Cotton Outlook

August 2022

World Long Staple Market

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Published by : Cotlook Limited, PO Box 111, Liverpool, L19 2WQ, United Kingdom.
Tel : 44 (151) 644 6400
E-Mail : editor@cotlook.com World Wide Web : www.cotlook.com

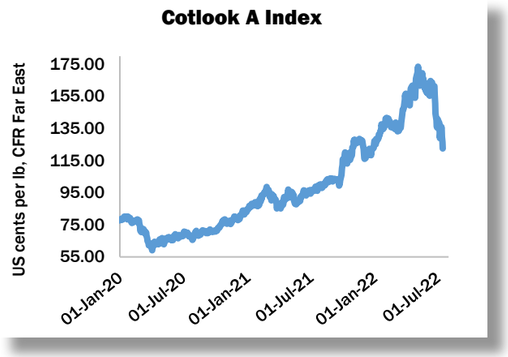
Long staple cotton in 2021/22

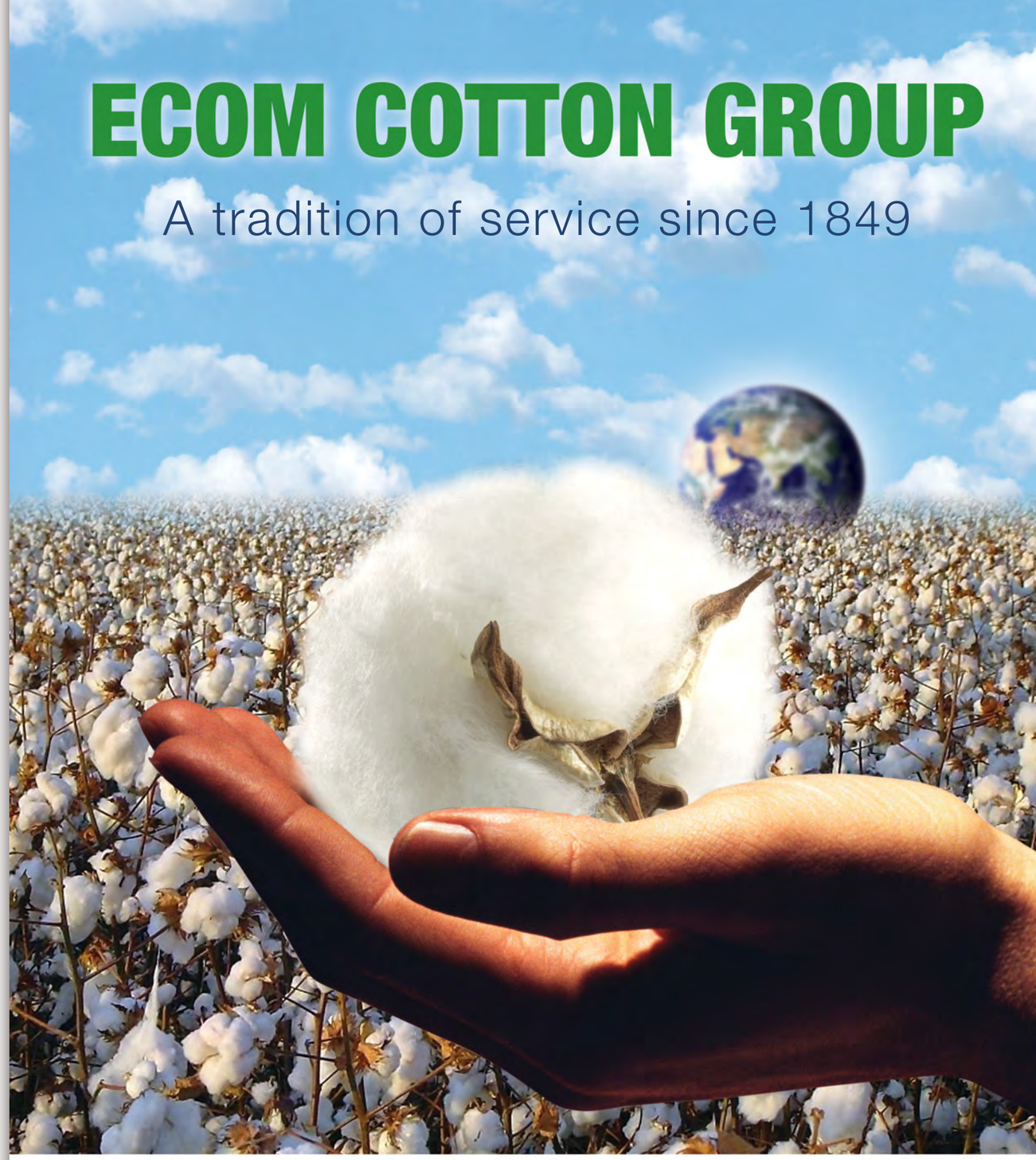
Antonia Prescott
Deputy Editor
Cotton Outlook

Prices reach unprecedented highs

In our last annual review of the long staple cotton market, written on the eve of the 2021/22 season, we noted that while prices for premium varieties were high from a historical perspective, demand in the period post the first phase of the pandemic had proved to be unexpectedly strong, meanwhile supplies were tight since production seemed to be in long-term decline. Thus, we posited, long staple prices in the season to come had the potential to rise even higher in order to ration consumption according to the quantities available. And so it has transpired, although the magnitude of the increase in international offering rates for US Pima and Egyptian Giza varieties, as well as those for Xinjiang Type 137 in China, has nonetheless taken most observers by surprise.

Of course, long staple prices have not risen in a vacuum. At a macro-economic level, the supportive measures implemented by the US Federal Reserve and other central banks in an effort to mitigate the worst of the economic damage wreaked by Covid resulted in the greater availability of funds in money markets and household budgets alike. Thus, prices for many commodities and equities were boosted by speculative buying and unleashed demand. In the cotton sector, specifically, empty pipelines throughout the supply chain arising from months of hand-to-mouth buying resulted in a squeeze on availability when demand did return. Large price premiums were placed on cotton that could be shipped in short order, particularly in view of the persistent disruption to freight lines. Over the course of the 2021/22 season, the Cotlook A Index, which had already risen by 65 percent since the nadir recorded in early April 2020, gained a staggering additional 75 cents to record an 11-year high of 173.45 cents per lb on May 5 2022. At that point, however, the bullish influences referred to above (as well as a US statistical position that indicated increasingly tight supply) gave way to the ever-stronger signals in the macro-economic environment that suggested a global recession was approaching. A large-scale exodus of

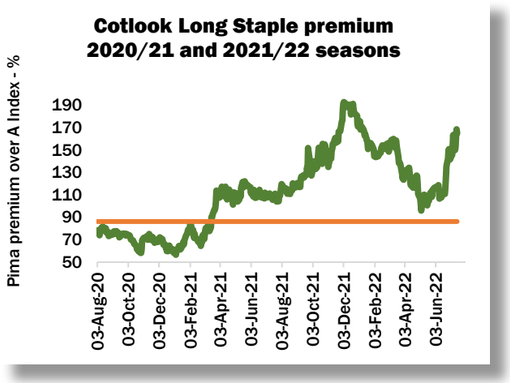




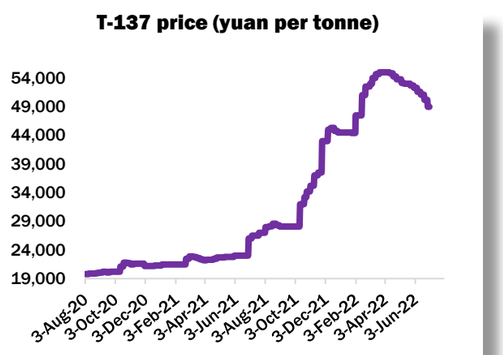
speculative traders from the Cotton No. 2 contract (amongst other commodities and equities) resulted in the loss of over 42 cents for the new crop December delivery in a little over nine weeks to mid-July. The fall in the A Index in the same period was over 50 cents.

The trajectory for Pima prices has been remarkably similar, with the rise even more pronounced and the late fall (reflecting a shift to new crop pricing as the 2021/22 crop became nominal) more gentle. In fact, throughout the second, third and fourth quarters of the 2021/22 season, Cotlook's Pima quotation has been placed higher than the peak achieved in 2010/11, the other most striking bull market of recent memory.

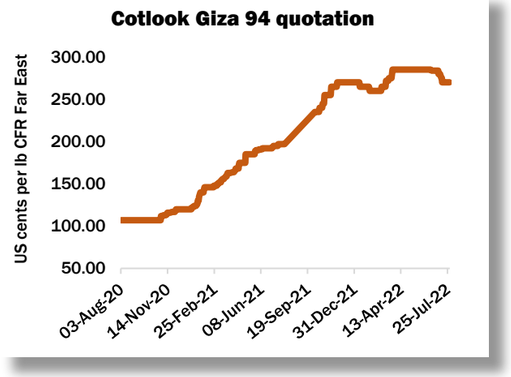
Thus, the premium represented by Pima prices has remained consistently above the long-term (ten-year) average of just over 95 percent despite the extraordinary elevation of upland offering rates for several months of the season.



Meanwhile, the charts for T-137 from China and Giza 86/94 in Egypt tell the same story of prices soaring on availability grounds, then



dwindling in the face of macro-economic headwinds.



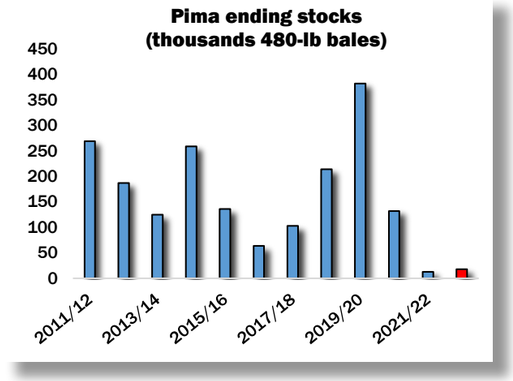
Trade

We observed above that the rise in long staple prices across the board was in large part driven by tightening availability. Nowhere is this more starkly apparent than in the case of US Pima. Industrial disruption due to Covid left ending stocks in 2019/20 at their highest point for at least a decade. In the season of market recovery that followed, the unsold stocks were reduced by almost two thirds by July 2021, and in 2021/22, USDA indicates that supplies at origin were all but exhausted as the marketing year drew to an end. A very similar trend is thus forecast for the season ahead, despite the prospect of a downturn in global demand for many commodities, since growing conditions remain extremely challenging.

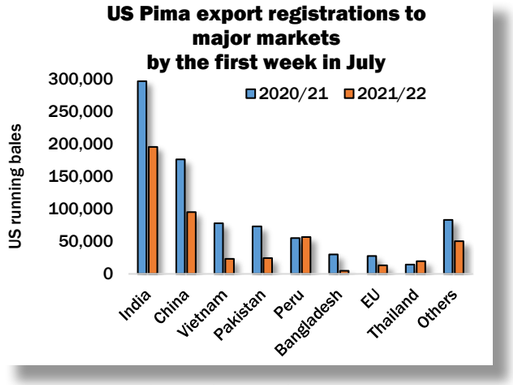
Exports of US Pima in 2021/22 have naturally fallen in comparison to the season before on the grounds of absolute supply. USDA's forecast for total exports by July 31, 2022 was 460,000 statistical bales. By July 28, total registrations amounted to 479,700 (of which all but 31,900 had been shipped), compared to 843,800 (751,900 shipped) by the end of the previous season. Thus, exports were within three percent of USDA's estimate with three days of the marketing year remaining.

India remains the primary destination for US Pima, despite a 34-percent cut this year. Demand from China, the second

market, is down by an even larger margin of 46 percent. Peru has moved into third position, thanks to a modest increase in its own uptake and the collapse in demand from Vietnam and Pakistan. Incidentally, spinners and manufacturers working with long staple



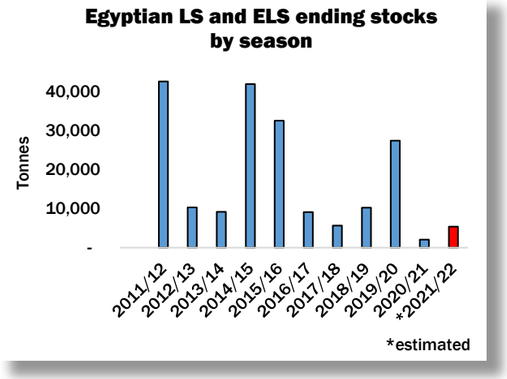
cotton in India were among the most strident voices lobbying for a total or partial removal of the import duty on raw cotton, arguing that long staple imports pose no risk to domestic farmers since local supplies are always insufficient to meet demand. Eventually, the sector was successful in securing a duty waiver until the end of October 2022.

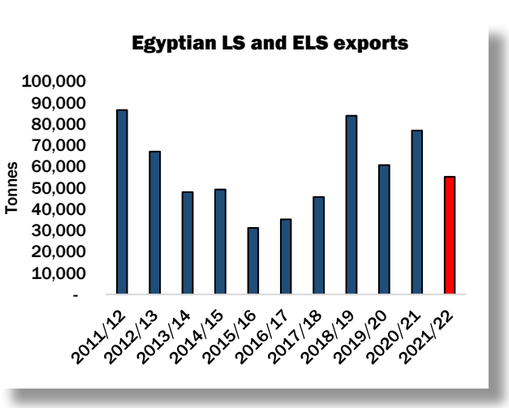


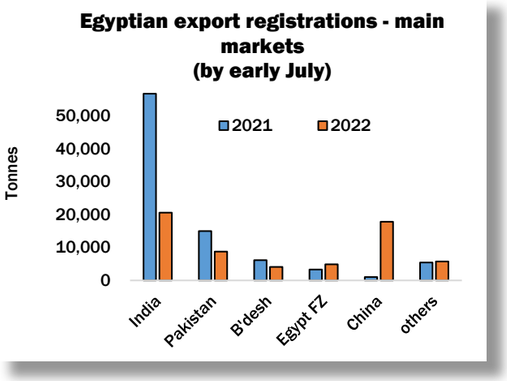
In Egypt, where the marketing season runs from September to August, long staple exports have also been lower than last year. Here too, opening stocks were minimal after the previous season's recovery and by mid-July, just below 62,000 tonnes had been registered for export, of which 92 percent had been dispatched.

India remains the largest customer for Giza cotton, although it is this market that has seen the greatest fall in uptake from Egypt, accounting for most of the overall reduction. China has increased its market share significantly to sit in second place, with Pakistan in third.

Together, these markets account for three quarters of Egyptian export registrations in the 2021/22 season.







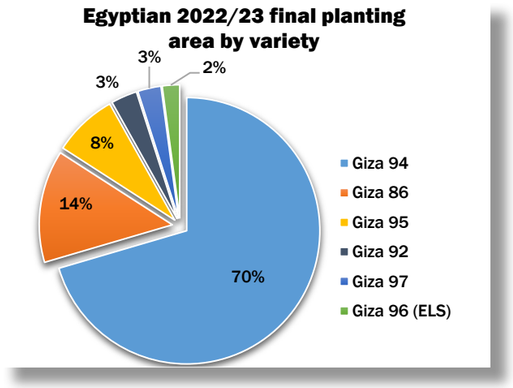
Outlook for 2022/23: production revival, modest decline in consumption

In recent years it has seemed that LS production was in structural decline, its profitability compromised by high labour costs, a longer maturation period and competition from other crops, including upland varieties that afford producers better returns. On the demand side, advances in spinning machinery allow fine count yarns to be produced using a greater proportion of longer staple upland lint. However, perhaps unsurprisingly, this season's exceptional prices for long staple cotton from all origins have prompted renewed interest in cultivating such varieties among farmers across the major producing centres.

Despite the severe and chronic drought conditions prevalent in the US Far West, USDA estimates that harvested area for Pima will increase by almost a quarter this season. Yield prospects have been revised downwards given the acute shortage of water available for irrigation. Although the crop condition is impressive so far (rated as 95 percent good to excellent by July 17), the final outcome (currently forecast at 407,000 bales, rising from 332,000 in 2021/22) will depend to a large extent on the weather in the latter stage of the growing season and whether farmers will be able to keep up with water demands if the current conditions persist.

In Egypt, final planting figures from Catgo illustrate a second year of increased cotton cultivation. Total area for 2022/23 measures 141,800 hectares, 43 percent more than the year before and a 78-percent increase compared to 2020/21. Long staple varieties have been sown on 90 percent of the total area, and ELS cotton (almost exclusively Giza 96 this year) on two percent. Assuming similar yields to last season, output may be projected at around 93,000 tonnes (not including the Giza 95 variety, excluded from our world estimate on grounds of staple).

The next question for the local sector is whether the government will decide to continue the system of public auctions established last year to allow farmers to market seed cotton without the intervention

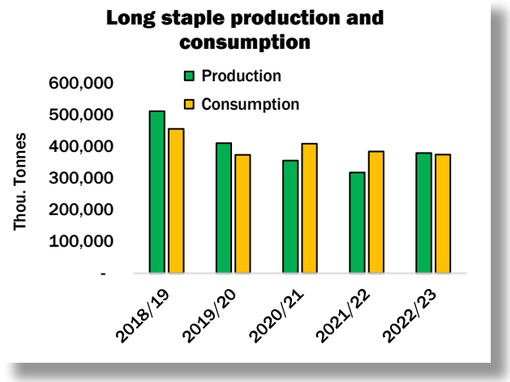


of intermediaries. At the time of writing, there has been no confirmation of the arrangements for the new season. Last year's auctions seemed to progress fairly smoothly, although there were criticisms that the system resulted in inflated seed cotton prices and some farmers were slow to receive payments.

After a disappointing season in 2021/22, when hopes for increased production were dashed by heavy rain in Xinjiang early in the growing season that necessitated widespread replanting and resulted in lower yields, the long staple area for 2022/23 has increased substantially, perhaps to around 800,000 mu (53,000 hectares). Growing conditions have so far been benign and long staple output is forecast for now at between 70,000 and 80,000 tonnes. Observers of the long staple cotton market in Xinjiang nevertheless comment that while this level of production marks a significant improvement on recent years, there is still some way to go if output is to recover to the historical levels over 100,000 tonnes.

Last year, long staple production in India is estimated to have fallen at the lower end of the typical range for that country (400,000 and 500,000 170-kg bales). In the coming season, however, the record prices available are expected to give rise to an increase to around 85,000 tonnes.

The last shift worthy of note is in Israel, where output seems set to climb three-fold in 2022/23, once again as a function of the increased revenue available from Pima.



The aggregate effect of these rises is a projected 32-percent expansion in world output of long staple cotton in the coming season to around 385,000 tonnes, nearing the level achieved before the global downturn induced by Covid-19.

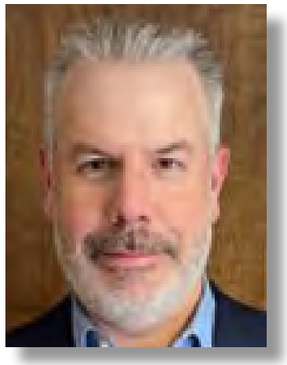
World LS Output (tonnes)	2020/21	2021/22	2022/23
Egypt	58,000	70,000	93,000
United States	119,000	72,300	88,600
India	85,000	70,000	85,000
China	65,000	40,000	75,000
Israel	5,000	4,900	15,500
Turkmenistan	15,000	20,000	15,000
Uzbekistan	1,000	4,000	4,000
Peru	4,000	4,000	4,000
Tajikistan	-	1,000	1,000
Spain	3,500	1,500	1,000
Greece	-	2,500	1,000
Sudan	1,000	-	-
Total	355,500	290,200	383,100

The prospects for consumption in the season ahead, however, are somewhat more contested. In order to assess the current outlook, it may help first to trace the demand trends in recent years, starting with 2019/20. In that year, as we have just referenced, industrial and trading disruption was such that consumption of long staple cotton (along with so many other commodities) fell sharply. However, in the season that followed, we observed a marked (and somewhat surprising) recovery in demand as the financial stimulus packages took effect and consumer spending patterns shifted in favour of online purchases of home textiles and clothing rather than services. As the 2021/22 season progressed, the macro-economic mood became consistently less optimistic again. Mills, in certain countries at least, have baulked at the astronomical levels to which long staple lint prices have risen and have resorted to adjusting yarn blends in favour of cellulosic fibres or longer staple upland supplies. Spinners in India and Pakistan have also been able to draw on substantial stocks built up when prices were significantly lower.

Now, however, soaring inflation, exacerbated by Russia's war on Ukraine, augurs higher interest rates and a sharp deceleration in global consumer spending in the second half of 2022 and beyond.

Thus, following two seasons (2018/19 and 2019/20) in which production outweighed consumption, and then two more where the opposite was true, it now seems that we may be heading for a new period of long staple surplus in 2022/23 that should allow stocks to be rebuilt to some extent. How large that excess ultimately turns out to be (and whether, of course, it materialises at all) depends of course on the successful conclusion of the growing season and then on how challenging the macro-economic environment becomes in the next few months.

World LS Consumption (tonnes)	2020/21	2021/22	2022/23
India	175,000	155,000	150,000
China	125,000	120,000	115,000
Pakistan	35,000	21,500	27,000
Egypt	13,000	12,000	12,000
United States	3,300	3,000	3,500
Bangladesh	13,000	9,000	7,000
Latin America	18,000	18,000	18,000
Europe (inc. Turkey)	15,000	16,000	16,000
South East Asia	25,000	12,000	12,000
CIS		12,000	12,000
Others	3,000	2,500	2,500
Total	425,300	381,000	375,000

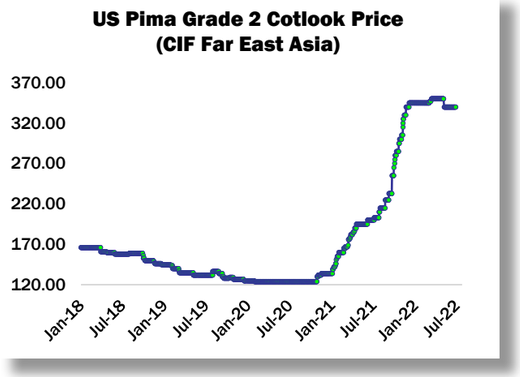


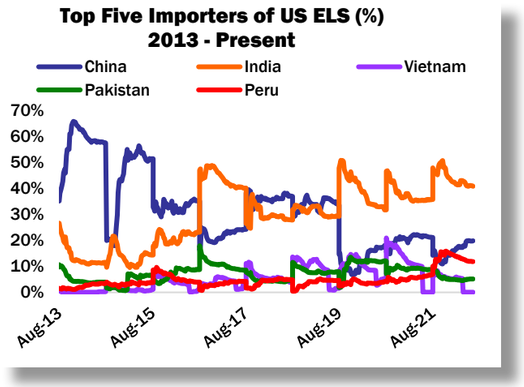
The outlook for US ELS cotton in 2022/23

Ernie Schroeder Jr.
CEO
Jess Smith and Sons Cotton

US long staple cotton has faced difficult times over the last several years, with the arrival of the US-China Trade War in July 2018, which shut off a significant portion of exports (see Top Five Importers chart) to that country, our largest buyer at the time. This was followed by the Covid-19 pandemic, which had its first known case in the US in January 2020. These two events combined to drive US ELS prices down to 124 cents per lb, CIF Far East Asia, during the last quarter of 2020. The impact of these events caused huge disruption to supply as growers turned to more profitable commodities, which in turn allowed prices to begin to recover in November 2020.

As can be seen in the USDA's balance sheet (see table overleaf), these lower prices, in addition to a lack of water in the US Far West, forced growers to reduce their plantings by nearly 50 percent. However, while China reduced imports, India increased theirs, which was supportive to prices. We also saw increases in demand (see Top Five chart) from Vietnam, Pakistan and especially Peru. However, the real resurgence in price happened as the Covid-19 virus began to be contained by the introduction of a vaccine and people started getting out and consuming again. Also supportive to prices were the changes in the ELS Competitiveness Program that produced a payment along with a separate clarification by the USDA about how accrued storage costs would affect growers. When the Department clarified that there would be no costs on forfeited cotton, growers stopped selling at below-loan levels, and the removal of that selling pressure allowed prices to take off.





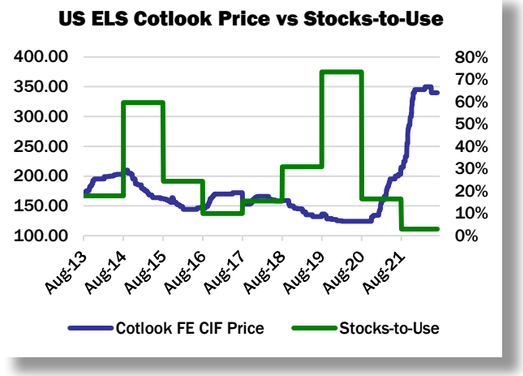
U.S. Department of Agriculture
U.S. ELS Estimates ('000 480-lb bales)
6/10/2022

Item	Unit	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
ELS Cotton:											
Planted acres	1000 acres	201	192	159	195	253	250	229	202	127	176
Harvested acres	"	199	190	155	188	250	249	223	194	124	173
Yield/harvested acre	lbs./acre	1,527	1,432	1,342	1,454	1,341	1,545	1,473	1,352	1,287	1,388
Beginning stocks	1000 bales	187	125	259	136	64	103	214	382	130	12
Production	"	634	566	433	569	700	801	686	547	332	500
Imports	"	7	3	3	2	2	3	3	1	5	5
Total supply	"	828	694	695	707	766	907	903	930	467	517
Domestic mill use	"	23	25	25	29	27	22	15	15	15	15
Exports	"	680	410	534	614	636	671	506	785	440	460
Total disappearance	"	703	435	559	643	663	693	521	800	455	475
Difference unacc.	"	0	0	0	0	0	0	0	0	0	0
Ending stocks	"	125	259	136	64	103	214	382	130	12	42
S/U's	"	**18%**	**60%**	**24%**	**10%**	**15%**	**31%**	**73%**	**16%**	**3%**	**9%**

With the supply pipeline empty, and demand returning strongly, prices continued to move higher throughout 2021, surpassing first $2 per lb and then $3 per lb (CIF Far East Asia).

The USDA's June '22 WASDE (World Agricultural Supply & Demand Estimates) report shows a vastly changed US ELS environment since 2018, with production falling from a high of 801,000 (480-lb) bales in 2018 to 332,000 bales in 2021. Ending stocks fell from 382,000 bales with a 73-percent stocks-to-use ratio in 2019, to 12,000 bales with a 3-percent ratio in 2021. This is the state of the US ELS market as we move towards the 2022/23 crop season.

The USDA gave us our first look at their estimate of 2022/23 ELS production in May 2022, starting off at 500,000 (480-lb) bales. This caught most traders by surprise as the estimates on the ground were for a Pima output of between 375,000 bales and 425,000 bales, 15-25 percent less than the USDA. On June 30, USDA released their Acreage Report, showing ELS planting at 156,000 acres, which is more in line with trade expectations. If the trade production estimates mentioned above prove true, even at the top end of the range, USDA will be forced to lower exports to prevent ending stocks from going negative. That would produce another extremely tight ELS crop with a stocks-to-use ratio again in the low single digits.



There are now concerns on the horizon that inflation and the potential for recession could impact our market, and this is certainly a possibility, but we are not seeing signs of it yet. In fact, we are seeing more buyers of ELS coming into the market who are achieving good margins even at the present price levels, and are even able to raise prices without inciting demand destruction. It is important to remember that US ELS cotton is a luxury product that sells at a higher price point, and as such can absorb some of the higher costs that have appeared such as freight, energy, insurance, and labor. Supima, the non-profit trade association that promotes US ELS cotton, has done an incredible job and has seen an uptick in interest over the last few years. Brands, which prize transparency, are also pleased with groups such as Oritain that have mapped US ELS to allow buyers to know where their orders originated. The BCI and Cotton Trust Protocol programs are also credited with further enhancing US ELS transparency.

Viewing the relationship between stocks-to-use and the ELS price (see Price vs Stocks chart) along with our expectations based on the lower production estimates, we foresee another strong season for the US ELS market.

Egyptian cotton: back on track

Eng. Mohamed Khalil Khedr
Cotton Commissioner at Alcotexa on behalf of the Ministry of Trade and Industry
CATGO Chairman

The Egyptian cotton sector has recently witnessed a significant development as the government has adopted a new and comprehensive strategy for cotton agriculture, manufacturing and trade. This is shown in the well-coordinated and effectively implemented efforts of concerned ministries to regain Egyptian cotton's historical position in world markets.

Egypt has started implementing an integrated development plan for the spinning and weaving sectors with the purpose of restructuring existing facilities and establishing several industrial hubs. A fine spinning mill has been established in Rubiki, which is considered a massive national project that will reposition Egypt among the leading manufacturing and exporting countries. In addition, construction is almost complete of the textile industrial complex at El Mahalla Al Kobra, which will be one of the world's largest spinning and weaving mills. The development plan also targets the establishment of new mills in Kafr Al Dawar and Damietta. Furthermore, in 2021, a new role to aid governance in the spinning sector was added to the remit of the Cotton Arbitration and Testing General Organization (CATGO) according to Law No. 140, to supervise and monitor all cotton varieties delivered to local spinning mills.

The Cotton and Textile Industries Holding Company (CTIHC) has already developed several cotton ginning mills and is working to establish new ones. The ginning process is now fully automated using the latest technologies to produce clean cotton bales free from contaminants. The bales are labeled with CATGO's bale identifier card to prevent the contamination that used to occur using the traditional marking process. The card is printed with a barcode to facilitate traceability. The newly developed ginning mills are equipped with laboratories that operate under the supervision of CATGO and are able to test the physical properties of the cotton. Lastly, the pilot Egyptian Cotton Data Bank project has been launched to provide cotton stakeholders with the latest data on digitization and other developments.

During the past three years, the government has worked to amend the cotton trading system to benefit both growers and merchants. This objective should be realized by ensuring transparency in the pricing mechanism and maintaining the integrity of Egyptian cotton varieties. In turn, farmers will be encouraged to maximize cultivated area. In 2022/2023, the actual planted area reached 337,000 feddans, an increase of 29 percent compared to 2021/2022, and a further increase is expected in future seasons.

As a result of the increased demand for cotton and higher prices, 86,899 tonnes were exported in the 2020/2021 marketing year, which significantly exceeded the total crop. The export process is carried out using globally approved certificates issued by CATGO, which has testing laboratories accredited by ISO/IEC 17025. All export commitments are registered by Alcotexa, the body that manages the arbitration between buyers and sellers.

Furthermore, the government is keen to promote Egyptian cotton in the global market through collaboration between the public and private sectors. Thus, the Egyptian Cotton Hub has released a new brand, "NIT" (the name of the textiles goddess in Ancient Egypt), to be a unifying mark for Egyptian cotton products. The Egyptian Cotton Hub is responsible for marketing NIT products and opening new markets locally and globally.

In addition to its role in maintaining Egyptian cotton varieties, the Cotton Research Institute is developing new types that are characterized by early maturation and drought resistance that will help them tolerate changes in the climate. The Egyptian cotton varieties were also renamed according to ministerial decree No. 206 for 2022 as "Extra Giza", "Super Giza" and "Giza" to better meet the requirements of global markets.

Egypt always seeks to participate in international initiatives. For instance, in 2020, Egypt joined the Better Cotton Initiative (BCI) in cooperation with UNIDO, and recently coordinated with Cotton Connect to participate in the "REEL Cotton Initiative". All these programmes enhance cotton sustainability and improve farmers' livelihoods, helping to attract investment by global brands to Egypt.

In response to global demand, Egypt is cultivating organic cotton to improve sustainability and reduce environmental pollution. The industry also announced a new project to produce naturally coloured cotton, which it is hoped will make inroads into new markets.

These new horizons for Egyptian cotton can be attained through signing new cooperation protocols between stakeholders throughout the cotton industry.

Changing the names of Egyptian cotton cultivars to facilitate trade in international markets

Hesham Mosaad Hamoud
Director
Cotton Research Institute

In order to facilitate and add clarity to the processes of handling and marketing Egyptian cotton, especially in overseas markets, the government decided in June of this year to introduce new category names for the various staple lengths. Extra-long staple varieties (including Giza 45, 87, 93 and 96) and extra-strength varieties such as Giza 92 and new strains under development will henceforth be known as Extra Giza. Long staple cottons including Giza 94, 86 and 97 are renamed Super Giza. Giza 95 and 98 will still be marketed under the banner of Giza.

Since its establishment in 1919, the Cotton Research Institute has developed more than a hundred cotton varieties and genotypes, all of which have contributed to the sustainability of the Egyptian cotton sector and enhanced the competitiveness and global reputation of Egyptian cotton products.

Egyptian cotton belongs to the Gossypium barbadense species, and is classified according to two groups: long staple and extra-long staple cottons.

All Egyptian varieties go by the name Giza, followed by a serial number that indicates the variety, but makes no reference to its technical characteristics. Historically, this has caused some confusion to traders and manufacturers using Egyptian cotton.

Moreover, nine commercial varieties are grown in Egypt. These are listed in Ministerial Degree no. 75/2022, which names the geographical areas where specific varieties may be grown in order to protect and maintain the specific properties of different cotton varieties.

Cotton produced in Egypt falls into three categories, as set out below.

1. Upper Egypt cottons such as Giza 95 and Giza 98. Most of this cotton is consumed locally.
2. Delta long staple cottons, such as Giza 86, 94 and 97. These are preferred by exporters and local spinners for making fine yarns.
3. Extra-long staple varieties, e.g. Giza 96, and extra-long extra-fine varieties, comprising Giza 45, Giza 87, Giza 93, and soon Giza 99, which will be the finest cotton variety in the world. The category also includes the extra-strong variety Giza 92, which represents the highest fiber strength in the world.

Egyptian extra-long cotton varieties are well known for their outstanding quality characteristics and, accordingly, the finest yarns and the world's most luxurious garments are made from these cottons.

The confusion arising from the fact that the serial numbers of the current names bear no relation to quality and characteristics means that there was an urgent desire to modify the names of the varieties to refer to their quality category and thereby facilitate their management in global markets.

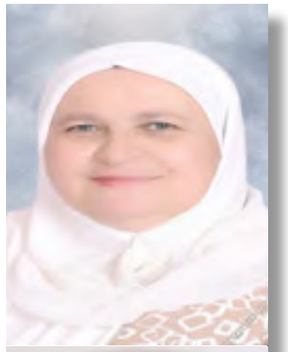
It is worth noting that as part of the decision-making process, the Cotton Research Institute held several meetings and coordinated with the following stakeholders:

- Internal Cotton Trade Committee (ICTC);
- Cotton Arbitration and Testing General Organization (CATGO);
- Alexandria Cotton Exporters' Association (ALCOTEXA);
- Cotton Egypt Association (CEA);
- numerous other major companies working with or trading Egyptian cotton.

The decision has received widespread support and approval and is expected to enhance transparency and clarity in the worldwide trade of Egyptian cotton.

Hesham.hamoud@arc.sci.eg

Cotton			Fiber Quality Measurements											
			Color	Value of color attributes		Micronaire Value	Maturity Ratio(MR)	Fiber Length Parameters		Fiber Properties		Image Analyzer Data		Total reducing Sugar (%)
				Brightness (Rd %)	Yellowness (+b)			UHM (mm)	Uniformity (Index)	Strength(g/tex)	Elongation (%)	Intrinsic Fineness	Fiber perimeter (µ)	
Extra Giza	Extra long	Giza 96	White	72.9	8.2	4	0.94	35.8	87.3	47.4	6.2		45.2	0.16
	Extra long	Giza 45	White	74.3	8.9	3	0.88	35.6	88	45.8	6.1		41.6	0.16
	Extra fine	Giza 93	Creamy	68.1	11.1	3	0.91	35.8	87.2	47.2	6.1		41.4	0.17
	Extra strength	Giza 92	White	76.3	7.7	3.5	0.92	34	86.3	48.6	6		43.8	0.15
Super Giza		Giza 86	White	75.4	8.2	4.3	0.96	33.5	88.1	46	7.2		47	0.12
		Giza 94	White	78.3	8	4.2	0.93	34	87.2	43.7	7.3		46.8	0.13
		Giza 97	White	73.8	9	4.3	0.95	33.7	88.3	46.1	7.2		46.7	0.16
Giza		Giza 95	Creamy	68.5	11.8	4.4	0.94	30.5	85	37.7	8.2		52.3	0.15
		Giza 98	Creamy	65.3	11.6	4.3	0.94	30.7	85.2	38.1	8.1		52.4	0.16



Introducing the Open Factory Project: development and digitization for the Egyptian textiles industry and green cotton

Prof. Imane Aly Saroit *(pictured top left)*
Project Manager and Head of Informatics Sector
Prof. Hazem El-Gendy *(picured bottom left)*
Project Coordinator
Cairo University

The European Union and the Egyptian government have come together to advance the development of the Egyptian textile industry (including the leather sector) and consequently the use of Egyptian Cotton. The collaboration will take place under the Open Factory Project, which aims to direct the sector towards digital transformation and the green economy by the improved deployment of information technology in the design, training, and strategic planning phases of business. It aims at motivating MSMEs to consistently develop their enterprises by investing a portion of their revenues into an ecosystem that will maximise the return on investment, and create a specialist niche for Egyptian industry.

The project is funded by the EU and involves a partnership between the Faculty of Computing and AI at Cairo University (the principal partner) and the Industry Modernization Center (IMC), the National Research Center (NRC), the Egyptian Leather and Textiles Industries Chambers, and expert organisations from the EU (Italy): Progesto SUD, Link Campus University and Sercam Advisory. The project also has associate members from the Egyptian Ministry of Trade and Industry, and Belgium.

The three-year project commenced in February 2020. Initially, the participants conducted a comprehensive study of the leather and textiles industries in Egypt to identify strengths as well as the areas in which development is most urgently needed. This involved a comparative study of the sectors in Italy and France to identify models for success.

Then, the project's task force (comprising various stakeholders: the project partners, representatives of MSMEs, research centers, government departments and the media) developed a road map and an ecosystem study for the project. The objectives included:

- high added value;
- relatively low cost to appeal to MSMEs in both sectors;
- working with various types of technology and machinery already used by the MSMEs;
- creation of new jobs;
- implementable within budget and offering financial incentives to MSMEs, inventors, entrepreneurs, and start-ups;
- high and fast return in terms of increased sales and profits;
- facilitating opening new markets and increasing exports.

The ecosystem aims to:

- increase public and governmental awareness of the roles of these industries; develop effective ICT tools and forums for communication between industry stakeholders on both a national and international level;
- train the trainers (on new technology in the sectors, how to penetrate new markets with new products, environmental requirements, international forums and standards, and vertical investment);
- organise national forums for the stakeholders of the two industries.

The project has completed three of four training cycles (each three months long), held two of four business incubators, a competition for inventors, multiple workshops and open days. These were well publicised by public television and radio stations, newspapers, and on social media. They were also very well attended by stakeholders.

One means of achieving the project's aims is to launch a new business model for brands in the TCFL (textiles, clothing, footwear, leather) sector, emphasising value-addition and impact-reduction via circularity and digitization.

Another way is to develop an Open Innovation Portal (OIP) that will function as an interactive web-based resource to allow the sharing of information and insights, knowledge transfer, research connections, linking partners in textile-leather MSMEs, promoting e-commerce, and making all the Open Factory resources widely available. It will act as a web-based "window of opportunity", raising national and international awareness of the project and eco-ICT methods, and help innovators, producers, entrepreneurs and researchers to connect and interact, ensuring maximum outreach, a longer-lasting impact and greater sustainability.

The project will offer non-repayable financial support to 15 social/digital innovators, 15 producers and five start-up enterprises. The global objective of the sub-grants is to create a supportive environment for sustainable and innovative entrepreneur initiatives within the TCFL sector.

The project will form the basis for Change Development Programs, run by a consortium of mentors, tutors and experts, who will work together and support participants and learners to design new activities and projects to drive solutions and new business ideas according to eco-ICT models. They will work in partnership to create and scale solutions to systemic, traditional business problems.

This project is funded by the EU. This article represents the opinions of the authors and not necessarily that of the EU.

Extra-long staple cotton in Israel: driving stability in cotton production

Jonathan Spenser
Israel Cotton Production and Marketing Board Ltd

The topics that featured in our article for this publication last year included big issues such as climate change and Covid-19, which were battering world markets at that time. Those now seem routine in comparison to this year's dramas involving the Russian war in Ukraine and global economic conditions that are producing huge fluctuations in commodity prices across the board.

The market stagnation that characterised the cotton and textile sectors in 2019/20 now seems like ancient history at the end of a season in which prices in our own market reached unprecedented levels and huge volatility is now playing out.

In Israel, the revival of sales and attractive prices of extra-long staple cotton since the first quarter of 2021 have spurred growers to increase planting. Cotton area for the 2022/23 season has grown to over three times the original forecasts and future production plans now depend on creating stability in the sector.

Cotton is back, and it is now necessary to look at what will be required to maintain strong and stable production. This is in our best interest, in terms of both agronomics and economics. Agronomically, cotton remains a key rotational field crop for Israeli growers, and economically it is an important export crop.

The cotton sector in Israel is working continuously to ensure not only stable production but also uninterrupted progress in the sector.

The ongoing development of new high-yielding and premium-quality varieties is imperative if we are to retain our leading position in the ELS sector. This will include continuous research and breeding efforts, rigorous testing and the timely release of new superior varieties. Israel maintains uncompromising criteria governing the introduction of new varieties to the production system.

Agronomic development is no less important for achieving a healthy crop, high productivity, and profitability for growers.

Research and development in the realms of plant protection, weed control, irrigation and nutrition management are long-term pursuits. The proactive search for and introduction of novel agro-technologies, smart agricultural methods and precision management are at the heart of our efforts to develop.

Concurrently, modern production systems that follow traditional principles

such as minimum tillage or no-till, crop rotation to maintain high yields, and other soil conservation methodologies are adopted and followed consistently.

For the past three years, the Israeli cotton sector has conducted research at its member farm sites aimed at improving soil conservation methods, preventing soil loss, maintaining drainage systems and restoring endangered species to their natural habitats adjacent to cotton fields.

The sector continues to promote sustainable environmental, social, and governance principles that conform to the highest standards.

ICB, now a benchmarked Strategic Partner of Better Cotton, produces quality cotton according to its own standards.[1] The sector independently implements this standard to produce quality cotton fully recognized by Better Cotton as conforming to their own specifications. This fact alone is expected to drive yield and quality to new highs in a sustainable manner.

ICB is fully committed to its sustainability principles and believes they will grant cotton from Israel an edge in the marketplace. As the entire crop conforms to Better Cotton standards, ICB continues its tradition of supplying the highest quality cottons, which now enjoy the additional advantage of being produced under rigorous and recognized standards to complement its excellent reputation for world-class quality and service.

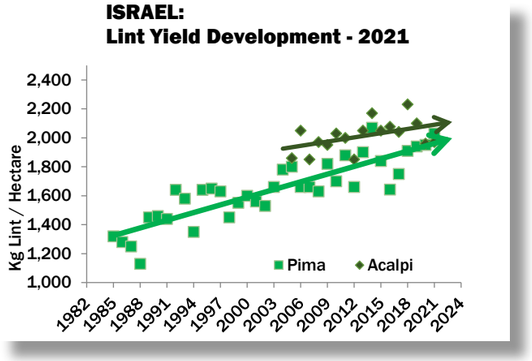
Israeli cotton now not only represents high levels of quality and service, but also delivers a brand based on best management practices in the realms of sustainable pest control and chemical usage, water stewardship, soil fertility and conservation, biodiversity and environmental considerations, decent work, and farm management.

Quality Parameters 2021-2022

Variety	Length (HVI)	MICRONAIRE	STRENGTH (HVI)
Israel Pima ELS	39-42 mm	3.7-4.5	43+ GPT
Israel Acalpi LS	36-40 mm	3.4- 4.2	36+ GPT

All Israeli cotton is 100-percent machine picked by John Deere Baling Pickers, 100-percent roller ginned, is subject to 100-percent mechanized production methods including HVI and stickiness testing, and is now 100-percent sustainably produced and accredited as "Better Cotton".

Israeli cotton has for the last 13 years been exclusively and successfully marketed by Otto Stadtlander GmbH, Germany and consumed by the biggest and best spinning mills worldwide, in countries including China, India and the Far East, as well as Turkey, Europe and South America.



Acalpi Lint Yield Development: 9.7 Kg/Ha/Yr.

Pima Lint Yield Development: 17.7 Kg/Ha/Yr. R^2 Correlation = 75%

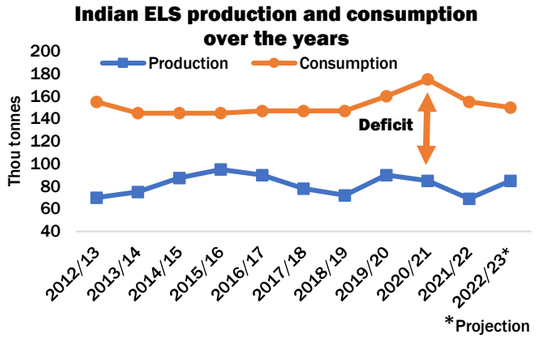
[1]https://bettercotton.org/israel-cotton-production-and-marketing-board-becomes-bci-strategic-partner/

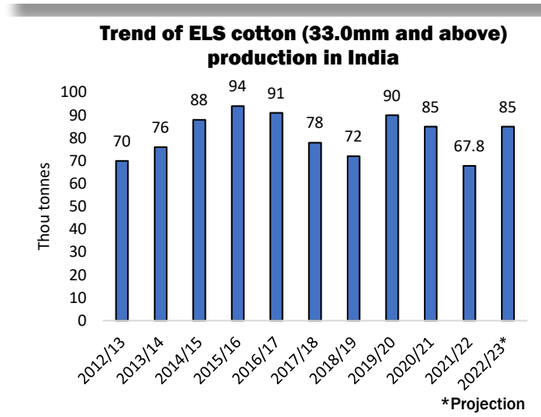
Outlook for Indian LS and ELS cotton: a long-term aspiration to be bountiful

Jitender Kumar
Vice President - Raw Materials (Fibres)
Sutlej Textiles & Industries Limited

The Indian textile industry, full of tremendous confidence and optimism, is taking great strides as the government makes every effort to transform this sunrise sector of the economy, and the world's leading brands and retailers look towards India as a preferred source of supply. An increase in innovative schemes and private investment is set to take the textile industry to new levels.

Raw cotton, the most important raw material for the burgeoning textile industry, has also made marvellous gains. From a meagre 3.34 million bales (170 kgs) of raw cotton produced on an area of 4.42 million hectares in 1947/48, Indian cotton scaled the heights of of 39.8 million bales in 2013/14 on an area that accounts for more than one third of the world's cotton area. The country has come a long way in attaining self-sufficiency in cotton production and also exports a sizeable quantity of the crop after fulfilling domestic demand which also happens to be one of the largest in the world.



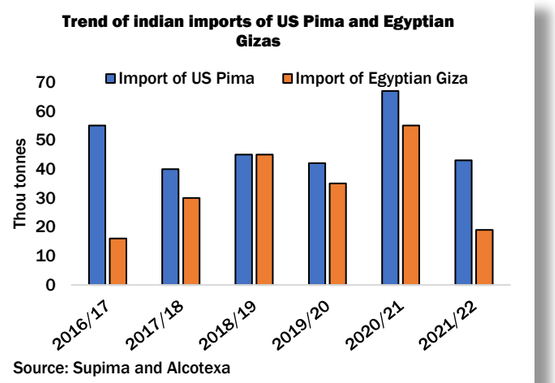


Source: ICAC, Cotton Outlook and market sources

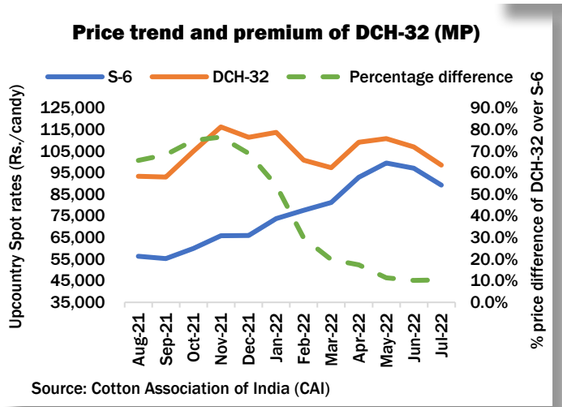
The gap

Indian cotton has a long-term issue with lower yields; likewise, there is a perennial gap between demand and supply of long and extra-long staple cottons.

This deficit was exacerbated by the imposition in February 2021 of an 11-percent import duty on raw cotton, since a significant proportion of the country's imports are LS and ELS cotton types from the US, Egypt, Israel and other countries. The prices for local ELS cotton (which was already in short supply) increased and the additional hefty charge on imports threatened to erode the profit margins of fine count yarn spinners (especially in southern India, where more than 60 percent of ELS cotton is consumed) and value-added finished goods manufacturers.



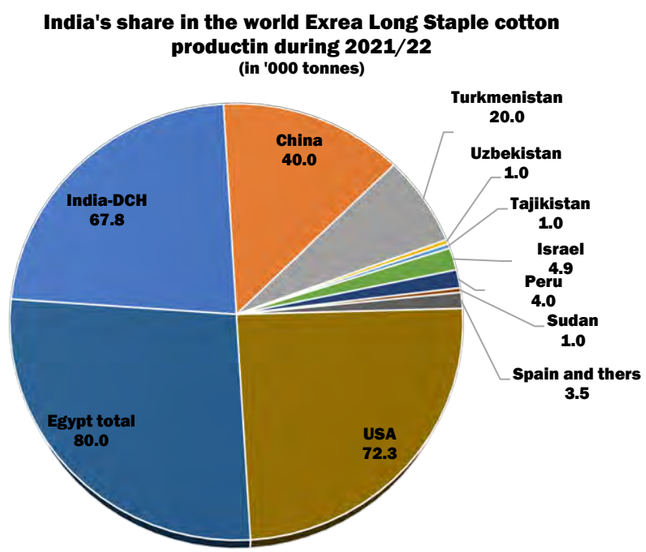
Source: Supima and Alcotexa



Source: Cotton Association of India (CAI)

This was followed by a slew of representations to the government to make adjustments to the duty scheme. One of the appeals was to allow duty-free imports exclusively for ELS cotton under a separate Tariff Code provided by the Customs Tariff Act.

Indian output of LS and ELS cotton types is always lower than domestic consumption, requiring the country to be a net importer of these superior cotton types. India remains the principal market for US and Egyptian LS and ELS types in the 2021/22 season, with shares of total sales of US Pima and Egyptian cotton of around 41 percent and 34 percent respectively; however, India's combined purchases of US Pima and Egyptian cotton were significantly higher for the two seasons before that.



Source: ICAC, Cotton Outlook, Market Sources

The current state

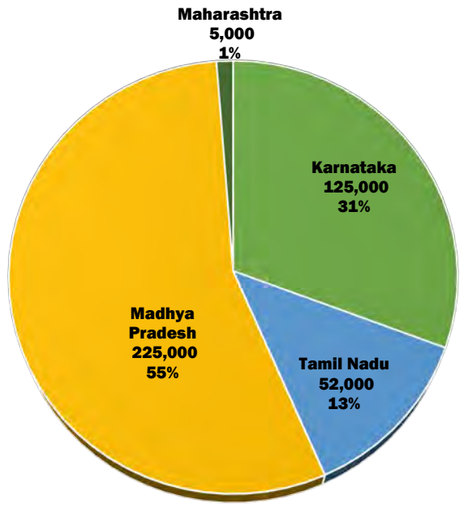
There have been numerous efforts to minimise the gap between demand and local supply of ELS cotton. These include the incorporation of a canalizing agency in 1970 for the import of cotton and particularly long and extra-long staple varieties, a break-through in the development of Suvin as an Indian ELS type, contract farming systems, campaigns to encourage farmers to grow more ELS cotton and the most recent CITI-CDRA project.

India already has a long tradition and a rich basket of 'heritage' cotton varieties, but

the majority of these are in a dire state of neglect. With just 168,000 hectares cultivated with ELS types (around one percent of the total area under cotton in the country), DCH-32 (introduced in 1981) is currently the major ELS variety grown in different pockets of the states of Madhya Pradesh, Karnataka, Tamil Nadu and Maharashtra. The landmark ELS varieties of Varalaxmi (released in 1972) and Suvin (released in 1974) have almost faded into oblivion. Even the LS MCU-5 type does not yield much lint and has become highly localized to just a few areas, meanwhile poor seed production and management systems have allowed the original benchmark quality specifications to deteriorate.

Suvin, the prized Indian ELS type with the world's longest and finest fibre that at its peak in the 1980s saw production of around 7,500 tonnes, is today reduced to a crop size of around 2,000 running bales - 340 tonnes or even less. It is grown on very small tracts of land in Tamil Nadu, with an area of less than 1,500 hectares. The total production of LS and ELS cotton during the 2021/22 season is estimated to be around 67,800 thousand tonnes, which makes up a miniscule 1.3 percent of the total cotton production of India.

State wise production of ELS cotton in India during 2021/22
(in running bales of 166.7 kg)



Issues in cultivation of ELS cotton in India

The cultivation of ELS cotton in India is more difficult than for upland types as the typical varieties have a longer growing period and produce lower and more inconsistent yields. For instance, Suvin takes 220 days to grow, yields only 300/500 kgs/ha, has a ginning outturn of 28/29 percent and a cultivation cost that is three times higher than any other ELS type. Indian ELS types are highly resource-intensive (requiring consistent irrigation and other inputs) and are susceptible to insect attacks. They are highly vulnerable to climate change and even slight changes in the weather conditions can reduce the already low yields even further. Since the seed cotton is picked by hand, Indian ELS varieties also have higher levels of contamination in the resulting lint.

A lack of modern farming techniques, higher cultivation costs, a lack of incentives for quality or for collaboration with local mills, price-shifting market distortions and an absence of effective integration of small growers of these special cotton types into the value chain, are all factors that subject them to the harsh vagaries of volatile prices. A clear preference for shorter duration, insect-resistant and high-yielding Bt. cotton, the protégé of the private sector, is impacting overall diversity in the cotton landscape and making further inroads into the area used to produce LS and ELS types in the country.

The effort to improve

Although there have been consistent efforts to improve the ELS cotton situation in India, they have so far failed to make a substantial change in the status quo. Some of the schemes targeted at improving ELS production in the country include the 'Grow More ELS Cotton' campaign initiated by the Southern India Mills Association, the Cotton Association of India and the Cotton Development & Research Association (CDRA); contract farming arrangements made between growers and a few south Indian mills with the aim of increasing the cultivation of important ELS types; the technology mission on cotton and the administration of the Minimum Support Price (MSP) programme.

CITI-CDRA was conceived in 1970 as the cotton development arm of the Confederation of Indian Textile Industry. In recent years, it has been working on a public-private partnership model with the state department of agriculture, local cotton associations and other stakeholders in the DCH-32 growing districts of Ratlam, Jabua and Dhar in Madhya Pradesh. The aim is to achieve improvements in the yield, output and quality of ELS cotton by encouraging farmers to adopt the latest production technologies, plant protection techniques and Integrated Pest and Nutrient Management (IPM & INM) approaches. Efforts are now under way to expand ELS cotton production into some areas of the Banswara district of Rajasthan. Some of the key results of the projects undertaken by CITI-CDRA include reduced production costs, higher productivity, improvements in cotton quality parameters as well as trash and contamination levels, and the development of non-traditional market centres.

Demand for ELS cotton products

Aside from the recent focus on demand for mainstream and essential goods, a reasonably strong consumer demand for high-end, luxury apparels, leisurewear, branded cotton textile goods, superior quality bed linen and home textiles made from extra fine counts of yarn has been evident. All of the Suvin produced in India is exported exclusively to Japan where it is spun in yarn counts of 240s Ne to 300s Ne. But in the domestic market, higher prices at the retail level are a major deterrent and demand for ELS cotton is met by innovations in other high-quality cotton varieties as well as the application of specialized processes such as compact spinning, singeing, mercerising

and the use of performance fabrics. Ensuring the availability of a consistent yarn quality at a competitive price is the key to survival and increased adoption of such niche fibre products.

The share of fine count cotton yarns in the global yarn trade is very small (representing around 3.3 percent of the quantity sold in the year ending March 2020), and countries like Bangladesh, Turkey, Pakistan, Italy, Germany, Japan, South Korea and Portugal account for more than two thirds of the global business. Meanwhile, the US and EU are the major markets for the finished products made from these fine count yarns.

The Supima and Egyptian Giza branding programmes have helped improve awareness of all types of fine cotton and of the niche value of the products made from them. In turn, this has stimulated demand for fine count yarns and improved the market share of the textiles made from these luxurious natural fibres.

A long march

Now, there is a need to strive for more. We need more collaborations between research institutions and the industry, focused studies on how to develop better cultivars, conserve and improve the fundamental seed stocks of these valuable cotton varieties, and an effective branding effort. We must also embed the notions of sustainability and circularity as important factors in value addition, and improve supply chain integration. There is an urgent need for a holistic approach to improving ELS cotton production in the country to realise the dream of 'doubling farmers' incomes' and build an *Aatma Nirbhar Bharat* (self-reliant India).

The Indian ELS cotton balance sheet (estimated)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23 (est.)
Particulars	Thousand tonnes										
Beginning stocks	24	11	27	27	27	27	27	27	37.7	74.8	
Production	70	76	88	94	91	78	72	90	85	67.8	85
Imports	75	88	62	55	59	72	78	83.7	130.1	70.6	
Supply	**139**	**175**	**177**	**176**	**177**	**177**	**177**	**200.7**	**252.8**	**213.2**	**85**
Consumption	155	145	146	146	147	147	147	160	175	155	152
Exports	3	2	3	3	3	3	3	3	3	3	
Disappearance	**158**	**147**	**149**	**149**	**150**	**150**	**150**	**163**	**178**	**158**	**152**
Ending stocks	11	28	28	27	27	27	27	37.7	74.8	55.2	55.2
Stocks to use	0.07	0.19	0.17	0.18	0.18	0.18	0.18	0.24	0.43	0.36	0.36

Source: ICAC, Cotton Outlook, Supima, Alcotexa, Trade sources.

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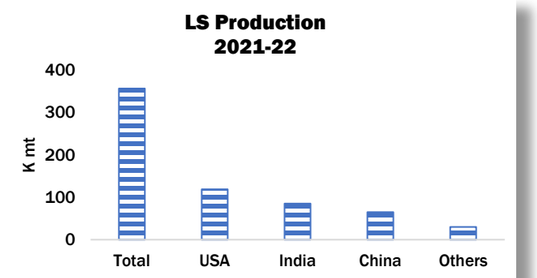
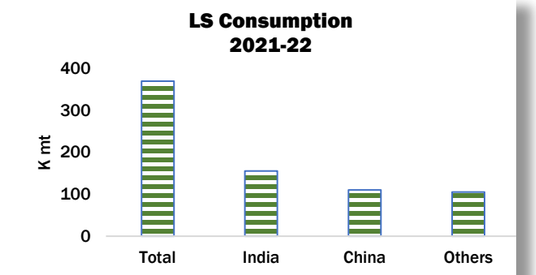
Long staple cotton: the relevance of India

Lalit Majahan
Vice President
Vardhman Textiles

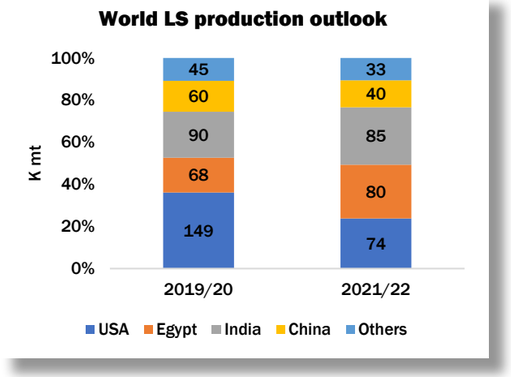
For a long time, India has held a key role in the global supply chain for long staple cotton textiles: it is in the top three LS producing countries and is typically one of the top consuming countries as depicted in the following charts.

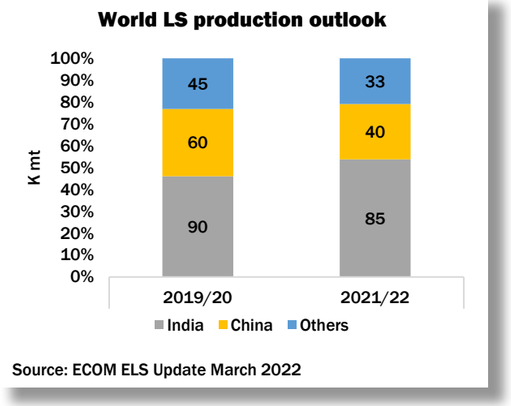




Source: ECOM ELS Update March 2022

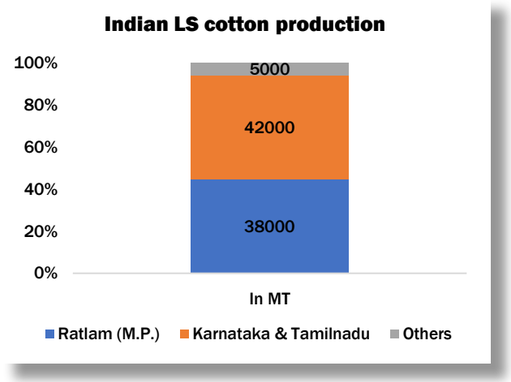
Nevertheless, the relevance of India for LS supply and demand is going to become even greater in the coming years because of the





Source: ECOM ELS Update March 2022

likelihood of a decline in production of US Pima and the preferences of global fashion brands, choosing India as part of their China Plus One sourcing policies. India is already the number one importer in the world of Pima and Giza cotton and it is very likely that the country will strengthen its position further in the coming years.



Together, India and China produce around 40/42 percent of the world's LS cotton and account for between 70 and 73 percent of total consumption.

Long staple cotton in India

Indian long staple cotton is produced mainly in two areas: Ratlam (Madhya Pradesh) and Karnataka/Tamil Nadu.

The production of LS cotton in India has been static at between 85,000 and 90,000 tonnes for many years, since the area cultivated with these varieties has not increased, nor has there been any significant improvement in yield. Now, however, there is every possibility of an increase of LS output in India for three main reasons, outlined below.

CITI-CDRA, in association with the state government of Madhya Pradesh, Bayer Crop Science, the Madhya Pradesh Textile Mills Association and the Vardhman Group, have successfully implemented the Cotton Collaboration Project with the aim of improving LS yields in the districts of Ratlam, Jabua and Dhar. This project was undertaken for the first time in the 2017/18 season and has continued in the period since.

The main objectives of the project are:

- to improve the quality of LS cotton so as to better meet the requirements of the textile industry;
- to increase the availability of LS cotton by improving yields;
- to optimise the use of pesticides and other inputs during the cultivation period so as to reduce the cost of LS production and increase farmer incomes;
- to ensure the sensible and economical use of water and other environmental resources to improve water and soil conditions;
- to raise social and economic conditions for farmers.

More than 75 percent of the region's long staple area is covered by this project, the successful impletion of which has resulted in a yield increase from 520 to 570 kgs/ha. HVI parameters have improved too: the average length of DCH-32 has risen from 34.5 mm to 35.5 mm and average strength has increased to more than 36 GPT from 35 GPT or below in the years prior to the commencement of the project.

In the 2020/21 crop year, DCH-32 seed cotton sold for as much as ₹15,000 per quintal, compared to the Minimum Support Price of ₹6,225/quintal, which has encouraged farmers to select LS cotton over other competitive crops in both central and southern India, where most LS cotton is produced as discussed earlier.

India is already the number one consumer of LS cotton, as it absorbs 40/45 percent of global supplies. However, consumption of LS cotton is likely to increase in India from 2022/23 onwards as many global fashion brands are keen to increase their procurement of apparels, home textiles and textile made-ups from the country.

The impact of import duty

In the 2021 Union Budget, India imposed a ten-percent duty on cotton imports to the country. India is a net importer of LS cotton because of the requirement of many brands for contamination-controlled fabrics and apparels. Therefore, the country needs to import Pima cotton from the US and Giza from Egypt.

Almost all stakeholder organisations in the Indian textile supply chain have lobbied the government to exempt LS cotton from import duty, arguing that it is a compulsory import since the needs of the textile supply chain far outstrip domestic LS supplies. It appears that government officials have understood these arguments, and it is likely that duty will be relaxed for LS cotton imports from next year.

Further improvements required for Indian long staple cotton

One of the major reasons foreign LS cottons are preferred over Indian, despite the latter's impressive quality parameters, is contamination. Once every two years, the International Textile Manufacturers Federation conducts a worldwide survey of the contamination levels in cotton from around the world. Indian cotton, including long staple varieties, has been considered to be the most contaminated growth for many years. This is also one of the main reasons Indian LS is usually discounted in the international market.

If contamination in Indian LS can be reduced, then it is estimated it could command a premium in the international market of about 20 to 25 cents per lb compared to its current price.

Most contamination in Indian cotton results from the human element in farming and picking. This could be reduced by adopting mechanical harvesting methods. However, the small size of most cotton fields in India presents a great challenge to this. Therefore, small mechanical pickers suited to the size of Indian farms, or hand-held mechanical pickers should be used for cotton harvesting.

In addition, the installation of contamination-control equipment at ginning factories, very similar to the magic eye equipment used in blow room lines in spinning factories, to control contamination and produce clean cotton ready for spinning could be a game changer for Indian LS cotton.

Trials are under way, and it has been observed that such technology is capable of removing coloured impurities as well as white polypropylene contaminants. Once this issue of contamination has been solved, the value of Indian long staple cotton is likely to increase tremendously.

Potential for exports of LS cotton products

The export market for products made from long staple cotton in India is growing year on year. Goods such as fine-count bed sheets and other home textiles, and fine shirting fabrics/ garments are increasingly popular in the US, Europe, Australia and New Zealand.

In April this year, the government of India signed a free-trade agreement with Australia and is pursuing similar deals with the EU and UK. At the moment, Pakistan and Bangladesh have an advantage over India when it comes to exports to European countries because of concessions in the duty structure. Once the FTAs are established, however, Indian exports of products made from LS cotton are likely to grow at a faster pace.

The way forward for the Indian LS cotton supply chain

In light of the likely changes to global supply and demand for LS cotton, it is clear that India is going to attain the number one position in both production and consumption over the next couple of years.

Xinjiang long staple supply and demand

Xiongwei
Professor and Senior Engineer
General Manager of Xinjiang Good Harvest Agriculture Development Co., Ltd.

Xinjiang is China's core cotton-producing area: in 2021/22, the total output from the region accounted for nearly 90 percent of the entire crop (according to data from the National Bureau of Statistics). Xinjiang cotton is famous for its high quality and high yield, and Xinjiang long staple cotton is undoubtedly the best in terms of fibre quality. Yields of Xinjiang long staple varieties are around double those for US Pima, and most other indicators are superior to Pima as well, including fibre length, uniformity and colour. This is thanks in large part to excellent practices in the planting, management and ginning of Xinjiang long staples.

Xinjiang long staples are mainly grown in Aksu and Kashgar Prefectures, which respectively account for 90 and ten percent of the total output of these varieties. Before 2016, the area planted to long staples was maintained at around 1.2/1.5 million mu every year, and lint output was typically 100,000/120,000 tonnes. In the period since 2016, growers across the region have adopted a machine-picked model for upland cotton, which has resulted in a sharp decline in harvesting costs. Meanwhile, a dramatic increase in labour costs for hand picking, as well as a shortage of workers to undertake the task and difficulties in the adaptation of the machine-picking model to long staple production, have led to a sustained reduction of long staple area and output. By 2021/22 the area planted to such varieties had dropped to around 500,000 mu, with a lint output of about 40,000 tonnes, marking the lowest point in the history of long staple cotton cultivation. However, at the same time, long staple prices reached record highs of around 55,000 yuan per tonne, around 2.7 times higher than those seen in 2016/17. Thus, the limitation represented by the usual proportional relationship between long staple and upland prices was transcended.

A crazy market is always followed by high enthusiasm on the part of growers for cultivation of that crop or variety. In response to greater consumption of long staple cotton, as well as an improvement in the arena of mechanized harvesting technology and the rise in value relative to upland cotton, long staple production has started to recover in 2022. According to incomplete statistics, the area figure for the 2022/23 crop seems to have increased to around 800,000 mu, with a predicted lint output of 70,000/80,000 tonnes. However, if we look at the current supply and demand situation, only if those figures are restored to 1.2/1.5 million mu and 120,000 tonnes, respectively, can domestic supply and demand come back into balance. In light of the deficit in 2021/22, China imported large volumes of Egyptian and US long staples (around 50,000 tonnes in total) in order to meet market demand.

In recent years, the profits of long staple production have generally been better than those for upland cotton. Under normal circumstances, yields are roughly equivalent, but the ginning outturn for LS cotton is 15/20 percent lower than for upland, plus its production management process is more complex, and picking costs are four to six times higher. However, asking prices for long staples are also 1.5/2.3 times more than upland, so as machine-picking technology for long staples develops, area and output should expand in the future. On the premise of firmer market prices, we may envisage that the area cultivated to long staples should recover to 2016/17 levels over the next three to five years.

Xinjiang long staples are mainly used in high-grade and wear-resistant fabrics, lightweight bedding material, and in the aerospace field. As living standards improve and further developments are made in aerospace technology, the market's concept of long staple cotton should also improve, which will in turn support the area and output of long staples. Even though the value of LS cotton relative to upland will fall as planting area, yields and output increase, the profits of long staple production are still far higher than those obtainable from upland varieties. A long-term, stable Xinjiang cotton subsidy system, as well as policies aimed at supporting high-quality production practices will guarantee that long staple growers receive a good return on their investments and will form the cornerstone on which to base the steady development of Xinjiang long staples.

With the further implementation of national policies concentrated on the farming industry, developing varieties with good crop protection and the introduction of widespread mechanisation, long staple area will be effectively guaranteed. The cost of planting (including fertilisers, pesticides, land contracting and field management fees) has been rising in recent years, so protective national and regional policies are key to promoting and stabilising long staple area, as well as protecting growers' interests.

The current global depression is associated with a number of factors, including large fluctuations of the price of cotton, slow consumption by the textiles market, Covid disruption, and trade unilateralism, that are not conducive to the expansion of long staple area and output. As a result, government policies aimed at stabilising long staple cotton development should be better co-ordinated and more finely tuned.

Where next for Xinjiang long staples?

Ye Shengqu
Xinjiang Shengjiahua Cotton Industry Co., Ltd.

Cotton Outlook: How does the area planted to long staple cotton varieties in 2022 compare with last year? Have record prices led to an increase in planting?

Ye Shengqu: Because the price of long staple cotton hit a record high in 2021/22, the planting area of long-staples has increased significantly in 2022.

CO: How has the crop progressed so far? In 2021, widespread replanting was necessary after poor weather in the spring. Have conditions been better this year, and how might that impact on yields? Do you have an estimate for LS production?

YS: Yes, in the 2021/22 season, low levels of rainfall and cool temperatures at the seedling stage necessitated the replanting of large tracts on which long staples had been sown, which then had a negative effect on final yields. This was a major contributory factor in the season's high prices for long staple cotton. So far this year, the weather in Awati County, Aksu has been much more advantageous, and the development of plants is better, not just than last year but in comparison to several of the most recent growing seasons. As long as the high temperatures forecast for August do not have too great an impact on boll-setting, high yields can be anticipated, and this year's long-staple cotton production is expected to increase by more than 50 percent compared to a year ago.

CO: Until about June of last year, prices for T-137 had been relatively stable for several seasons. However, the past 12 months have seen an extraordinary rise in the offers for Xinjiang long staples, along with those for Pima and other international LS varieties. The trend in China seems to have cooled a little now. What are your expectations for the second half of 2022?

YS: When arrivals of long staple seed cotton from the new crop begin in earnest, the imbalance between supply and demand in China should be resolved, and long staple cotton prices may fall substantially in the second half of the year.

CO: The target price subsidy for Xinjiang long staples has been maintained this year. What do you think will be the effect on production?

YS: Since last year's high cotton prices exceeded the level indicated by the Xinjiang Cotton Target Price Subsidy, there will be no payments for cotton produced last year, whether upland or long staple. Whether the subsidy applies again this year will mainly depend on cotton prices throughout the season. However, subsidies are not really a decisive factor in determining production volumes; the difference between long staple and upland seed cotton prices is much more important.

CO: Can you give us an indication of where long staple production is located now? Is it still mostly in Awati County, Aksu Prefecture? Is there much competition for planting area for these varieties?

YS: Aksu is the main producing area for long staples in Xinjiang, and the core region for production in Aksu prefecture is Awati County, which is home to a large number of long staple ginning mills. In recent years, machine-picking technology for upland cotton has been brought into operation in southern Xinjiang, but the same process has only just begun for long staple cotton. So, if the difference in value between upland and long staple is not large enough, the cultivation of long staples is likely to decrease year on year, until machine picking becomes more commonplace in the sector.

CO: How do you see demand for LS cotton and yarn in the coming year? As we move out of the pandemic period, do you foresee more stability in the market and greater consumption of long staple cotton in China, both from Xinjiang and abroad?

YS: I think demand for long staple lint and yarn is likely to fall next season, as a result of embargoes on cotton products from Xinjiang in western countries. However, once China's infection levels subside, consumption of long staple cotton at home and abroad will increase to a certain extent.

CO: Traditionally, products made from extra-fine yarn products were mainly destined for Europe and the United States. Is domestic demand for such products growing now?

YS: As consumer tastes develop in China's domestic market, consumption of long staple cotton will certainly increase. The shift in consumer choices especially among young people in China suggests that domestic demand for products made from Xinjiang long staples is likely to grow in the years to come.

LS/ELS cotton trends in Pakistan

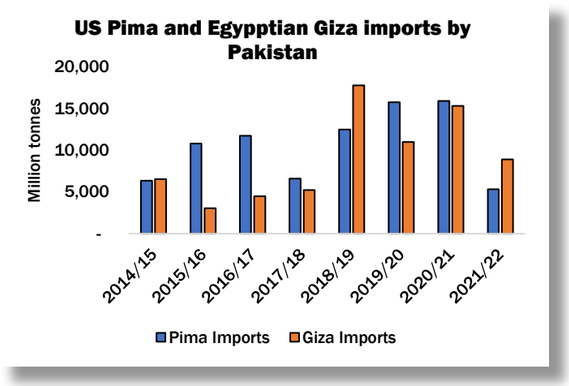
Rehman Naseem,
CEO, Fazal Cloth Mills

The 2021/22 season has been a very challenging period for long staple and particularly extra-long staple cotton consumers. There has been a sharp rise in ELS prices over the last year or so, and mills have struggled to pass on these higher rates to their customers for yarn and textile products. Understandably, this has led to a sharp reduction in consumption for ELS growths in particular. Although Pakistan is the third largest consumer of LS/ELS cotton in the world, behind China and India only, Pakistan does not produce any LS/ELS cotton of its own and has to rely exclusively on imports. At the same time, on the demand side, Pakistan has limited access to the export market for luxury home textile and garments made from LS/ELS fibres and most of the yarn produced from these fibres is consumed locally.

The primary source of consumption of LS/ELS fibres in Pakistan is the production of a fine-count summer fabric called lawn, used for ladies' and men's traditional clothing. Since most LS/ELS fibres are bought for local use, there is hardly any market for branded Pima or Giza products, and so the price relationships between various origins of LS/ELS fibres tend to dictate consumption patterns. The domestic textile industry and retailers are principally focused on acquiring fine-count yarns that meet their required specifications at the most competitive prices, and the choice of fibre is generally not their priority. This price-sensitive local demand for fine-count yarns is also associated with further competition from soaring imports of fine-count yarns, mainly from China. Fine-count yarn imports have increased rapidly over the last few years as even some composite textile mills have found it more competitive to make direct purchases rather than importing the raw cotton and making the yarn themselves. With trade currently suspended between India and Pakistan, China has become the main supplier of fine-count yarns. Furthermore, since there is no scrutiny in Pakistan regarding the composition of fibres intended for local consumption, a lot of this Chinese yarn is presumed to originate in the Xinjiang region and makes it way to Pakistan at very competitive price levels.

While demand for ELS cotton in Pakistan has taken a significant hit this season due to very high prices, the share of longer staple upland imports, mainly from the US and Australia, has increased. Mills have been able to increase the percentage of longer staple upland cotton in their fine count yarn blends and have managed to achieve yarn specifications which are still acceptable to local weavers. Many mills have also increased the percentage of manmade Tencel fibre in the production of their fine count yarns, which has made their yarn pricing more competitive. US Pima imports have witnessed the biggest drop this season as a result of the very high offering rates as well as the fact that mills were carrying higher levels of unused inventory from earlier seasons. Pakistan mills tend to increase their Pima imports whenever its premium over upland prices falls significantly below historical levels, and that was the case during the early part of the 2020/21 season, when Pima prices dropped as low as 110/120 cents per lb. In contrast, the fall in Giza imports this season has been more modest as the difference between Pima and Giza prices widened significantly during the period. Apart from US Pima and Egyptian Giza, small quantities of Spanish Pima and ELS cotton from Greece and the CIS are regularly imported by Pakistan mills since these growths are generally more competitive than US and Egyptian varieties. However, their availability is limited. The chart below shows Pima and Giza imports by Pakistan mills over the last few seasons.

In our opinion, the primary producers of ELS cottons need to ensure a regular supply of these fibres to global textile mills at a consistent premium over upland cotton. The price hikes observed this season have the



potential to harm consumption of ELS fibres over the longer term. Fast fashion brands have the capacity and power to dictate global fibre preferences based on their price ideas, and abnormal volatility in ELS cotton prices can change their fibre preferences. In Pakistan, local demand for fine-count products has undergone strong growth over the last few years and is expected to increase further, supported by the buying habits of the Pakistan expatriate community based in developed countries. Furthermore, some of the biggest textile mills in Pakistan are also the leading clothing retailers and they have been trying recently to promote branded Pima and Giza products. However, the price relationships and availability of various LS/ELS growths, along with competitiveness of fine-count yarn from China, are likely to remain key in determining Pakistan LS and ELS consumption patterns.

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