with yields, but the SJV climate is more to the liking of the ELS variety. And in recent years, as acreage has grown, breeders have improved Pima varieties to make them even more suitable for SJV growing conditions, which has also boosted Pima's status among California growers.

SJV Pima yields now are almost equivalent to the long staple Acala varieties, and production costs are about the same most seasons, though ELS yield variances fluctuate more wildly than the upland growths.

But as is usually the case with most growers, the potential for a good price was the driving factor in the selection of 100 percent Pima acreage at Red Rock Ranch this year.

"On certain soils and fields on our ranch, the Pima is better adapted than Acala to production systems. But this year, it's generally because of the price," said Diener, who markets his cotton through Calcot, the cotton marketing cooperative based in Bakersfield, California. The very attractive prices for Pima and the decline of Acala prices led him to make the decision to go all-Pima.

"We feel very comfortable with it... Earlier varieties were not as consistent as the varieties we have today," he said. "The breeders have done a very good job of adapting a Pima class of cotton to the San Joaquin Valley's growing conditions."

Growing Pima is nothing new for Diener. He's grown it since it became legal to grow it in the SJV in 1989, when the Valley cotton board authorized the planting of board-tested and approved Pima cotton in the Valley's "one-quality" district. The board still tests and approves for release ELS cottons, along with the Acalas, so mill customers have an assurance that Pima cotton from the Valley will meet rigorous standards.

Diener started with a small Pima acreage – just one field – then gradually increased, as traditional cotton markets for SJV Acala did not expand, in contrast to the demand trend for Pima.

He's discovered that DeltaPine 340 is the Pima variety that works best on his farm.

Planting at Red Rock Ranch finished on May 2 this year and Diener said the Pima is now getting a good stand. Historically, Pima cotton planted on his ranch by May 5 does well. Some growers in the SJV believe that Pima must be planted before the end of April, but experts say more and more SJV growers are pushing planting into the early days of May.

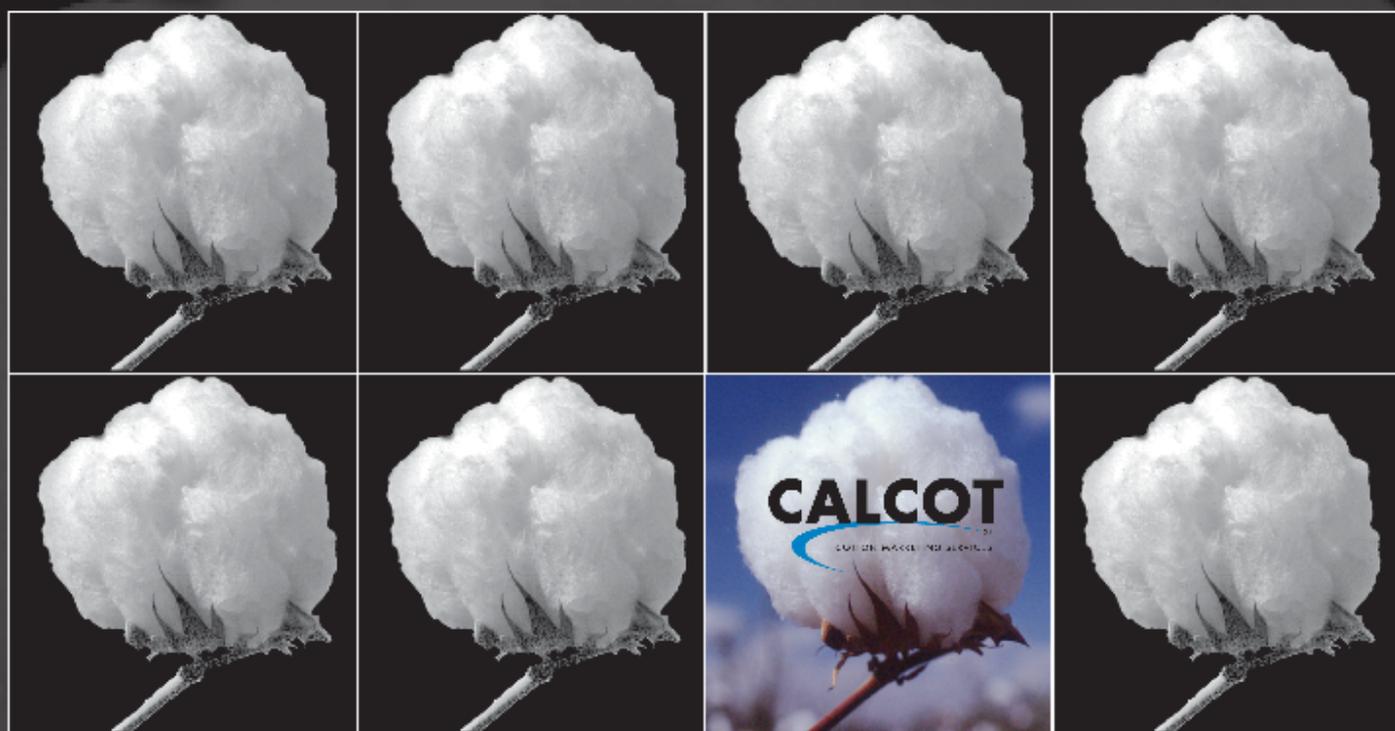
"We've had good yields historically, as long as it's planted by the fifth of May, we've not had any problems," he said. "We pushed the envelope for planting a little bit this year but the opportunity is worthy of the risk. We've been blessed with good weather and we have a nice stand."

Diener is well aware of the demand from overseas textile mills for high-quality cotton and he puts the full force of technology behind growing his Pima crop. He's been working for many years with a Japanese mill to test various varieties and qualities and understands the importance of good quality to textile executives looking to make high-count yarns.

SJV growers have almost always been able to achieve good yields, but they know their markets depend upon growing quality cotton. Diener is no exception, and one way he ensures high quality is to strive for mature Pima cotton.

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"We try to make sure we manage water appropriately so that we don't have rank, green cotton going into September. Our goal is to grow the crop by the twentieth of August and then allow the cotton to mature out from there," he said.

The goal is to maximize yield, within reason.

"We're not trying to deprive the plant of opportunity and we won't hold back or shorten up maturity," he said.

Working with an agronomist and pest-control advisor and utilizing university-developed computer technology, Diener carefully monitors soil moisture content and fertility. The computer models enable him to make irrigation and fertilization schedules, based on solid data from his Pima fields, combined with historical water use and other data.

He also visually watches the crop and conducts tissue tests for nitrates. This enables him to manage the nitrogen inputs.

"We do tissue tests probably three to four times in a season to see where we are in relationship to bloom and nodes above flower, the nitrate load of the plant and fruit load," he said. Plant mapping is also utilized to chart plant growth progress.

The Diener family has been farming in the Five Points area since 1929.

Diener is far from alone in choosing to grow Pima in the San Joaquin Valley this year. According to Calcot's Vice President of Marketing, Jarral Neeper, many growers wanted to plant Pima this year.

"From an economic standpoint, Pima is working for the San Joaquin Valley," said Neeper. Thanks to the efforts of the Supima® Association, U.S.-grown Pima has made strong inroads in worldwide markets.

Neeper said that's extremely fortunate, since prices for Acala cotton, the cotton that made SJV growers famous, have been relatively stagnant compared to Pima for three consecutive years, and growers are looking to grow the extra-long staple cotton for the higher price it commands.

There had been pre-planting predictions that the acreage for Pima would, for the first time, exceed upland acreage in the Valley, mainly due to the \$1-plus per pound prices Pima commands.

Actual planted acreage is still being tabulated, but the USDA pegged SJV Pima planting at around 290,000 acres in 2006. Others had estimated that it could go as high as 325,000 acres. However, an unfortunate series of



John Diener, President of Red Rock Ranch Inc.

rainstorms in March and April impeded planting, so the actual number of Pima acres planted has yet to be determined. Some experts believe the actual Pima acreage in the SJV may turn out to be between 240,000 and 260,000. That would still be higher than the 230,000 acres planted in 2005 and the 215,000 acres of 2004.

Yields have been impressive in recent years: the irrigated crop yielded 1,170 pounds to the acre, compared to a record 1,532 pounds in 2004. That made for total ELS production of 558,000 bales (480 lbs) in 2005 and 683,000 in 2004. California is clearly the dominant Pima producer in the U.S.'s four ELS states, as the other three

(Arizona, New Mexico and Texas) account for only about 40,000 acres combined. Yields elsewhere are lower, as well, running around 890 pounds per acre on average.

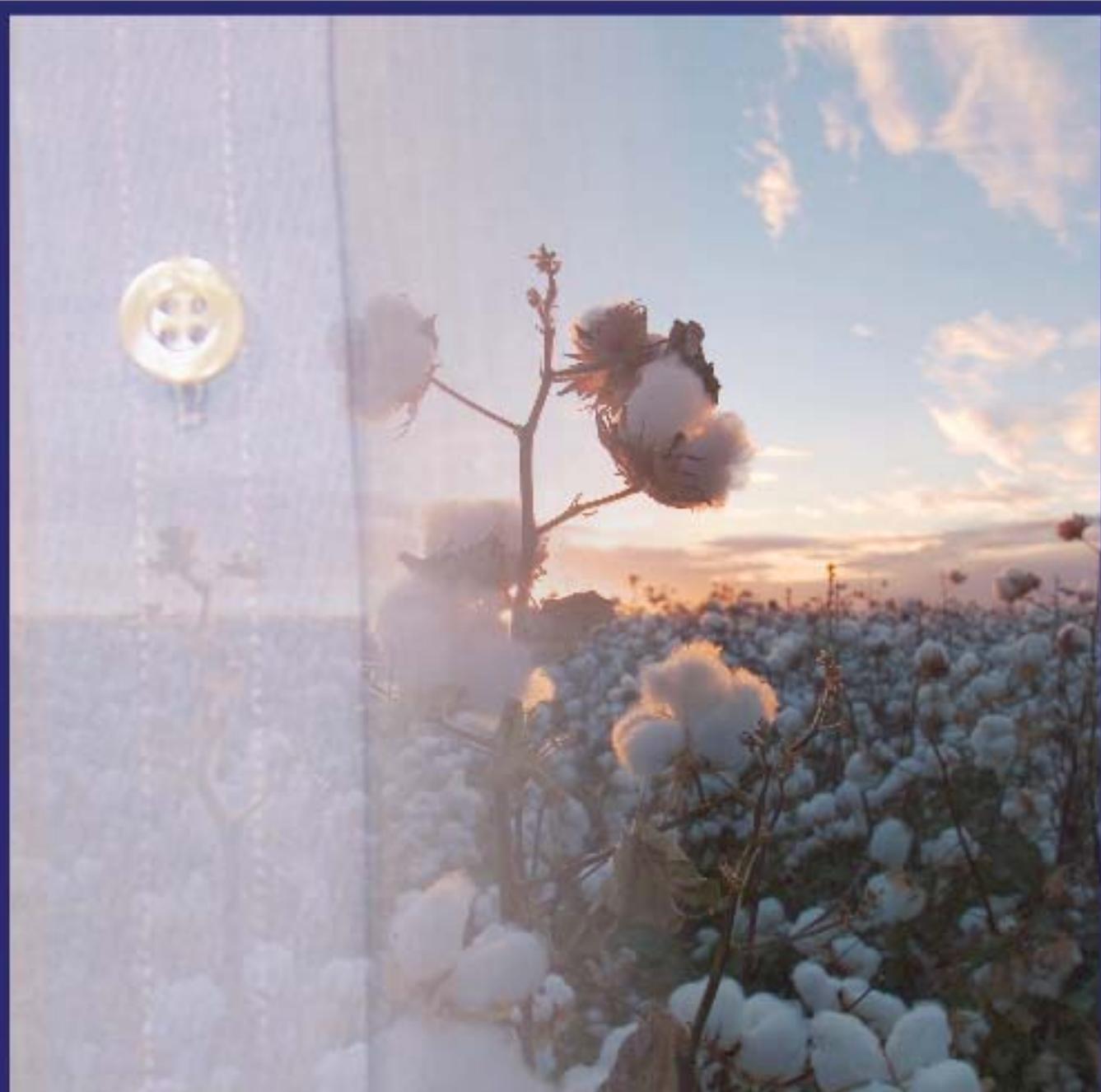
It's far too early to know what California's yield will be in 2006, given the late planting start. Growers are going to need an exceptionally warm September to finish off the Pima crop, Neeper said. Fog or rain in the fall can cripple the harvest, and lower yield and quality.

One other factor that has kept growers from planting more Pima has been ginning capacity. Pima cotton, of course, is roller-ginned, and the process is slower than saw ginning. However, in 2006, some saw gins have been converting stands to roller ginning, boosting capacity and that should allow for timely processing of the crop. It could also make even larger crops a future possibility, weather permitting.

Calcot has been marketing Pima for a half century, even before the variety was approved for SJV planting. Arizona growers, who still plant some Pima cotton, were the nation's primary ELS cotton growers in the 1950s, when that state's producers began marketing through Calcot.

That history, Neeper said, means Calcot is well versed in marketing Pima worldwide and has watched the transition of Pima customers moving from European cotton mills to the Far East, China, India, Pakistan, Japan and Korea are all now large importers of U.S. Pima and Calcot's sales team has developed deep roots with mills in those markets.

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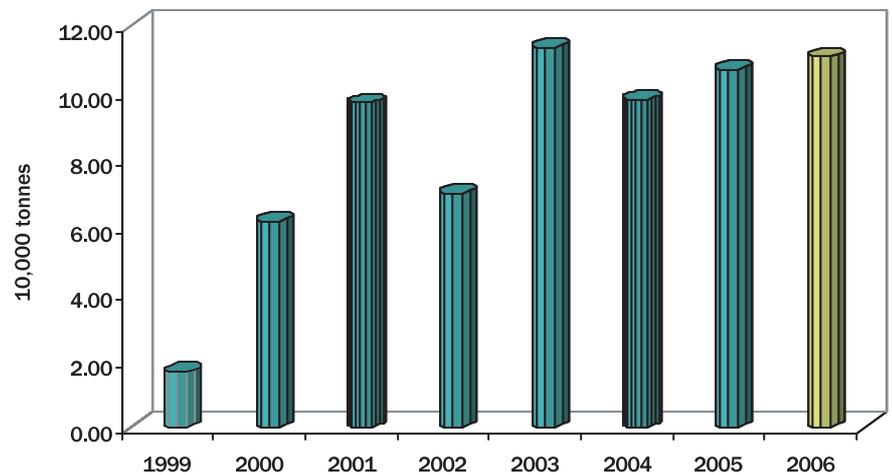
Outlook for China's long staple cotton market in 2006/07

By Ms. Liang Wenying,
Xinjiang Nongken Import and Export (Group) Ltd. Co.

Xinjiang witnessed a record total harvest in the 2005/06 season, while China's other cotton regions recorded moderate declines in production, due to the continual rainy weather experienced last August. Production in Xinjiang was above 1.9 million tonnes. Output wasn't affected in South Xinjiang, despite the unfavourable weather, but the quality was influenced seriously. The actual planted area of long staple cotton in 2005/06 was around 1.023 million mu (1 hectare = 15 mu) and a yield of 1,569.15 kg/hectare was obtained, resulting in the production of 107,000 tonnes of lint. This figure is more than our previous forecast in May 2005 (published in last year's special feature), as not all areas were accounted for at that time.

Xin Hai 14 and Xin Hai 21 have been the two major varieties sown in Xinjiang in recent years. Mills have reported that both these varieties have high strength, yield and good colour. However, the staple length proved to be below average in 2005, which, according to our research, was caused not only by the weather, but also by the use of impure cotton seed. Currently, the Xinjiang Cotton Scientific Research Institute is cultivating new varieties.

China's LS Production



According to our figures, domestic demand for long staple cotton will be above 150,000 tonnes this season. Around 40,000/50,000 tonnes will need to be imported every year, owing to the shortfall in local supply. Some 5,000 tonnes of the domestic 2005/06 crop have not been sold yet. Farmers are holding out for better prices. The unsold inventory is less than at the same time last season. Prices for long staple cotton have remained satisfactory and are not expected to decrease significantly, despite the weakness of upland cotton values in the domestic market. Type 137 originating from South Xinjiang is offered at the time of writing at around 24,250 yuan per tonne (roughly 137 US cents per lb), ex-warehouse.

China has been a net cotton importer of cotton since 2004 and exports are limited by government policy. The difficulty in exporting cotton from Xinjiang, arising from the huge price difference (around 1,500 yuan per tonne – say 8 US cents per lb) between domestic and imported cotton, will not alter greatly before 2010. However, owing to the efforts by Xinjiang Military and Construction Corp in promoting Xinjiang long staple cotton, some mills in Europe and Japan insist on using it to meet their quality requirements for their

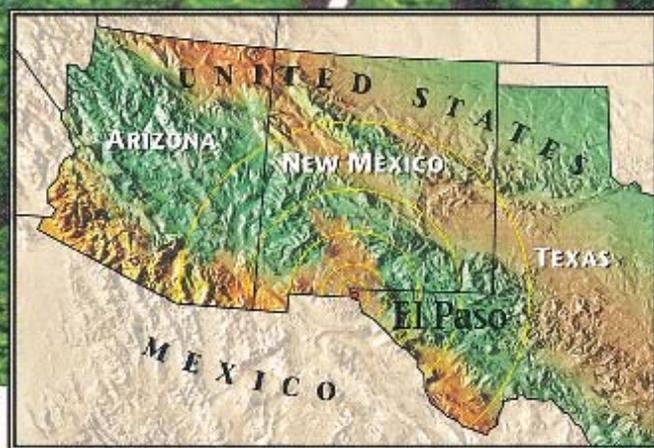
China's Long Staple Output Statistics

Year	Production & Construction Corps			Other			Total		
	Area	Yield	Output	Area	Yield	Output	Area	Yield	Output
1996							22.02	78.11	1.72
1997							58.64	52.87	3.10
1998							16.11	86.28	1.39
1999	12.10	82.00	1.10				19.38	86.17	1.67
2000	46.60	79.00	3.70				73.94	83.32	6.16
2001	57.20	104.80	6.00				101.54	95.63	9.71
2002	35.40	105.00	3.70				68.40	102.34	7.00
2003	55.50	109.01	6.05				108.50	104.61	11.35
2004	54.22	109.01	5.91				82.69	104.61	8.65
2005	51.50	109.04	5.61	50.80	100.00	5.08	102.30	104.61	10.70
2006*	53.50	109.01	5.83	52.30	100.00	5.23	105.80	104.61	11.07

*denotes forecast number Units: Area in 10,000 mu (15 mu = 1 hectare)
Yield in kilos per mu. Output in 10,000 tonnes

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branded products, which rely on highly exacting standards. All these clients keep using Xinjiang long staple cotton even if prices stay at high levels. Currently, only Xinjiang Nongken Group exports long staple cotton to these countries from China. More than 4,000 tonnes of long staple cotton will be available for exports before the new crop comes to market.

The newly-developed Xinhai 22 variety is undergoing trials in several cotton regions in north Xinjiang, such as Shihezi, Kuitun and Bole. A total of 100,000 mu has been sown for 2006/07. This is a short season variety with strong adaptability, which produces high yields. The long-held belief that long staple cotton could not be planted in the north of Xinjiang is changing.

According to our estimates, the area devoted to long staple cotton in 2006/07 will be above 1.058 million mu and production will be at least 110,700 tonnes, on the basis of a yield of 1,569.15 kg/hectare.

Demand for long staple cotton from the domestic market will keep rising and will result in increasing imports. Prices will remain at a high level and have less potential to decline.

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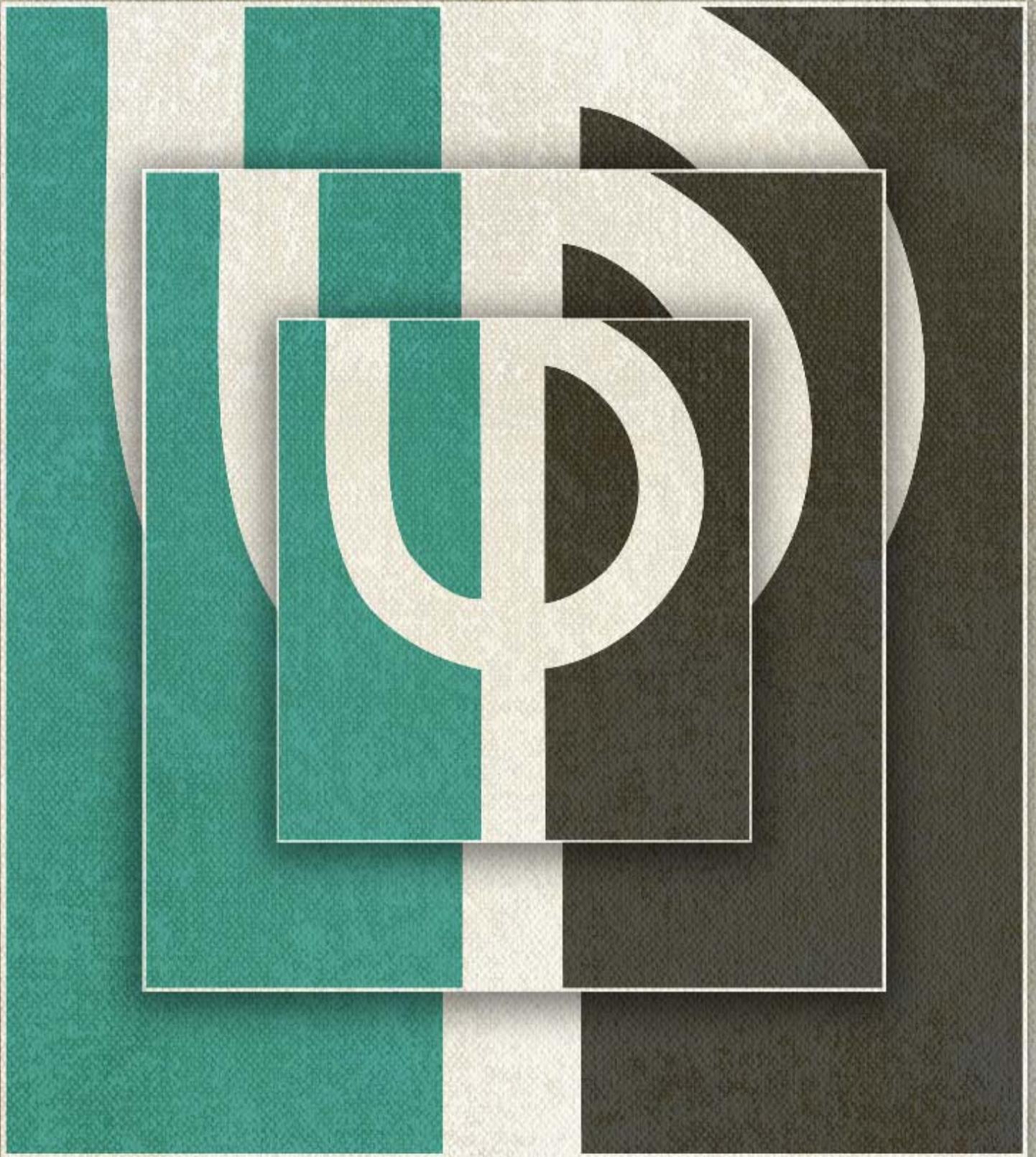
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THE COTTON ALLIANCE



ELS in India: At the crossroads of sustainability

By Mani Chinnaswamy, Managing Partner,
Appachi Cotton Company, India

Indian ELS – a brief profile

Over the past ten years, the cotton spinning industry has witnessed remarkable changes. Not only has it become more robust in terms of the volume of cotton handled, but also increasingly quality conscious. Globalisation has, for obvious reasons, forced our industry to transform itself so as to be able to function in a competitive environment. As a result, our mills produce quality yarn of international standards at globally competitive rates.

ELS Production by Variety		
(in bales of 170kg)		
Variety	2005/06	2006/07
SUVIN 37 to 38	2,500	3,000
DCH-32 34 to 36	150,000	200,000
MCU-5 32 to 33	350,000	350,000

Of all the innumerable cotton varieties that are grown in India today, only a handful fall under the extra-long staple bracket (33mm to 40 mm). They are; MCU-5 (G. hirsutum, 1968), SUVIN (G. barbadense, 1974) and DCH-32 (interspecific hybrid, 1981). All these three have been extensively cultivated in the southern states of India, namely Tamil Nadu, Karnataka and Andhra Pradesh, since their commercialisation.

Currently, MCU-5, has fallen out of favour with Indian spinning mills, as only a few thousand bales of the total crop generally tests at 33 to 34 mm in length. Almost 95% of MCU-5 that is traded in India is of 31mm to 32mm staple length. Hence, MCU-5 is more of a long staple (LS) cotton, and hardly measures up to ELS norms.

With MCU-5 out of the race, only DCH-32 and SUVIN are the two real contenders for the coveted ELS label.

Indeed, SUVIN is actually a lustrous 'Jewel' in the Indian cotton crown. It has already carved a niche in the international market and is now traded at a par with the prized Egyptian GIZA 45 and Sea Island Cotton.

The intrinsic character of SUVIN, which enables it to produce yarn beyond 120s count, is its fineness. SUVIN's Micronaire value ranges between 2.7 and 3.2, compared with Egyptian Giza 45's range of 3.0 to 3.5. In SUVIN, the number of fibres in the cross-section is generally higher, when compared to yarn of the

same count spun from Giza 45. This enables SUVIN yarn to have higher strength, better feel, good lustre and enhanced texture.

Some of the leading textile mills in India are currently spinning 170s Ne (32 fibres in cross-section at 2.8 mic) to 220s Ne (24 fibres in cross-section at 2.8 mic) out of SUVIN. With the advent of Compact Spinning, SUVIN can produce yarn of up to 240s Ne.

Suvine Singed Yarn Specifications			
	Suvine 2/120s	Suvine 2/140s	Suvine 2/170s
R.Km on TensoJet	32	31	30
Hairiness (UT4)	1.8	1.8	1.7
Imperfection (UT4)	<50	<55	< 80
Classmate Fault (Classmate3)	<45	<60	< 80
Elongation on Tensojet	4.0 to 4.3	3.6 to 3.8	4.0 to 4.2
Number of fiber in cross-section @ 2.8 micronaire	44	38	31

As shown above, SUVIN is a class apart. It would be unjust to club SUVIN with DCH-32, as its technical parameters, both expressed by the fibre and resultant yarn, are far superior to DCH-32 in particular and world ELS cottons in general.

Now, that leaves DCH-32, as the one and only alternative, affordable, domestic ELS option for Indian spinning mills. However, DCH-32 has fallen out of favour somewhat with domestic consumers, who have increasingly installed improved spinning technology which is oriented towards speed / productivity. With its lower Micronaire value and weaker bundle strength, DCH-32 is fast losing its patronage amongst Indian

Characteristics of Indian ELS Varieties					
Growth	Length -2.50%	Uniformity %	Strength (g/tex)	Elongation	Micronaire
SUVIN	37 to 38 mm	47 to 48 %	32 to 34	6.0 to 7.0	2.7 to 3.2
GIZA 45	35 to 36mm	47 to 48%	32 to 33	6.0 to 7.0	3.0 to 3.5
PIMA	34 to 35mm	47 to 48%	32 to 33	6.0 to 7.0	4.0 to 4.5
DCH-32	34 to 36mm	44 to 45%	27 to 29	6.0 to 7.0	2.8 to 3.3
GIZA - 77	34 to 35mm	48 to 49%	31 to 32	6.0 to 6.5	3.5 to 4.0
GIZA - 86	32 to 33mm	47 to 48 %	31 to 32	6.0 to 6.5	3.5 to 4.0
MCU-5	32 to 33mm	44 to 46%	24 to 26	5.0 to 6.0	3.0 to 3.5

* Based on International Calibration Cotton Mode Testing

fine yarn producers. DCH-32 is now more of a blending substitute for the yarn exporting mills. Of the 900,000 ELS bales (170 kgs) consumed by Indian mills in 2005/06, almost 80% was imported. The chief ELS imports into India are of US Pima, Egyptian Giza 70, Giza 86 and Giza 88.

DCH-32 production has been steadily declining over the past decade. From 300,000 bales in 1996, production has now dropped to a mere 150,000 bales in 2006. Indian ELS consumers are concerned about a growing shortfall in supply, as domestic offtake of ELS fibres is forecast to rise to 1.1 million bales by 2010.

Of late, there has been a plethora of alternative seed releases from private seed producers (Bt and non-Bt) with claims that their cotton hybrid is superior to that of DCH-32. One has to wait and watch for 3 - 4 years at least to know if these new hybrids can sustain their promised parameters for long. Furthermore, India's spinning industry is yet to come to terms with the abnormally high Micronaire readings obtained from Bt cotton hybrids.

It is a tragedy that the country that introduced cotton to human civilisation now finds itself dependent on imports for the survival of its industry. How long can Indian ELS spinners run on borrowed legs? Is it a sustainable business model for them? What is in store for our spinning mills? How much impact will soaring oil prices have on imported raw material?

The reality on the ground

In spite of the considerable efforts directed to improving ELS cultivation in India, most work has focused on the development and introduction of better genetic materials, rather than improving actual production practices.

Fluctuating output and un-remunerative prices have conspired to diminish farmers' financial and social status. An inability to repay loans has resulted in their becoming ineligible for cheaper institutional credit, forcing many to depend on private moneylenders and/or input suppliers for raising finances to fund crops. Borrowings are often at

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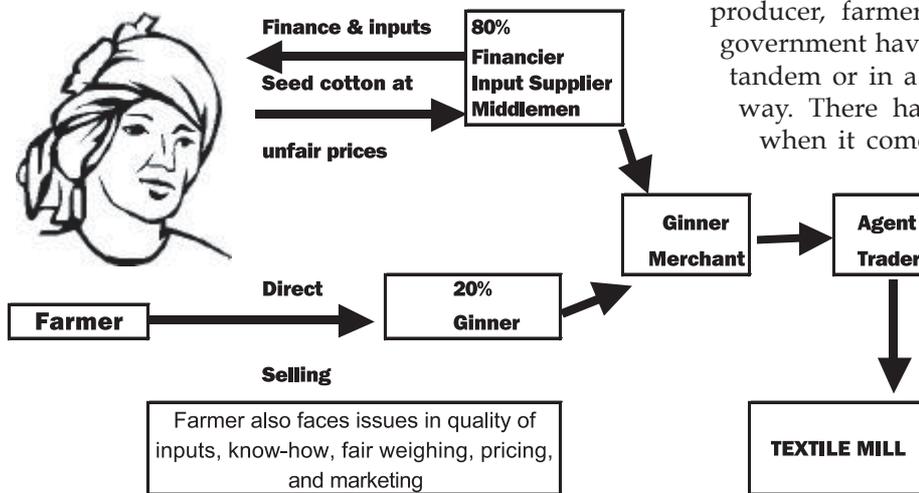
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usurious rates of interest - anything between 24 and 36 percent per annum. The situation is further aggravated by a lack of pragmatic crop insurance coverage and interference from middlemen, who really push farmers over the edge. Rising cotton farmer suicides are a testimony to this reality on the ground.

Here are some of the technical deficiencies faced by Indian ELS production:

- The prevalence of small and fragmented land holdings
- Declining soil fertility due to unscientific application of soil nutrients

The cotton value chain today



Appachi CARE Foundation

- Inadequate plant nutrition resulting in poor fibre length, strength and Micronaire
- Low productivity even on irrigated land due to unscientific methods of water management
- Suspect or sub-standard quality of seeds, fertilisers and pesticides
- Low technology assimilation by cotton farmers
- Ineffective crop extension support services

In today's liberalised world economy, Indian ELS farmers cannot survive as individual entities growing cotton at their will. With burgeoning imports of highly-subsidised, low-priced goods, the domestic farmer has to brace himself to face the challenge of international competition. Unfortunately, the Indian farmer is not yet adequately equipped to cope with such external competition. With a greater number of American farmers opting to grow ELS this season (weather permitting), it seems inevitable that more Indian mills will cover their needs with imports to cover the shortfall in domestic supply.

Hence, there is an urgent need for an integrated approach to assist Indian ELS cotton growers, particularly the small and marginal landholders, to overcome all emerging challenges. There is a pressing need for organised and sustained efforts to strengthen ELS cultivation, coupled with a forward integration strategy that ensures permanent linkages with the consumer - the textile industry.

The way forward

Indian ELS spinners have now awakened, although a wee bit late, to the fact that unless they take charge of the situation, nothing

much will improve on the domestic ELS front. The seed producer, farmer, ginner, spinning industry and the government have, all these years, been working not in tandem or in a concerted fashion, but in an isolated way. There has been no coordination of any sort, when it comes to what is needed by the industry and what is actually grown. This needs to change, and change urgently. We have to adopt a holistic approach to ELS cultivation.

To overcome existing hurdles and ensure a steady supply of ELS cotton of the requisite quality, my company, the Appachi Cotton Co., initiated a modest beginning in 2002. We introduced a model called the APPACHI FORMULA

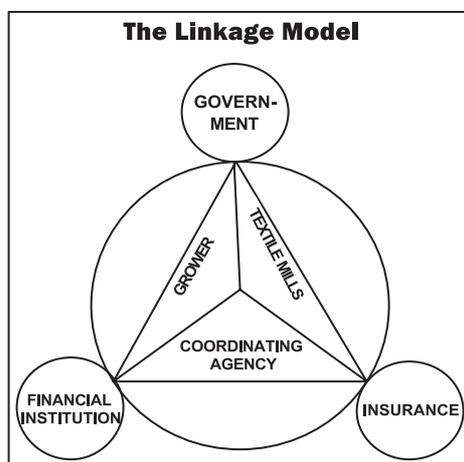
for Integrated Cotton Contract Farming. The model aims to promote sustainable agriculture by consolidating farmlands and providing small and marginal farmers with the resources, technologies and finances to improve yields. The model helps the farmers to grow the desired quality of cotton as per the needs of the textile mill. In this model the ginner / spinner takes up the role of a Coordinating Agency (CA), and acts as a bridge between the farmers, the input suppliers, insurance companies, financial institutions, ginners and the textile mills.

The CA adopts a market-based approach, wherein farmers are induced to cultivate cotton as per the requirements of textile mills, sell their harvested produce through assured marketing tie-ups and enjoy sustained profits. This results in a win-win situation for all stakeholders, as farmers are assured profits, the consuming mills' requirements are satisfied and growers are availed of the services of banks and insurance sectors with minimal risk.

The APPACHI FORMULA envisages integrating the grower, textile mills, Coordinating Agency, government, financial institutions and insurance companies to form a formidable alliance to overcome

all the hurdles and stay ahead of the competition. The programme is all about linking up the individual stakeholders in the value chain to create a team of mutually benefiting performers. Each player is assured of his characteristic identity, his individual freedom and his rights.

The pioneering nature of the APPACHI FORMULA has won accolades from the government and has been adopted by government and private agencies for replication in other parts of the country. We believe that "together we shall survive, flourish and face the world with confidence".



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Creating Value Is Our Business



Prospects for Sudan extra-fine cotton under the Gezira & Managil Scheme's New Act

By Fatma Abdalla Shoke, Director of Research and Planning Administration, The Sudan Cotton Company

Introduction

At present, Sudan is the world's third largest exporter of extra-long staple (ELS) cotton and the fifth largest producer.

This is one of the biggest irrigation systems in the world and one which, over time (before the recently applied reform programmes), became one of the least efficient. Operating at a low level of technical and economic efficiency, total output from the scheme went into a continuous decline. The downward trend was compounded by other factors, like the introduction of medium staple cotton varieties and increased competition for land from food crops.

World Exports & Supply of ELS Cotton (2005 Estimates in 000s tonnes)		
Country	Exports	Supply
Egypt	110	202
U S A	125	137
Sudan	44	40
India	0	80
China	10	80
Others	39	59
Total	328	598

Based on ICAC data

In fact, during the 1960s and 1970s, the country's position was much stronger. Sudan was producing around 150,000 tonnes annually, which was more than 25% of the world's ELS output. Most of that cotton was produced in the Gezira & Managil irrigation scheme, where cotton growing had started in 1925 on an area of 2.1 million feddans (882,000 hectares).

Sudan ELS Cotton Production	
Year	(000s tonnes)
1960	100
1970	180
1980	63
1990	16
2000	13
2004	48

Main Reasons For The Deterioration Of The Scheme And Reform Efforts

The deterioration of the scheme was attributed mainly to factors like the lack of finance available, deficiencies in infrastructure, institutional weaknesses, uneconomic production and some social issues.

However, the Gezira and Managil scheme has the potential to be economically viable and therefore its deterioration has awakened government concerns. Over the last five years, the government has taken a number of steps aimed at addressing the problems identified above. The latest of those included the

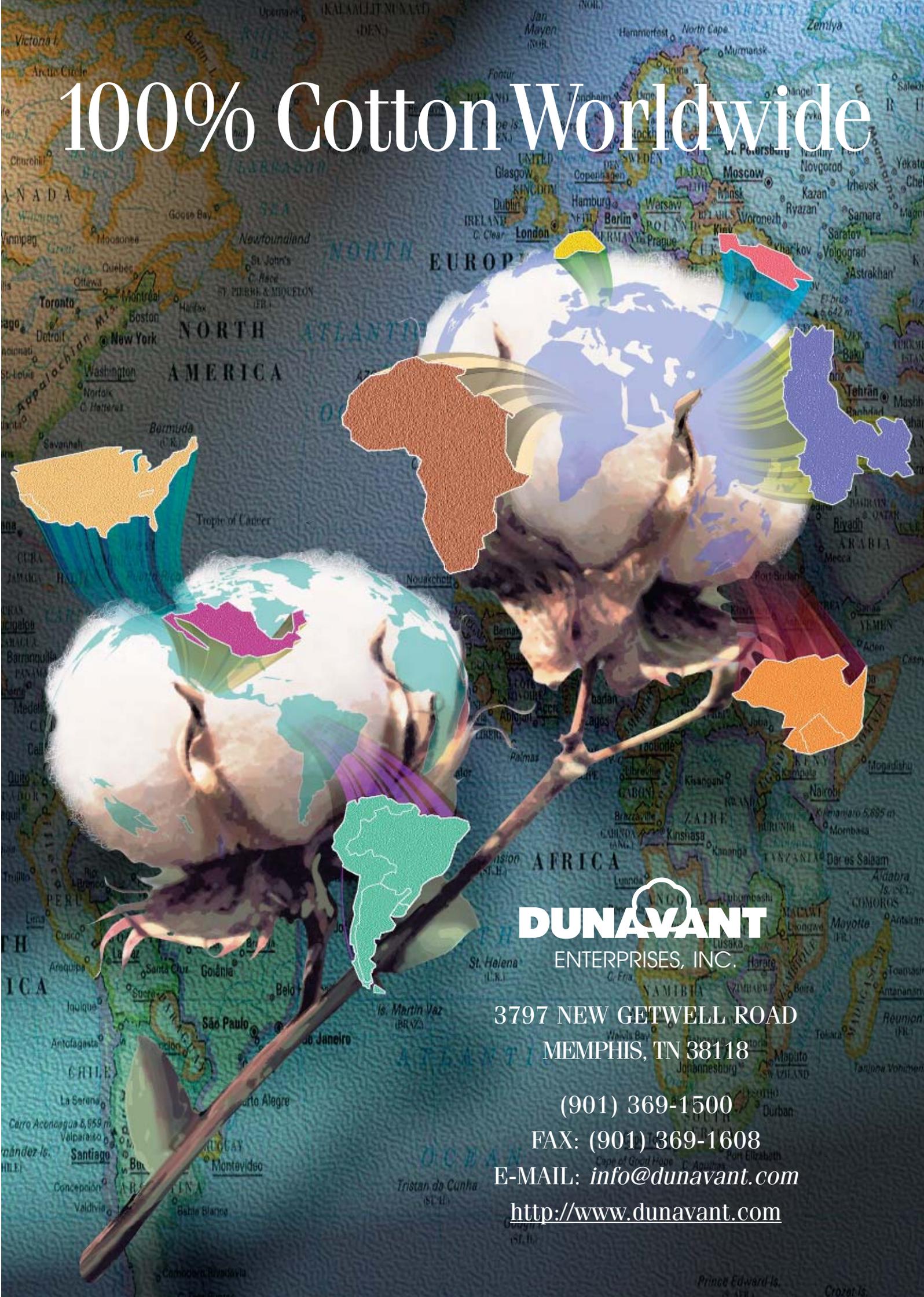
formation of a high-level committee, appointed by the president, to review the scheme's problems. This was followed by a request to the World Bank to give technical assistance to identify the most effective strategy for the sustainable development of the scheme.

The World Bank's mission report and the national committee's recommendations agreed that there is an urgent need to address land tenure issues, cropping patterns, credit issues, water management and social issues. Also, both recognised that if the major recommended reforms are introduced, the productivity of the scheme could improve dramatically and that this would not only increase the income of tenants, but would have a positive impact over the whole country. Reports evaluating the basic issues recommended the issuance of new laws for the scheme. Enactment and application of those new laws have taken place, and the Gezira and Managil New Act is now in force, as from the 2005/06 season.

The Objectives Of The Gezira And Managil Scheme And The Principal Changes Under The New Act

The main objective of the scheme is to make the best use of its resources and to achieve the sustainable development goal. This can be reached through the implementation of the following changes:

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1. Freedom of choice for farmers to grow any crop they like within the constraints of technology and the need for efficient use of resources.

2. Encouragement and support for the private sector to play a key role in the provision of agricultural inputs and in providing other agricultural support, including post-harvest services.

3. Transferring irrigation management to water users' associations to ensure efficient distribution.

4. The enactment of tenants' right to own land.

A different role for the government is also envisaged, along the following lines:

1. The government's responsibility will be confined to the administration of the major irrigation networks, funding of agricultural research programmes

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and provision of extension services. All other agricultural services, like ginning, agricultural engineering operations and light railway are in the process of being privatised.

2. Adoption of cash-on-delivery system. The SCCL (or any other marketing company) must pay the value of cotton once it has been delivered to the gins, regardless of any other factors pertaining to export proceeds. This system started with this season's seed cotton deliveries.

It is clear that attention has been focused on resources, the improvement of crop structure and of farmers' quality of life.

The impact of the new Gezira and Managil Act on ELS production

The new act is aimed at complete liberalisation of cotton production and trade in Sudan. Farmers are given the right to grow the crop which they think will fetch the best return from their investment (both money and labour). ELS cotton, in view of current price comparisons, appears the unbeatable choice. It is safe to predict a continuation in the current upward trend in ELS production. Now that farmers are paid upon delivery of seed cotton to the gin (as opposed to when the processed lint is sold to an end-user), ownership of that cotton, prior to processing, passes on to those that will eventually sell lint to the international market. The SCCL now owns two ginning factories and hires others for use and is therefore able to bring its marketing experience to bear on the ginning process to create a product geared to the end-users requirements. So the application of the Gezira and Managil Act is expected to induce both quantitative and qualitative improvements in ELS production in the immediate and long-term future.

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Central Asian long staple output – prospects for recovery

By Galina Fisher, CIS Editor, Cotlook Ltd

The 2005/06 season

Our initial forecast for the region as a whole, which was published in last year's edition of the Long Staple Special Feature, was around 51,000 tonnes. However, as the season progressed, it became clear that the actual production level that could be achieved was much lower, and our current figure stands at around 30,000 tonnes.

For several seasons before 2005/06, Turkmenistan achieved the highest level of long staple production in the region - average output over the five preceding seasons was around 25,000 tonnes. In 2005/06, this figure was more than halved, to between 10,000 and 12,000 tonnes, owing to a combination of factors, including adverse weather at planting time, shortages of inputs, and a much-reduced planted area in the province of Mary. In that region, the Ministry of Textiles, obliged from 2005/06 to produce raw cotton to meet some of the domestic industry's requirements, devoted a large proportion of the land formerly cultivated with long staple varieties to upland strains. In Tajikistan, our initial 2005/06 forecast of 10,000 tonnes has been lowered to 8,000. In Khotlon, the largest producing province for long staple varieties, adverse weather conditions at planting time took their toll. Although land was initially sown to long staple varieties, much of it was subsequently replanted with

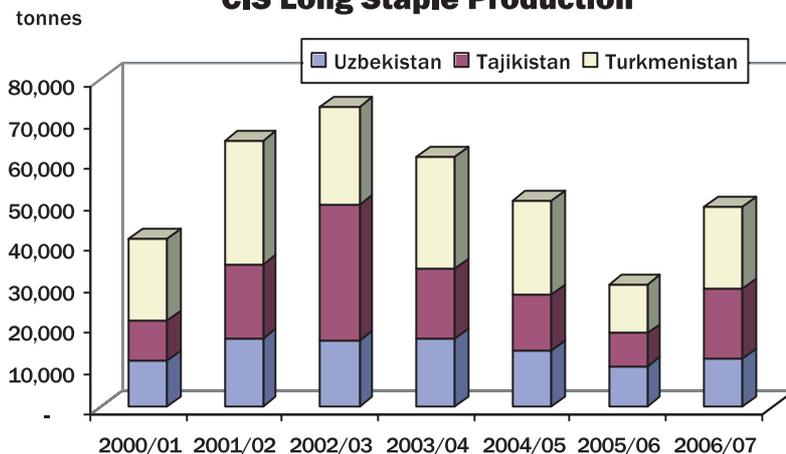
upland styles, which have a shorter growing season. As in Turkmenistan, shortages of chemicals and fertilisers proved detrimental to yields and ginning outturn was low in some mills. The area actually sown last year in Uzbekistan probably reached some 14,000/15,000 hectares, comprising some 10,000 hectares in Surkhandar province, under a traditional variety, Termez-31, and about 4,000 hectares elsewhere under newly-developed breeds. The second traditional variety - Karshi-8 - has been withdrawn from commercial production. Our estimate of lint outturn has been reduced to between 10,000 and 11,000 tonnes.

Initial forecasts for 2006/07

Very little improvement, if any, can be expected in terms of yield next season. Research and development of new and improved varieties is practically absent in Turkmenistan and Tajikistan, and such work appears to be more focused on upland varieties in Uzbekistan. In addition, improvements seem unlikely in the ginning process (no reports have been forthcoming of new investment). Nonetheless, our estimates suggest that more land has been devoted to long staple varieties for 2006/07. Moreover, the production outlook has been boosted by this year's favourable springtime weather, which has facilitated timely planting with virtually no requirement for re-sowing.

In Turkmenistan, plantings to long staples are expected to be higher, particularly in Akhal province and to a lesser extent in Mary, and therefore total area could amount to some 45,000 hectares. However, a question mark remains over yield potential (Akhal is thought likely to produce poorer results than Mary), particularly as fertiliser supplies are once again probably insufficient. Prospective output could nevertheless recover to between 18,000 and 20,000 tonnes. Likewise in Tajikistan, output could be restored to the level of two seasons ago, at around 16,000/17,000 tonnes. Official indications are that some 35,000 hectares have been sown. Furthermore, farmers are better motivated to pay attention to long

CIS Long Staple Production



staple varieties, in view of the high level of prices ruling in the international market. However, input shortages and the poor condition of some ginning facilities (particularly in Khotlon) seem likely to persist. In Uzbekistan, planting has been completed on around 18,000 hectares – which is in line with the official planting intention decreed by the government. The Termez-31 variety is reported to be sown on about 14,000 hectares in Surkhandar and new strains on an additional 4,000 hectares elsewhere. Weather conditions have been good and replanting has not proved necessary. Our initial production forecast is 12,000 tonnes.

At this stage, therefore, aggregate production of long staple varieties in the three countries is forecast at between 46,000 and 49,000 tonnes, which would represent an increase of between 53 and 63 percent compared with 2005/06.

Marketing

Long staple cotton produced in Uzbekistan and Tajikistan is exported, since the local industries use only upland varieties. In Turkmenistan, some internal consumption is noted, but the bulk is exported. Most consuming markets are nowadays in the Far East and very little is shipped to Europe. The cotton is particularly used in blends with other long staple varieties, as a

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means of lowering the average yarn production cost.

As a result of the reduced output in 2005/06, delayed marketing operations at some origins and a concentration of the cottons in the hands of a few international traders, transparency in international price levels has proved elusive. It remains to be seen whether the recovery foreseen in production levels will change this situation during 2006/07.



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Pima in Israel

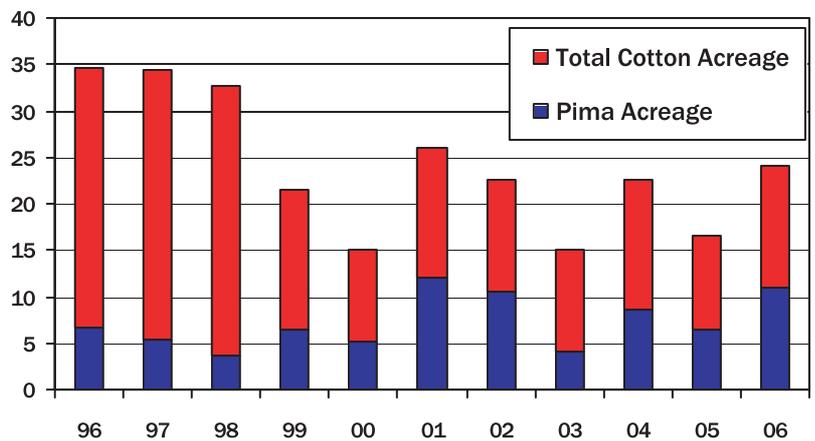
By Menahem Yogeve, Israeli Cotton Board

In recent years, we have witnessed a widening gap in prices for upland cotton and those for long staples. While prices for upland descriptions have remained low, prices for long staples and extra-long staples have steadily increased to a level that encourages Israeli growers to change their traditional attitude to Pima cultivation, and therefore the proportion of land devoted to Pima is rising.

At the same time, the quality characteristics of Israeli Pima have significantly improved, as a result of breeding new local varieties that consistently give staple length of 1.7/16", strength within a range of 38-40 GPT, Micronaire of 3.8-4.2 and lower neps. In addition, these new varieties require a shorter season and they are less sensitive to leaf diseases.

These qualities, together with high returns, make Pima more attractive to the Israeli farmer, who looks at alternative growths prior to his decision regarding cotton planting.

**Cotton Area in Israel
(000's ha)**



Classing results show that most of the crop is grade 2 (based on the USDA standard), with 95% attaining grade 3 and better.

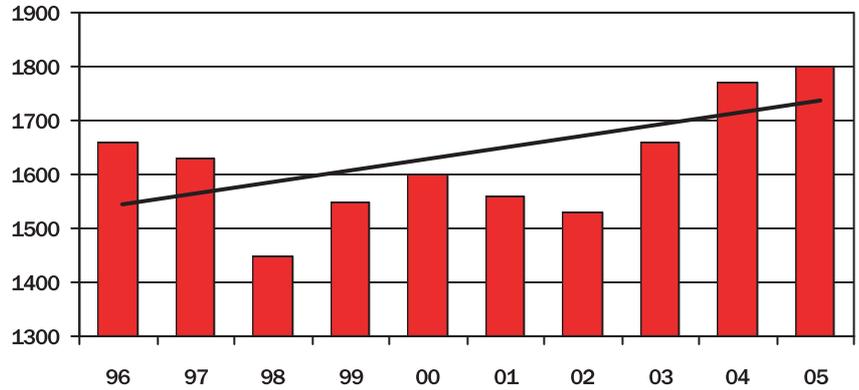


Lint is HVI classed and marketed, according to quality specifications, via international traders. HVI data is available upon request. Each and every bale is tested for stickiness using Lintronics FiberLab. This procedure has been conducted for many years and Israeli cotton is considered non-sticky.

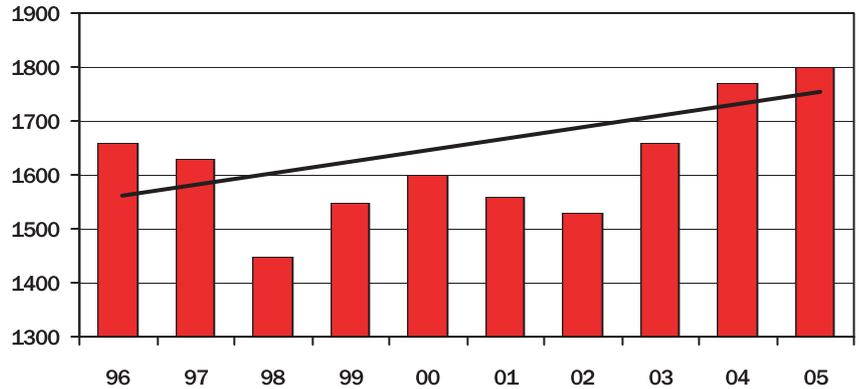
Israel, despite being relatively small in area, has several growing regions, each with different geo-climatic conditions. The agricultural extension service is responsible for adapting agronomic techniques to each area, so as to create the right conditions for maximum quality and yield. All cotton is mechanically picked and long-staple cotton is roller ginned. There are roller gins throughout the country, so the distance from the field to the gin does not influence the quality of the fibre from region-to-region.

Israel's cotton is exported, via the international trade, to European markets and also to the Far East and South America.

Pima Yield in Israel (Kg/Ha)



Pima Yield in Israel (Kg/Ha)



Future breeding programs will be directed towards achieving the following targets:

- Development of local varieties adapted to each region.
- Development of superior varieties with short growing seasons, without reducing yields (such varieties are already in advanced stages of testing).
- Improving several fibre quality characteristics.

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Interspecific Hybrid Cotton Hazera™ – The dream that became real

By Alejandro D. Szechtman, Leader, Cotton
Breeding Team, Hazera Genetics Ltd.

For years and years, two main cultivated cotton species have been grown worldwide: *Gossypium hirsutum* and *Gossypium barbadense*.

Varieties from each species have their relative advantages and disadvantages. While one species may offer a higher yield to the grower, it may be lacking in the fibre quality it produces. The other species offers a high quality fibre to the textile industry, but it provides the grower with less than satisfactory yield.

The idea to develop interspecific hybrid cotton – between the two above species – is an old one. The goal of the hybrid is to combine as many as possible advantages in one variety: the early maturity, adaptability, plant strength, high yield and boll size of *hirsutum* (upland) varieties, together with the fineness and high lint quality of *barbadense* (long and extra-long staple) varieties, as well as the natural pathogen resistances of each species.

This idea was so seductive that at one time, almost all cotton breeders dreamt of developing interspecific hybrid cotton and many of them embarked on research.

The hybrid cotton breeding process can be divided into three main steps:

1. Development of parent lines.
2. Production of F1 generation.
3. Testing performance and adaptability of the hybrid.

The hybrid cotton breeding process is not only longer than that of the OP (open pollinated) varieties but is also more complicated, more difficult and more expensive. Why then breed hybrid cotton at all?

This question has at least three answers, depending on the perspective. From the grower's point of view, hybrid cotton has many agricultural advantages that, at the bottom line, are likely to increase the grower's profit. From the breeder's and seed company's perspective, hybrid

cotton offers a form of intellectual property protection inherent in the hybridisation process, thus rewarding them for the huge investment of time and resources required for research and development. From the cotton industry's perspective, the possibility of having new varieties that are more readily "growable" than Pima types, yet which produce high quality fibre, adds a new dimension to trade in cotton.

There is no doubt that breeding hybrid cotton is a challenging project. Hazera Genetics took upon itself the challenge and set the following targets as milestones:

- Combining more useful traits into one plant.
- Overcoming the negative influences of the undesirable traits which exist in the parents.
- Challenging the ability to break the link between the two opposite sets of traits.
- Using the "Heterosis effect" that maximises the expression of desirable traits in the hybrids, beyond that of their parents.



What has Hazera Genetics achieved so far?

Interspecific Hybrid Cotton Hazera™ has been commercialised for several years. The company currently markets four hybrids, which are successfully grown in Israel, California, Texas, Peru, Greece and Spain. Another new hybrid is expected to be released in 2006 and the flow of new strains is expected to continue. Interspecific Hybrid Cotton Hazera™ is currently being tested in other countries around the globe and new markets are on the way.

Hazera Genetics' Interspecific Cotton Hybrids have demonstrated outstanding growth vigour, high water-use efficiency (WUE) and high yield.

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Hazera Genetics Hybrid Cotton is the world's first cross between Acala (Hirsutum) and Pima (Barbadense). Benefiting both growers and industrialists, Hybrid Cotton has the capability to raise quality and shorten time to market.

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What is in the pipeline?

Hazera Genetics is not content just to stay with its present hybrid cotton varieties portfolio and aims to develop new improved products, for the benefit of both growers and the textile industry. In doing so, Hazera Genetics is investing considerable resources in research and development and is focusing on improving the main, much-desired traits.

The current goals are to develop hybrid cotton varieties with better yield and improved WUE, which produce even more vigorous plants. Side-by-side with the yield improvement, another major issue in Hazera Genetics' breeding program is lint quality. Hazera Genetics is working hard to improve three main lint quality characteristics:

- Strength
- Length
- Elongation





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The future Interspecific Hybrid Cotton will have strong and long fibre, at least on a par with the better ELS varieties in the market. Today, the fibre elongation of the Hazera's Interspecific Hybrid Cotton is one of the highest (if not the highest) in the cotton market, but even so there is a room to improve this fibre characteristic and as already stated we are working on this as well.

Hazera genetics is also seeking to develop breeds with the following improvements:

- Very fine, mature fibre with high strength, length and low Micronaire (2.8-3.2 ig/in).
- Storm Proof Interspecific Hybrid Cotton.
- Heat Resistance.
- Short growing period.
- Hairy leaves.
(Protection against certain sucking pests).
- None or low gossypol levels in the seeds.
- Disease and pest resistance.

Within the framework of developing new varieties of hybrid cotton, the company is working towards producing transgenic varieties. As with all pioneers, Hazera Genetics hopes that other seed companies will follow its innovation and will develop cotton hybrids for the benefit of the entire cotton industry.

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A Tradition in Service Since 1849

West Indian Sea Island Cotton (WISIC)

By Vitus Evans, Chief Executive Officer, Jamaica Agricultural Development Foundation

West Indian Sea Island Cotton (WISIC) has been a prized and precious commodity for over 300 years. Queen Victoria insisted upon it for her handkerchiefs. Ian Fleming's fictional character, James Bond, wore nothing less on his skin, Edward VIII, the late Duke of Windsor, swore by it; "I am a steady wearer of Sea Island cotton", he is quoted as saying. These paragons of style and elegance, who appreciated fine clothing, knew the superiority of West Indian Sea Island cotton.

The absence of WISIC from the fashion market for over 50 years had, however, resulted in the younger generation knowing very little about this luxurious fibre.

Officially known as *Gossypium barbadense*, WISIC is in fact a distinct strain which produces the finest, longest, strongest cotton fibre in the world and its natural sheen finish is often compared to silk and its softness to cashmere. This superior, intrinsic value ensures that WISIC occupies the highest niche in the textile market. Unfortunately, as happens so often with the finest things in life, WISIC is, and will always be, in short supply.

The fact that the cotton requires a longer growing season, only moderate temperature variations, abundant sunshine, and a prodigious amount of rainfall, limits its best growing areas to the West Indies.

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Year	Area (ha)	Lint output (lbs)*
2003	520	80,000
2004	750	120,000
2005	600	105,000
2006	800	150,000

*includes Jamaica and Barbados

Attempts to grow the centuries old cultivar in other regions have most often met with failure. It is truly one of the miracles of nature.

WISIC is also one of the few agricultural products in the region with a registered trademark. The British having registered the mark back in 1920.

Jamaica and Barbados are the only countries producing WISIC. Together, they grew approximately 800 acres for the 2006 crop.

The objective of the Jamaica Agricultural Development Foundation (JADF), in Jamaica, and the Exclusive Cotton of the Caribbean Inc (ECCI), in Barbados, is to spearhead the development of a sustainable regional Sea Island Cotton industry, through vertical integration, working with strategic partners in growing, spinning, weaving and kitting, to produce the finest quality garments.

The JADF is therefore seeking investors, technically qualified individuals and strategic partners along the value chain.

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Using long staple cotton – the experience of a Chinese spinning mill

By Du Ming, Manager, Raw Material Purchasing Department, Luthai Textile Co., Ltd.

Luthai Textile Co. Ltd. is the largest manufacturer of top grade shirt fabric, incorporating dyed yarn, in the world at present, with an annual output of 90 million metres. Our products require high quality long staple cotton. The following is a summary of our experiences in using long staple cotton during the past decade, in cooperation with Paul Reinhart, a famous international supplier of long staple fibre.

The main production regions of long staple cotton include Egypt, US (San Joaquin Valley) and Chinese Xinjiang, which supply better quality than most other growths (with the possible exception of Indian Suvin). Varieties from the above-mentioned origins have their own characteristics and therefore different applications in spinning. Unstable cotton quality has a significant impact on yarn quality. Combining spinning experiences in recent years, Luthai summarises the differences between Xinjiang long staple, US Pima and Egyptian cotton as follows:

1. Planting and harvesting

US Pima is planted and harvested by machine, while Xinjiang and Egyptian cotton is manually picked. Although machine picking saves money, it brings some negative effects, in terms of cotton neps, short-fibre content and contamination.

2. Length

Xinjiang cotton has the longest length among the three origins, averaging around 37mm. Pima ranks second with 24.5-36mm, followed by Egyptian with 34mm.

3. Strength

In contrast, Egyptian cotton has the highest strength, averaging around 42 gpt, followed by US Pima and Xinjiang cotton with 40 gpt and 37 gpt, respectively.

4. Foreign matter (contamination)

US cotton is harvested by machine and therefore typically has less contamination than Egyptian and Xinjiang cotton. Therefore, US cotton is the best selection for light colour textile products, since it avoids the necessity of picking out foreign fibres.

5. Maturity

Egyptian cotton has the best maturity, followed by US Pima and Xinjiang cotton.

6. Trash (leaf)

US cotton tends to have more leaf content, as it is machine-picked. The leaf content of Egyptian cotton

is also relatively high due to unfavorable ginning. Xinjiang has the lowest among the three.

7. Neps

US Pima has the most neps among the three varieties due to machine picking.

8. Others

Bales of US Pima vary widely in colour, since the US has a different ginning and packing process and thus creates some difficulties in classing for blending purposes. Micronaire can also be different in the same batch of cotton. In addition, it also has more breaking fibre and low uniformity. Xinjiang cotton, however, has low short-fibre content and the Egyptian cotton has a special silky lustre.

The above-mentioned indicators reflect the average characteristics of our take-up. The quality every year is different from variety to variety - cotton is after all a natural product. It's very important for spinners to purchase cotton from suppliers with a good reputation, who are aware of the quality of every block of cotton. During the past decade, the quality of US Pima has improved greatly. Other countries, such as Egypt, Peru and India, are also making efforts to improve cotton varieties and enhance quality, by researching the relationship between Micronaire, length and strength. Yarn quality will increase if spinners can better adjust their throughput, finding the ideal cotton qualities to spin the desired product. A general improvement in the quality of long staple cotton worldwide, with a focus on the conditions under which those varieties are grown, should be a primary goal for the industry.

Domestic Cotton Trade Committee

Representing Egyptian cotton and trader producers locally. Authorities are regulated by law No. 210 of 94.

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The Pima evolution: a century of development

By Marc Lewkowitz, Executive Vice President, Supima Association

The Pima story officially began in 1902 in Yuma and Sacaton, Arizona, where Dr. T. H. Kearney of the United States Department of Agriculture (USDA) and his staff worked to create the first Pima cotton cultivar. The first cultivar was called “Yuma” and was released in 1912 after ten years of acclimatization and breeding.

A confluence of domestic and international issues spurred investment in the development of this cotton. By the end of the 19th century, production difficulties were being encountered with Sea Island cotton in Georgia, South Carolina and Florida, as a result of relentless pink bollworm infestations. The average total yearly crop for Sea Island cotton between 1865 - 1912 was 55,407 bales. By 1919, production of Sea Island cotton had fallen to less than 7,000 bales. Additionally, growers had introduced Sea Island cotton to the West Indies in 1902 and within 5 - 6 years had begun to feel pressure from new competitors. Egypt had previously been a major supplier of cotton to the U.S. of fine quality cottons, supplying more than 100,000 bales per annum.

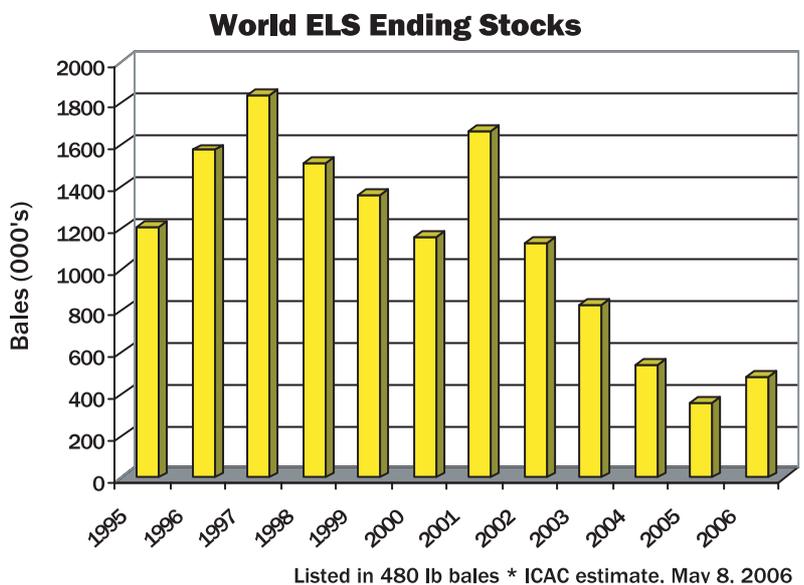
However, with the outbreak of World War I, it wasn't long (1916) before restrictions were placed on imports of cotton. Even though the U.S. produced significantly more cotton than the rest of the world, demand for finer quality cottons was increasing and the supply from domestic Sea Island cotton wasn't enough. The shortfall in supply created a dire situation for the spinning, rubber and tire industries.

The development of Pima (named after the Pima Indians) at the USDA research facility in Sacaton, Arizona, couldn't have come at a better time for the U.S. Through the mid-20th century, extensive development and breeding of Pima continued with newer and better cultivars, starting with S-1 through S-7, that produced improved fiber qualities and higher yields.

The new cultivars allowed for the increases in production and quality needed to meet the growing demand. Output is still expanding today. Early estimates for the 2006/07 crop suggested a new record of 800,000 bales could be reached, and even surpassed. It was also predicted that California could see more

Increases in yield from each Pima cultivar			
PIMA CULTIVAR	Below 1500 ft (%)	Above 2500 ft (%)	Year of cultivar release
S-2 vs. S-1	+25	+10	1960
S-4 vs. S-3	+17	0	1966
S-5 vs. S-4	+17	+12	1975
S-6 vs. S-5	+12	+15	1983
S-7 vs. S-6	+10	-4	1991

American Pima planted than upland cotton for the first time. However, a cool and wet spring has prevailed in 2006 and, as a result, the area sown in California will not reach early predictions. The future

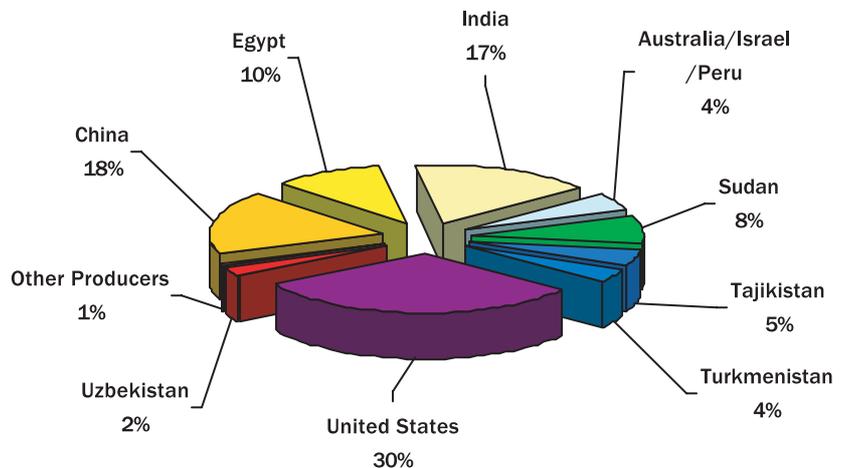


Listed in 480 lb bales * ICAC estimate. May 8. 2006

outlook though continues to be positive, with expectations that production will continue to grow.

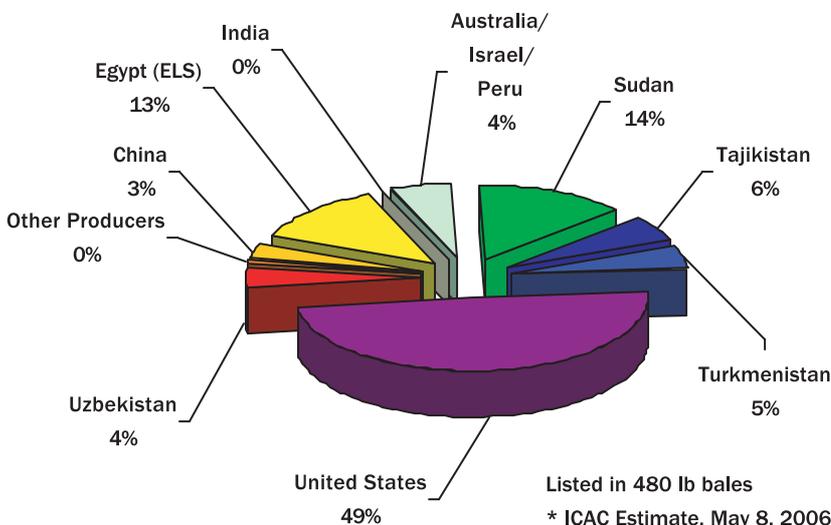
Extra-long staple cottons now find their way into an ever-growing array of products, covering the complete spectrum of apparel and home textile items. Virtually any cotton product can be enhanced by ELS growths, taking advantage of their superior fiber characteristics. The resultant increase in ELS consumption has not been matched of late by increases in production. Since 1997, worldwide ELS and LS ending stocks have declined from just over 1.8 million bales (480 lbs), down to almost 400,000 bales. Moreover, demand for higher quality textile products is

World ELS Production in 2006/07 (2.522 Million Bales)



Listed in 480 lb bales * ICAC Estimate, May 8, 2006

World ELS Exports in 2006/07



Listed in 480 lb bales * ICAC Estimate, May 8, 2006

30% of the total worldwide. Industry forecasts in the U.S. anticipate that production will grow over the next few years, as Pima will be one of the few west coast row crops that can provide a level of profitability against rising costs.

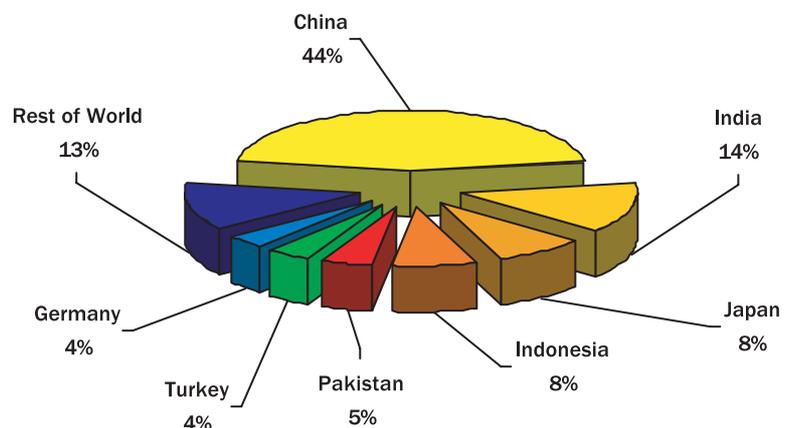
American Pima exports hit a record 767,900 bales during 2004/05. Export sales in 2005/06 stand at 526,800 bales as of May 11, 2006, the third highest level on record. More important is the shift in the geographical orientation of export sales that have been experienced during this crop year.

China is now the largest importer of American Pima, with current purchase commitments of 237,100 bales. Last year's largest importer was Pakistan at 182,600

expected to increase even further in the future and, therefore, world production will need to expand significantly.

The International Cotton Advisory Committee's (ICAC) May forecasts suggest worldwide ELS production (excluding Egyptian long staple output) to be about 2.5 million bales, including a record crop production forecast for the U.S. Although the ICAC currently foresees a slight rise in beginning stocks for 2006/07. However, if there are any shortfalls in production, that trend could be quickly reversed, leaving beginning stocks at an exceptionally low level. About 90% of American Pima production is exported, and those shipments account for around 50% of the world trade in ELS cottons. The U.S. is also the single largest ELS producing nation, accounting for about

Key Supima Raw Fiber Consuming Markets 2005/06



Listed in 480 lb bales * USDA Estimate, May 4, 2006

bales, but this year that country has only purchased some 23,800 bales. Not only is China the world's largest consumer of upland cotton, it is equally expanding its offtake of finer cottons as well. Its solid foothold in the textile industry means that many of the world's top brands and designers are seeking to source their products in China. Moreover, it is also the most populous nation in the world with an economy that grew over 10% in the first quarter of 2006 alone and therefore can anticipate tremendous growth in local demand. Offtake of quality and luxury goods will doubtless benefit and sales of both foreign and local brands should increase.

Today, the name Pima is a 'generic premium ingredient identity' used around the world to refer to Extra Long Staple (ELS) cotton that originated in the United States in the early 20th century. The value of the Pima name in product labeling is not surprising, considering that it has become a cornerstone luxury ingredient, identified with better quality products.

Supima was first charged with promoting American Pima back in 1954. The organization carries on that mandate today, through extensive advertising campaigns geared toward building broad consumer

and trade awareness of the benefits of American Pima, and differentiating the cotton from other growths. Only goods marketed under the Supima brand, by a licensee, are capable of providing the consumer the knowledge that the cotton contained in their purchase is American Pima.

Over the last century, the American Pima industry has been engaged in a productive effort to create and supply a consistently high quality product. That principle has not changed at all since the start. As the cotton industry faces new and different kinds of change and/or adversity, opportunities for Pima cotton continue to emerge. Brand designers and retailers recognize that the Supima and Pima labels are ways to differentiate and improve the quality and durability of their products. Supima and Pima cottons are playing an expanding role in luxury products such as knit tops and T-shirts. Moreover, they have also been well received in the denim market. The ability of ELS fibers to withstand the tortures applied to fabrics today, along with Supima's recognized additional characteristics of consistent quality, a soft, smooth hand, a lustrous finish and brilliant colors make Supima the ingredient of choice.

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Investing in textiles? Egypt, now !!

By Ahmed K. Elbosaty, General Manager, Modern Nile Cotton Company

Cotton Outlook's publications are always of the utmost importance to all of us in the cotton industry. So, it is a great pleasure and honour for me to contribute, for the first time, to the Long Staple Special Feature. Following in the footsteps of a great leader, Amin Abaza, who recently left the cotton industry to serve his country, I will also deviate from the specific subject of ELS market to tackle broader issues, namely investment, textiles and Egypt.

There are some very obvious reasons why these three issues are closely associated. Egypt holds a number of attractive characteristics for any investor, such as low cost utilities, a variety of modern ports (or ports that are being modernised), a central location, bridging Asian, European and African markets, and a 'merciful' taxation system.

In the middle of 2004, a new, young cabinet came to power. On December 31st, 2005, the government was reshuffled again and additional key, successful autocrats were invited to join the 'dream team'. The agenda is clear - real economic reform and providing Egypt with the 'face lift' it has long deserved. The past two years have witnessed more changes than during the entire preceding 20 years. The purpose; to create a competitive environment. You name it; the regulatory environment, the banking sector, customs, taxation, investment authorities, education, trade relations, everything is being addressed and quickly.

Within the first 6 months of the formation of the new cabinet, custom duties on a majority of consumer and industrial goods were cut in half or completely waived. Moreover, income taxes on businesses were brought down from around 40%, to no more than 20%. Even sectors that were the long-time monopoly of the government (such as the petroleum sector) are now in the process of being privatised.

In such an environment, the textile industry in Egypt could be highly competitive. The industry currently contributes about 30% to total exports, it hires over one million people and could host some of the most sophisticated factories in the world, instead of outdated existing ones. In addition, the industry could stand to benefit from access to more than 70 million domestic consumers, who are beginning to feel the salutary impact of a new, liberalised market.

Aside from the foregoing more general points, the textile sector holds even more opportunities for foreign investors.

First of all, there is cost effective and timely access to the fabulous local cotton fibre. Privatised in the mid-1990s, the raw cotton sector has developed gradually over the past decade and has gradually regained its share of world trade in long and extra-long staples (LS and ELS). Initially, many private cotton trading companies disappeared because of their inability to fight their way through years of struggle, chaos, trial and error, but now the sector has matured. Contamination has been reduced dramatically and pricing is left entirely to market forces, both of which were issues that were previously hindering growth.

The perfect raw material for a variety of high-end products, Egyptian cotton is very popular with manufacturers of quality home textiles and fine apparel. The readily available supply of cotton to local spinning mills provides savings on transportation costs, storage and finance, and also reduces production cycles, which is especially important in view of the global trend in

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textile and clothing manufacturing towards smaller quantities and shorter lead times.

Secondly, Egyptian labour wages rank among the lowest in the world, even lower than those in China. For example, sewing machine operators' wages average US\$ 70 compared to US\$120 in China and US\$400 in Turkey. In labour intensive industry, such an advantage translates into significant savings for investors. Furthermore, with 50% of the population below the age of 25, that advantage is here to stay.

Thirdly, due to a variety of trade agreements, Egyptian products have preferential access to a number of major markets, including the US and European Union. The Qualified Industrial Zones (QIZ) protocol, which allows Egyptian products that include 11.7% of components manufactured in Israel duty-free entry into US markets, is expected to attract a large number of investors from textile manufacturing countries, especially those that are already actively supplying the US market. Additionally, the Arab Trade Agreement stipulates that Egyptian products gain duty-free access to all Arab countries. The agreement also allows unfettered imports of Syrian yarns and cottons, which are proving to be more and more competitive for coarser-count yarn and fabrics. The COMESA agreement promotes free trade between Egypt and all East African countries and in the pipeline today is a similar bilateral agreement with Turkey.

Fourth, the Egyptian textile industry is fully integrated, from the production of raw cotton all the way through to the finished product, including a variety of accessories. Investments from Turkey, Europe and South East Asia are pouring in to the domestic spinning, weaving, knitting and processing sectors, adding very large capacities in the earlier stages of the supply chain.

Having the entire supply chain located in the same place - for obvious reasons - saves time, cost and limits risk as well as enhancing flexibility. Egypt is only 4 days away from Europe by boat, even

closer to most Arab countries, is 2-3 weeks away from the US and China and closer to parts of South East Asia.

While, most investors, manufacturers, traders and retailers have given Egypt a look at one point or another, the Egypt they once knew is not the same Egypt blossoming today. The old state-driven textile sector is disappearing and a new fabulous modern industry is growing.

That is why the three words are linked; investment, textiles, and Egypt, and that link is relevant NOW.

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