

Cotton Outlook

Special Feature

October 2019



**ICA TRADE EVENT
Liverpool 2019**



JAMES WRAY • COTTON GROWER • TRUMANN, ARKANSAS

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Cotton's coming home



Antonia Prescott

Deputy Editor

Cotton Outlook

In 2019, the International Cotton Association's annual Trade Event returns to Liverpool for the first time in three years. It must be acknowledged that the meeting comes at a difficult time for the cotton industry. There is anxiety in many quarters and about many issues – the trade policies of the superpowers, profit margins and the execution of contracts, a global oversupply of cotton stocks and a fall in demand, climate change and the worldwide economic outlook. In such unsettling times, it is all the more important for industry participants to gather together, and I humbly suggest that Liverpool offers the perfect venue for such an event at such a moment. This proud, historic city has seen an extraordinary renaissance in recent years, emerging from difficult times refreshed and vibrant with talent and new ideas, ready to tackle the challenges that arise constantly in a rapidly changing world. The recent fortunes of Liverpool Football Club (*pace* any Evertonians in our midst) offer a similarly inspiring story. A truly international collaboration (by a squad that includes representatives of cotton nations great and small!) produced an extraordinary suite of results in the final stages of this year's UEFA Champions League, delighting their fans across the world and rewarding them at long last for their fortitude and loyalty, sorely tested at times but which remain as strong as ever.

Cotton Outlook is pleased once again to partner with the ICA in producing this Special Feature. We are as grateful as ever to the Secretariat, including Managing Director Bill Kingdon and the principal officers of the ICA, for their support in the preparation of the publication, and we offer our most sincere thanks to the incoming president, Azeez Abdul Syed, who gives his view on the role the

ICA can play at this critical moment for the cotton industry.

We are obliged too to our other eminent contributors, who present a variety of perspectives on the sector. Joe Nicosia considers the insulating effect that fluctuating international currencies have had on cotton prices in some markets. Marco Mtunga looks at the next challenges in achieving sustainable cotton production in Africa. Rhea Wakefield introduces a new initiative from the ICA aimed at enhancing the profile of women in the sector. Atul Ganatra discusses the Minimum Support Price offered to farmers by the Indian government, an example of the effect that domestic policy in one country can have on the global supply and demand dynamic. ANEA president Henrique Snitcovski considers the recent extraordinary developments of the cotton industry in Brazil. Our contributors from China, Zhao Jing of the China Cotton Association and Yang Baofu from the China National Cotton Exchange, offer their perspectives on the reform of the industry, including the establishment of an International Trading Centre in Qingdao. Lastly, Cotton Outlook presents an overview of the tumultuous twelve months just gone and considers the outlook for global production and consumption in the coming season.

So, welcome back to Liverpool! Let us do as four of the city's most celebrated sons (not forgetting that Paul McCartney's father was a Liverpool cotton man...) exhorted us in the opening track of *Abbey Road*, the final Beatles album which was released fifty years ago almost to the day on which the gala dinner is held: *Come Together*, to converse, collaborate, share ideas, resolve conflicts, confront the challenges of today and prepare for the future.

The photograph on the front cover of this publication shows the Willis organ and a portion of the Minton tiled floor in the Great Hall of St George's Hall. The Minton floor is composed of over 30,000 hand-crafted tiles and features the coat of arms for the city of Liverpool and other decorative elements such as sea nymphs, tritons, and dolphins, reflecting the city's maritime heritage. For a short period of time each summer, the protective cover is removed and the floor is displayed to visitors; unfortunately, diners at the gala dinner in October will just have to imagine the extraordinary work of art that lies beneath their feet!

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Interview with Azeez Syed, incoming ICA president



Cotton Outlook: Congratulations on your (imminent) accession to the post of ICA president. From a personal and professional perspective, can you sum up what this means to you?

Azeez Syed: My initial engagement with the ICA was way back in the spring of 2000 when I travelled to Liverpool for the first time to participate as a delegate in an earlier version of the Complete Cotton course. I still vividly remember my first visit to the office of the Liverpool Cotton Association, as it was then. As I stood there in the boardroom, soaking in the association's history, heritage and legacy and looking at the boards displaying the names of all the past presidents, I never even remotely imagined that one day I would be presented with the opportunity to be the president of this great association. I am deeply humbled to be entrusted with this responsibility and I consider it an honour and a privilege. My journey in the cotton industry began a little over 21 years ago when I joined Olam and it has been an extremely enriching one ever since. Over this period a lot has changed in our industry; however, one aspect that has remained constant is the pivotal role that the ICA plays in maintaining a sense of order in the world of cotton trading. We perhaps don't need to look beyond a few other segments of the textile value chain to understand how chaotic our industry could be without the ICA. To continue that sense of order into the future, I think it is very important for all stakeholders in our industry to become members of the ICA and promote its values of equitable trading and contract sanctity – that, at least, has been my own motivation for my active engagement with ICA during the last decade or so. Over the years, I have benefited a lot

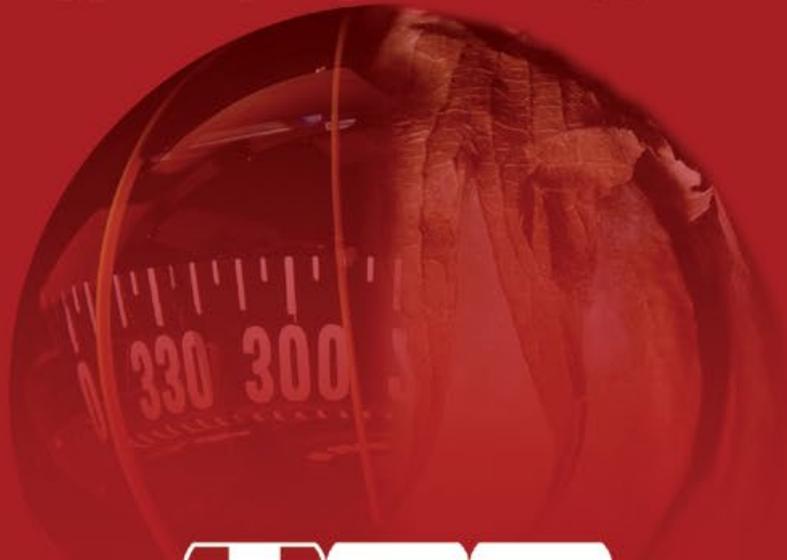
by being a part of the ICA community; I have made some wonderful friends and built some privileged relationships. I consider my service as a member of the ICA board over the last six years, and now as president for the next year, to be a very small way of giving something back to the ICA members and the industry as a whole.

CO: You assume the role following a period of considerable instability in the international cotton market. World prices have fallen by some twenty percent since the last president took office, and it is no secret that challenging trading conditions have become a serious preoccupation over the past few months. In that context, what are the major challenges that the ICA is likely to face during your term of office?

AS: Global growth prospects have significantly softened over the past several months – consequently, business sentiment has remained weak. The escalating US/China trade dispute, Brexit dynamics, a considerable slowdown in manufacturing, trade and investment, and fresh fears of recession across many parts of the world have pushed the markets into a protracted state of uncertainty that has affected sentiment and business decisions. Quite inevitably, our industry has been severely impacted as well. While the weak economic outlook appears to be slowing down global cotton consumption, the US/China trade conflict has caused havoc in our supply chains and global cotton trade-flows. At the same time, we appear to be producing record crops almost everywhere. All of this has led to considerable market volatility, causing significant distress to both buyers and sellers. The ugly face



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of rampant contract defaults seems to be surfacing once again. The principle of contract sanctity, which forms the core of our values as an association, will once again be severely tested and that remains the single largest challenge the ICA will face in the coming months. We are likely to see a significant increase in the number of arbitrations brought to the ICA and we must gear up to handle them in an effective, efficient and speedy manner. Time is of the essence when it comes to completing the arbitration process, and we must find ways to turn around the cases referred to us quickly. Through the various country focus groups that we have set up, we can actively advise and help with the enforcement procedures in the respective geographies. As an association, we have a limited capacity to interfere and we cannot really get involved in settlement processes. However, we can and ought to engage with all our affiliated associations, partner associations and other industry bodies, seeking their active involvement in encouraging and influencing their own members to uphold contract sanctity and ensure contract performance.

CO: Comparisons have been made in some quarters with the turmoil that occurred during and after the extreme volatility of prices during the 2010/11 season. Are there perhaps any lessons that can be learned from that earlier period?

AS: While we haven't seen the kind of price ranges we did in 2010/11, there is always a concern about counterparty risk when prices fluctuate by more than, say, 15 to 20 percent within a single season. In 2019/20, the position at the start of the season is the opposite to what we saw in 2010/11; at that time, there was a huge run on prices just as the harvest got under way in the Northern Hemisphere. The rising price caused a lot of heartache with regard to margin calls and contract defaults. Then, in March of 2011 when futures prices began to retreat, the execution of forward sales to international buyers became extremely problematic as buyers simply did not open LCs or refused outright to honour contracts. That last scenario is what concerns the merchant community the most as we go into 2019/20. Even though futures are down only 16-20 cents from the point at which a lot of sales were agreed earlier in the year, the risk of default is enormous and is compounded by the US/China trade dispute.

However, we did learn many lessons from our experiences in 2010/11; for example:

- Know your buyer / seller – there is no substitute for selecting the right counterparties and applying risk and counterparty limits appropriate to your risk appetite and to the counterparty's position.
- Focus on risk management and question your business rationale at all times – your reason for buying or selling forward, your need to buy or sell at a fixed price. Evaluate the financial capability of your counterparty and their ability to handle adverse market movements. Make yourself aware of the

buyer / seller's exposure, not just with you but also to the rest of the market. Diversify your risk across origins / destinations / qualities in order to hedge against potential market volatility.

- Ensure active counterparty exposure tracking to help identify potential issues and take timely action. Consider risk-management solutions as insurance against extreme market movements. Whether one is a mill or a merchant, the need for protection for larger or longer term exposures should be considered. Keep reviewing the adequacy of such protection.
- Good housekeeping! Don't take the administrative aspects of the business lightly – ensure firm and duly executed contracts are in place; communications relating to contracts should be retained; documents relating to contract amendments and other operational matters are a must. In the event of a dispute these will form the basis for subsequent actions.

While I wouldn't wish to trivialize the issues by discounting the severity of the impact in either season, it is fair to say that 2019/20 can serve as a reminder to the past, but it certainly does not seem as though events will play out with the same magnitude of risk or losses to the overall trade.

CO: The process of internationalisation and diversification of ICA membership and its governing structures has been a strategic goal over many years. How would you assess the current state of play in this regard? Are there any particular areas on which efforts should be concentrated?

AS: With more than 550 members from over 50 different countries representing all segments of cotton trading and the associated supply chain, the ICA today is truly international and inclusive in nature. Over the past ten years, the ICA's membership has grown by over 60 percent – while the increase in membership among merchants was 19 percent, the increase amongst producers and mills was 83 percent and the figure for agents was higher still, at 136 percent. These striking rises are testimony to the resonance of the ICA's vision and values throughout the global cotton trade. During this period, the ICA's internationalisation journey continued as the association built strong alliances and partnerships with associations in China and India, significantly improving engagement with associations in Pakistan, Bangladesh, Vietnam, etc., and welcoming onboard several other affiliated associations. In the past ten years we have had presidents from South and North America, Africa and Asia, and from both the spinning and merchant communities. Our board members represent several different nationalities. Bill Ballenden, president of the ICA in 2018-19, commented in jest during his acceptance speech last year that the ICA's FGC is beginning to look like a Benetton ad! Jokes apart, one does not have to look far beyond the current leadership team as well as the composition



of the current board to grasp the diversity and inclusiveness that the ICA has achieved in terms of both geographical as well as segmental spread. All this was possible thanks to the tireless efforts of past presidents, board members and a very competent team at the ICA secretariat. While growing the ICA's membership will remain a top priority going forward, another key focus should be enhancing engagement across the association. Deepening ICA's engagement levels with member firms and their employees, particularly the younger generation, from which the future industry leaders will emerge, is as important as broadening the membership base. Continuous renewal is key to strengthening and improving our governance processes. Promoting gender diversity across various ICA committees, working groups and the board itself should be another important area of focus. Finally, the improvement of communication with members should be an area of ongoing priority.

CO: Training has been a significant element of the Association's activity over a number of years, and the number and scope of available courses offered has been steadily expanding. What is the importance attached to training by the ICA within its strategic objectives?

AS: The ICA provides a suite of services to its members as well as to the cotton industry at large spanning from farms to textile mills. The four most important among them are: 1) providing impartial and effective arbitral services to help resolve disputes between buyer and seller; 2) promoting equitable and safe trading practices through its Bylaws & Rules and through constructive engagement with various industry stakeholders and associations; 3) providing a 'centre of excellence' for cotton quality testing, research and laboratory certification services through ICA Bremen, a joint venture company between ICA and Bremer Baumwollbörse; and 4) running training courses to promote a universal understanding of ICA's principles, values, Bylaws & Rules, enhance industry knowledge of safe trading practices, impart risk management skills, cotton classing skills, etc. Bringing together the many years of experience and expertise of its members, leveraging their skills to develop industry best practices and sharing all this with the wider cotton community through various training programmes will remain one of the most important strategic objectives for the ICA.

The flagship training programme remains the annual Complete Cotton course, which over the years has been such a huge success and very well received. The ICA will continue to explore ways to improve the programme and the overall offering. Other training courses designed and run by the ICA (some in collaboration with ICA Bremen) include the Managing Risk course, the Cotton Classing and Testing programme, the Quality Expert programme, the Professional Certificate in Commodity Management and various seminars delivered in different locations across the world to promote an in-depth understanding of the Bylaws & Rules. ICA and ICA Bremen are also working on a targeted

training and outreach strategy to offer bespoke training across the world in partnership with affiliated associations and local industry bodies.

CO: The ICA's annual trade event and dinner is of course a highlight of the cotton calendar. This year, the gathering returns to Liverpool following an absence of three years. How would you characterise the importance of Liverpool as the venue for this year's meeting and the headquarters of the International Cotton Association?

AS: Liverpool, with its rich history, culture and splendid architecture, has been home to our association since its inception in 1841, when it was known as the Liverpool Cotton Brokers' Association. From the mid-19th century onwards, the city held a central position in the global physical cotton trade. It gave the cotton world its first modern futures contract and its first arbitration system. Subsequently, political and economic landscapes changed, the textile industry in the UK and Europe declined and migrated to other parts of the world, and global cotton trade-flows adjusted to the new reality. Keeping in line with the changes, our association has transformed itself several times to evolve into the International Cotton Association of today. However, the heritage, rich tradition, culture and values on which this association was built still remain at the heart of the ICA. The same principles of fairness, impartiality and contract sanctity form the basis for our current Bylaws & Rules. Given this legacy, while Liverpool is no longer a major trading hub for cotton it remains the ICA's headquarters and has a special place in the hearts of its members. Liverpool has always been the venue most favoured by ICA members for the annual trade event. Deferring to the wishes of those members, the board decided that the event would be held in Liverpool every third year. I am very excited that this year sees a return to Liverpool. I am really looking forward to the event and the dinner at the magnificent St. George's Hall.

CO: What impact could World Cotton Day have on the international perception about cotton?

AS: I think it is a great initiative! While it is too early to comment on what impact it will create, I am very optimistic that the establishment of a World Cotton Day will bring a sharp focus on the cotton value chain which forms such an important part of the global economic landscape and provides livelihoods to millions of farmers and industry workers across the world. It has the potential to bring together various governments, multilateral agencies, industry stakeholders, investors and donors, and persuade them to direct resources towards the many challenges that the sector faces today, including improving farm yields and farmer livelihoods (particularly in the least developed countries), ensuring environmental stewardship and sustainability, and eliminating child and forced labour and supply chain inefficiencies. The platform can also serve to promote global cotton consumption.





CO: Trading is evolving: consumers are becoming more discerning, the logistical challenges of providing a timely supply of cotton across the world are not diminishing and as the climate evolves, pressure on scarce water supplies is increasing. What are the developments in the world market that might provide the greatest opportunities for the sector? And where do you see the greatest challenges?

AS: We are today living in a world driven by exponential growth in technology and changing consumer preferences. Today's consumer is far more discerning and increasingly demands sustainably produced products at an affordable price. This desire may still be viewed as niche by some, but it will be mainstream tomorrow. Therein lies the greatest opportunity for increasing global cotton consumption: cotton products can be pitched as a sustainable alternative to those made from synthetic fibres and as a mitigant of the detrimental impact of micro-fibre contamination. The potential to grow the use of cotton not just in apparel and home furnishings but also in industrial textiles is immense; we just need to be innovative and communicate the cotton story effectively to the consumer. Over the past 40 years, while global fibre consumption has grown by over 300 percent, cotton's share has declined from about 48 percent in 1980 to about 27 percent today. I believe this trend has been driven more by serious supply constraints and inefficiencies within the cotton sector than by an inherent advantage offered by man-made fibres. While solving these problems remains the biggest challenge faced by our industry today, our greatest opportunities lie that way too.

Some of the most critical challenges and opportunities include:

- Increasing farm incomes, particularly for smallholder farmers in developing and least developed countries. Significantly improving

farm yields will provide the right incentive to produce more cotton, thereby solving the supply constraints. This calls for the adoption of better agronomical practices, the infusion of new technologies and cutting-edge research.

- Given that about 56 percent of global cotton production is rain-fed, climate change is bound to have significant impact on output. Developing efficient water-management technologies and investing in research to develop more drought-resilient varieties will be necessary to increase production sustainably.
- Unblocking supply chains – our storage and logistics systems are inefficient and expensive. Innovative solutions involving new technologies for warehousing, handling and transportation are needed to improve flow efficiencies and cut costs.
- Growing demand for sustainably produced, ethically sourced and traceable products – environmental stewardship, the development of end-to-end traceability solutions spanning from farm to the final garment, and the adoption of sustainable farming and production practices are essential to satisfy the needs of today's consumer.

Of course, these problems are not going to be solved overnight, and efforts continue at different levels and on the part of various stakeholders to address the challenges. However, what is lacking is a collaborative effort by all stakeholders to communicate the cotton story in an effective and compelling manner to the consumer. If we can achieve that, I think we can truly look ahead to an exciting phase of innovation and growth in our industry.

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Bill Kingdon

Managing Director

International Cotton Association

This has been a turbulent year for cotton. New tariffs, droughts, significant price adjustments and falling demand for yarn have had a detrimental impact on the international trade. Conditions have become increasingly tough for producers, merchants and mills. Yet your Association is continuing to thrive and there are many positives to report.

This time last year, the ICA was making the final preparations for what proved to be a highly successful trade event in Hong Kong, and now we look forward to welcoming current and future members alike to our Liverpool 2019 trade event, for which the theme is *Coming Home*. We welcome you all to England's North West, which contributed so many innovations that are now commonplace in the cotton trade, such as the trading of commodity futures, arbitration for dispute resolution and the technological advances that caused the rapid expansion of the trade to service over 2,000 spinning mills in Lancashire alone in the 1870s. You can expect an interesting conference with leading speakers, plenty of opportunity to network and an exciting finale at the gala dinner in the iconic St George's Hall, all thanks to the superb organisation of Tom Lowndes and his team.

As you know, your Association is run on not-for-profit lines for the benefit of its members and the wider global cotton community. We are constantly looking for incremental steps we can take to develop the sense of community within the ICA, and to reinforce our values of safe trading and contract sanctity. Perhaps it is this approach that continues to attract new members and retains existing ones within the ICA. Notwithstanding the trading

conditions, we have seen a rise in most membership categories through the year.

Our focus in the past 12 months has been on developing the engagement of our member firms with the ICA. There are three initiatives which together are helping us to engage better with the cotton community. *Women in Cotton* is a network for cotton professionals intended to promote diversity and the positive role that women can and do play in our industry. Next, *ICAspire* is a new membership category aimed at younger cotton professionals and those new to the trade. We hope to help these individuals improve their professional skills in the industry while engaging closely with them to better understand what the 'future of cotton' will need. Look out for the launch of ICAspire at Liverpool 2019. Finally, we are exploring how to make it easier for those who work for ICA member firms to gain access to the members' area of our website, where they can check the full list of companies who are not safe to trade with as well as accessing many useful resources. Watch out for notifications about this next year.

Last year I mentioned that we planned to broaden and strengthen the community of cotton professionals who are committed to safe trading. We have done this in part through our well-established trade events and our *Complete Cotton* networking and training course held each year, and our outreach and training with partner organisations in key markets around the world. In the past 12 months we have delivered training in association with the China Cotton Association in Henan Province, China, and with the Karachi Cotton Association in Karachi,



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Pakistan, and we have more training planned in Vietnam this November.

Your management team here in Liverpool comprises a small group of energetic, dedicated and cheerful people all of whom are committed to providing the best support we can to you, the members. Their roles, too, adapt and evolve to match the changing demands of the Association. Esrin Graham, who has previously worked with ICA Bremen and as the Events Officer, now leads on communications and marketing for the ICA. Not only does she bring lots of experience from her previous roles, she also approaches everything she does with a delightful smile.

Dr Robert Jiang is our Business Operations and Development Officer. As many of you know, he has a broad portfolio. In addition to leading the management team on matters related to cotton quality, he also works closely with Karsten Froese in ICA Bremen on laboratory testing. It is almost entirely due to Robert's rigour and energy that we now have 12 international laboratories certified by ICA Bremen's International Laboratory Certification Scheme.



Robert is critical to our strong relationship with China and he plays a central role in delivering

outreach and training in key markets alongside our partner associations. He also manages the affairs of CICCA and provides efficient and timely support to the CICCA chair, who is invariably based away from Liverpool. And, in his spare time, he keeps the management team ICT and data security on point.

Awarded a PhD from the University of Manchester Institute of Science and Technology, Robert has published several papers on spinning technology. He joined us as manager of our cotton laboratory in June 1990 and during the coming year he will celebrate 30 years of service for the Association. This is a fabulous achievement and we are lucky to have his expertise, energy and cheerful commitment to the ICA.

We also celebrated Tracy Dignan's 10th anniversary as our Membership Officer earlier in the year. No membership application or renewal is complete without her efficient and lovely personal engagement. Casandra, too, is now well-established as our Business Intelligence Officer and is focusing keenly on identifying trades with companies who appear on our 'no-trade' lists.

Our arbitration team comprises John Gibson (a notary public and barrister), who has led on this key area for more than six years, and Lynne Thomas, who has been with the ICA for five years. John and Lynne both bring strong legal experience, a network of friends and colleagues who are involved in arbitration and legal work, and a commitment to this critical means of dispute resolution in support of the cotton trade. You will not be surprised to learn



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that they are increasingly busy this year as applications have increased with the decline of raw cotton prices.

In the past year we have welcomed three new staff members into our team: Diane Lewis who has joined the hard-working Vanessa Harris in the finance team as Finance Manager, Angela McGeagh as Executive Assistant and Michael Armstrong as Communications Officer (ICA Bremen) / Events Assistant (ICA).

I hope that you will agree that, although it is a difficult year for the cotton trade, it has been another good year for the ICA. On behalf of all



John Gibson



Lynne Thomas

members I would like to highlight the contributions made by so many members who participate in our committees and working groups, and offer my thanks to our directors who hold responsibility for the oversight of the company, and in particular, to the officers who give so much time cheerfully and willingly to benefit the ICA. The ICA

remains true to its values: it is run for the benefit of its members and in the interests of the global cotton community. It is heartening to see that so many feel this is a commitment worth making in these challenging times.



The role and reality of women in cotton



Rhea Wakefield

*Compliance and Sustainability Manager
Wakefield Inspection Services, Ltd.*

I am a young (thirty-something) female, who now has three years of direct cotton experience working for Wakefield Inspection Services. I say direct, since as a member of the Wakefield family, I have had lots of indirect experiences from a very young age. These ranged from listening to cotton topics discussed around dinner tables and at family gatherings, to attending the Liverpool Cotton Association ladies' events with my mother and going to the International Cotton Association Dinner when my father Peter Wakefield was president of the ICA.

Wakefield Inspection Services was first established as a private entity back in 1993 and since then I am the only female Wakefield to join the business. However, while I may be the first woman from my family in the company, we do have many female country managers who are an indispensable asset to the team. In some ways, trying to make my way in both the family business and the industry at the same time has been a challenge. This industry does not differ from any other: any new recruit, male or female, faces a steep learning curve!

The role of females in the workforce has become more prominent over the last decade. The increased attention paid to female empowerment is a necessary and positive shift that will advance equal opportunities, positively impacting the growth of individual businesses and whole sectors of the economy.

The cotton industry is largely male-dominated. This is common knowledge, but here are a few

statistics, drawn from my personal experiences, that show the female/male ratio:

- I attended ACSA International Cotton Institute 2017 – five women / 29 men
- I attended ICA Complete Cotton 2019 – seven women / 25 men

I also looked into the female/male ratio of ICA members:

- ICA individual members – 22 women / 211 men
- Currently registered for 2019 ICA Event – 20 percent women / 80 percent men

Up to this point in my career, I have not faced any substantial challenges in the cotton industry because of my gender. However, there continue to be opportunities within the industry to advance women's roles and responsibilities, and this should always be the goal. Other factors that affect the advancement of women in the workforce are different cultural practices and religious preferences. We must all recognise these cultural and religious differences and be respectful of everyone's rights and beliefs. This means that we must continue to adapt and use our voices whenever and wherever we can to advance this necessary social movement within our industry.

A common phrase we have all heard highlighting the differences between the sexes is: "Men are from Mars and women are from Venus". Women and men

tend to use their brains differently in the ways they analyse, interpret and manage opportunities and risks. This is a positive that needs to be utilized in the industry. If everyone was identical and had the same thought process, there would be no growth, no change, and a very stagnant industry. We need to find opportunities to increase this diversification.

A successful career in the cotton industry is based on creating good relationships – with partners, clients and governing bodies throughout the value chain. This is one aspect of the cotton industry I truly enjoy. I believe individuals working in the cotton industry are fortunate to have so many international events that can bring everyone together to discuss the opportunities for continuous industry-wide improvement. One way to move our industry forward faster is through diversification and by having more female-led discussions at these events. I have to mention, however, that we do have vital male role models in the cotton industry, from whom younger, newer professionals in the business should be learning, regardless of whether they are male or female.

Personally, I think the biggest challenge women face in the industry is overcoming a fear of standing up and voicing opinions to a traditionally male-dominated base. I am not saying that women are afraid to talk, but I believe they can contribute more, especially as new young females start their careers in the industry. The notion that women are the 'note takers', or work in the 'back office' must be dropped. I believe that women have to stick up for themselves in all circumstances and this will allow for greater strength throughout our industry.

Another challenge is that women are naturally thought of as mothers. This can cause some challenges when managers and directors are looking at the structure of a business and their employees. Women will obviously need to take time to have children, but again, times are changing, and more men are taking shared parental leave, allowing for women to return to work earlier and continue their careers.

It is interesting that George Holt was the first president of the Liverpool Cotton Brokers Association back in 1842 and since then there has been no female president of what is now the ICA! That means in 177 years, every president has been male. Moreover, in that lengthy period of time, there have been very few women on the board of directors – something I know the ICA are taking steps to address. If there are no visible female role models in the industry, then it does not help to promote growth of the younger females. The only way to increase the number of female role models is to increase exposure of those great women who are already working in the industry.

To further tackle this divide, the ICA have set up a new working group during 2019 – Women In Cotton – of which I am a member. After initial meetings to establish the focus and strategy of the group, a closed LinkedIn group has now been set up providing a platform to network, share experiences and discuss



new ideas. We hope this will expand greatly and I encourage all women involved in the cotton industry to join (simply contact the ICA for details).

The mission of the Women in Cotton group is:

'To increase engagement and the impact of women within the industry by giving these women a stronger voice, sharing and learning from each other's experiences and helping networking amongst women in the global cotton community.'

The objectives include increasing female representation on ICA committees and the number of female speakers and presenters at high-profile events.

In my opinion, the mission statement is strong, and the ICA has set meaningful objectives. There is the possibility that a women-only group could be seen as negative, having the effect of segregating women further; however, the discussions will also include opinions and guidance from men on how to improve the presence of females in the industry.

We all face a world that is changing rapidly as a result of environmental issues, social media and new technologies. Today, people both male and female have more opportunities to grow and use these changes to their advantage. Diversity in the workplace is critical and to be encouraged. Women want to have more of an impact in all aspects of the industry and the Women in Cotton group is a good first step to encourage this much-needed change.

What would be ideal would be to see an increase in female participation at industry events, in participation of women on the ICA board of directors, and even a female ICA President one day. I think the industry is in need of this change and is ready for it. In order to bring it about, women themselves need to be more forthcoming and willing to put themselves out there. This is vital in order to support female entrants to the industry and prepare for the future. Such a strategy will also tie in with another new initiative from the the ICA – a new category of membership, known as ICAspire, designed for young professionals. I hope to see some female mentors and speakers at ICAspire events as this will help with the development of the new generation of industry participants, both male and female. I for one thoroughly enjoy working in cotton and feel fortunate to have the role models that I already do. I believe that in order to keep our industry successful and allow it to keep growing, we need more diversity, more participation, and more ideas for both sexes.

Hong Kong to Liverpool: a momentous twelve months



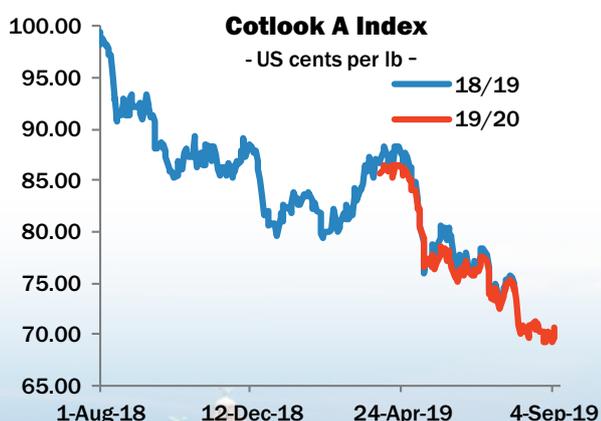
Mike Edwards

Editor

Cotton Outlook

Collapsing prices

The period since the International Cotton Association’s gathering in Hong Kong in mid-October last year has been a momentous and, for many players in the international cotton market, a painful one. As delegates arrived in Hong Kong, world prices, as measured by the Cotlook A Index, were in the high 80s cents per lb – still substantially above the nominal, long-term average, despite having lost 14 percent of their value since the peak in mid-June. The May/June period had seen the A Index briefly surpass the dollar mark, a threshold crossed on only a handful of occasions since its creation in the mid-1960s.



The single most significant driver of the market’s persistent decline since then has of course been the protracted trade dispute between the United States and China. But in October 2018, few could have foreseen that the impact on cotton prices would be so severe. Indeed, a more common view at the time was that either a reasonably swift resolution would be reached or the cotton market would adjust to the shift of trade flows that the conflict would bring about.

As the dispute has escalated and its scope has broadened well beyond the narrow, trade-related issues initially in play, the repercussions on the global economy have been far-reaching. And for the cotton and textile sectors, this has not been a simple matter of the Chinese spinner substituting US cotton for other origins and the US retailer shifting sourcing of textiles and apparel from China to other low-cost producers (though these have indeed been identifiable trends).

Falling consumption

The impact on world raw cotton consumption as a whole has been far more profound than was predicted twelve months ago. At the time of the ICA gathering in Hong Kong, it still appeared likely that in 2018/19 world raw cotton consumption would surpass 27 million tonnes for the first time, a level of global demand that the world’s cotton producers might be hard-pressed to meet on a regular basis and one that would thus have had bullish implications for world prices.

Since then, Cotton Outlook’s estimates for the season have fallen progressively, as have those for

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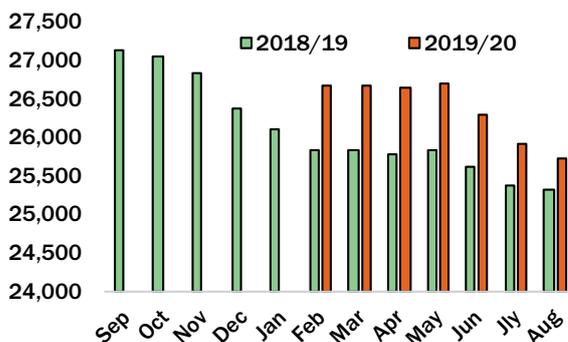


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Cotlook's world consumption estimates



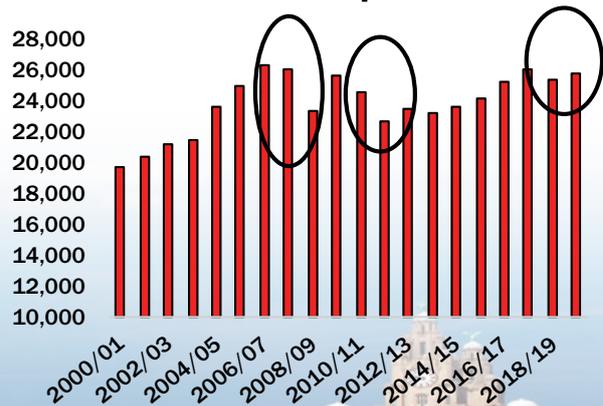
global financial crisis of 2008/09, the second with the aftermath of the record prices and extreme volatility of the 2010/11 season). How deep and long-lasting the current downturn will prove to be only time will tell.

With the exception of some brief rallies (most notably during the January/April period, as it seemed that Beijing and Washington were steadily edging towards an accommodation), the downward trajectory of the market has been relentless. In mid-August, the Cotlook A Index dipped below the threshold of 70.00 cents per lb for the first time since May 2016. The decline

the 2019/20 campaign. At the time of writing, the figure for 2018/19 stands at just 25.3 million tonnes and that for 2019/20 at 25.6 million. One might at some point expect that lower raw cotton replacement costs will start to stimulate raw cotton consumption, but as yet there has been scant evidence of such an upturn. For the present, the negative macro-economic environment appears instead the overriding factor.

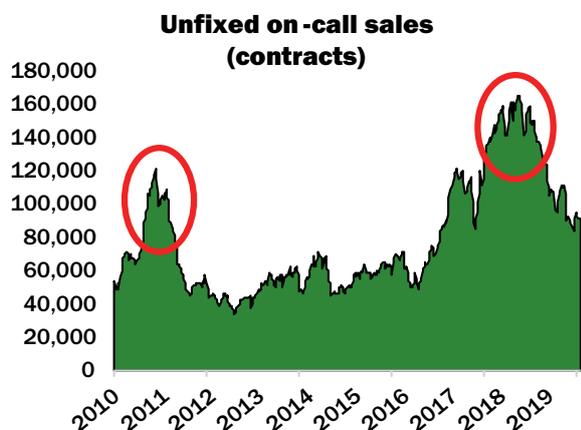
The direct and indirect effects of the Sino-US conflict would thus seem to have provoked the third major shock to world cotton consumption of this century (the first associated with the

World Consumption



since the peak of mid-June 2018 amounted to more than 30 percent.

The consequences of a market collapse on that scale have been many and varied.



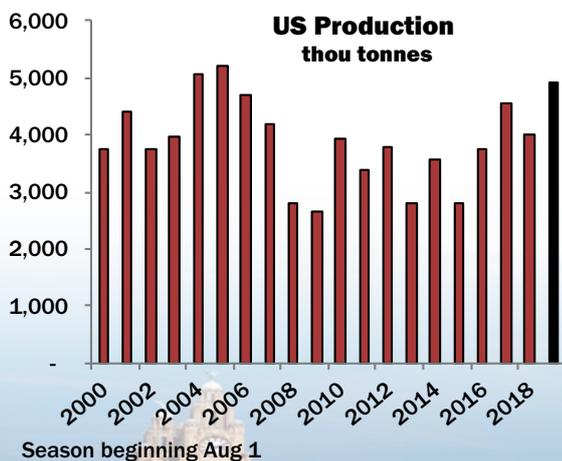
One has been a waning appetite on the part of spinners for forward purchasing, on-call New York. The return of mill buyers to a more hand-to-mouth orientation is consistent with the data published by the Commodity Futures Trading Commission. Unfixed on-call contracts reached an all-time high in May 2018. The previous peak had been attained late in 2010, when the bullish phase of the 2010/11 season was in full swing.

Market disruption for spinners and international merchants, as well as those traders in China that had taken an unequivocally bullish view of the market in the first half of 2018, has been difficult to digest. The scale of contractual difficulties that have arisen is probably still not yet apparent.

Looming oversupply

What then, of the supply side of the world cotton market? At first glance, it may seem paradoxical that the downward spiral of prices during the past twelve months should have had so little impact on world production.

As indicated above, one of the periods of (ultimately misplaced) optimism with regard to the



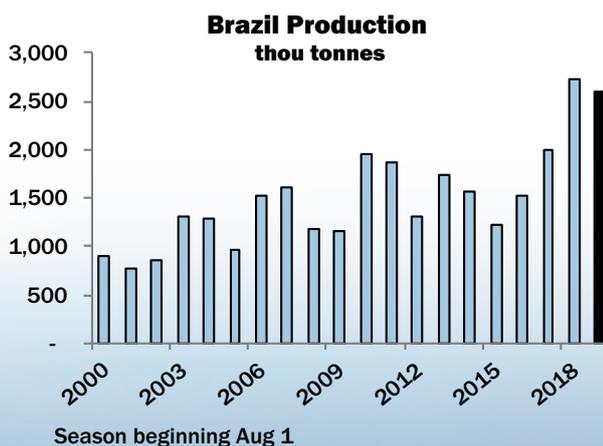
US-China dispute was witnessed during the early months of 2019, just as planting decisions were being made in the US and some other parts of the Northern Hemisphere. Sowing across the US cotton belt was well under way by the first weekend in May, the point at which social media posts from President Trump brought the mood of optimism to an abrupt end.

US farmers' view of the likely returns from cotton vis-à-vis soybeans and corn meant that the area devoted to cotton proved only slightly lower than that sown the previous season. However, USDA's forecast of harvested area is 12.5 million acres, representing an increase of over 22 percent from last season, primarily owing to a lower anticipated rate of abandonment in West Texas. As things stand, the US is forecast to produce a crop of 4.76 million tonnes (21.86 million bales of 480 lbs), the third-largest crop on record, surpassed only by those attained in two successive seasons in the mid-2000s, when more than five million tonnes were produced.

Indian farmers are likely to be insulated from the market's downturn by virtue of a Minimum Support Price for seed cotton that was hiked by some 26 percent in 2018/19 and raised a little further for the season ahead. Confidence that the Cotton Corporation of India will intervene in the market, the firmness of domestic cotton values during 2018/19 and a generally favourable Monsoon, have doubtless all contributed to a planted area of record proportions. Forecasts of higher production are also predicated on a recovery of yields and farmers' capacity to keep pest attacks under control.

The Southern Hemisphere's two principal producers and exporters have experienced sharply differing fortunes.

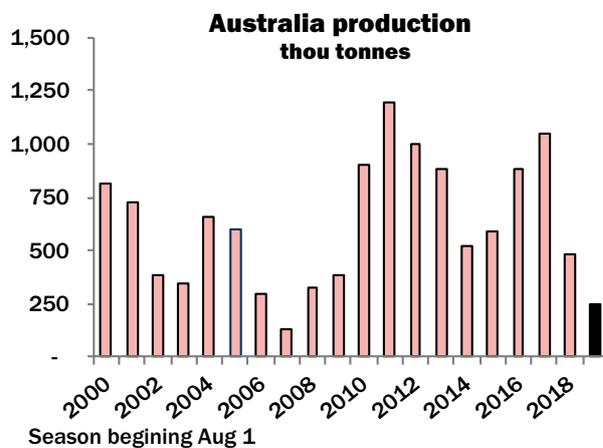
Brazil has achieved a quantum leap in production with the 2018/19 crop (whose movement is only slightly in advance of that of the 2019/20 Northern Hemisphere crops). It has long been acknowledged that, of the major producing countries, Brazil has the most available land that can be brought under cotton. In Mato Grosso alone, an additional 300,000 hectares or so have been planted in 2018/19. This has been principally *safrinha* cotton, sown after the early soybean harvest. This double-cropping model



has proved lucrative in Brazil's largest producing state, where it accounts for the bulk of Mato Grosso's cotton plantings and over half of the national area.

On current indications, the depression of prices will result in only a modest downturn in the area planted to Brazil's next cotton crop. Farmers have invested heavily in cotton-specific infrastructure and machinery and must service the associated loans. Moreover, the bulk of the 2018/19 crop was sold at prices well above current levels, as well as a more modest proportion of the next crop.

In sharp contrast, output in Australia has been on a downward path. At 480,000 tonnes, the 2018/19 outturn marked a decline of roughly fifty percent from the previous season and unless a massive rain event transforms the situation, production from the next crop is forecast to decrease by a similar proportion. However, reduced plantings are due to a lack of water rather than a response to market signals. Indeed, at over AU\$ 500 per bale, ex-farm cotton prices would still provide a strong incentive to plant cotton. Quality-related market premiums, high yields and a limited choice of alternative crops have invariably kept the Australian farmer in the game – when sufficient moisture has been available.



Like their counterparts in other major producing countries, Australian cotton farmers have also benefited from currency factors, a theme explored in more depth elsewhere in this publication.

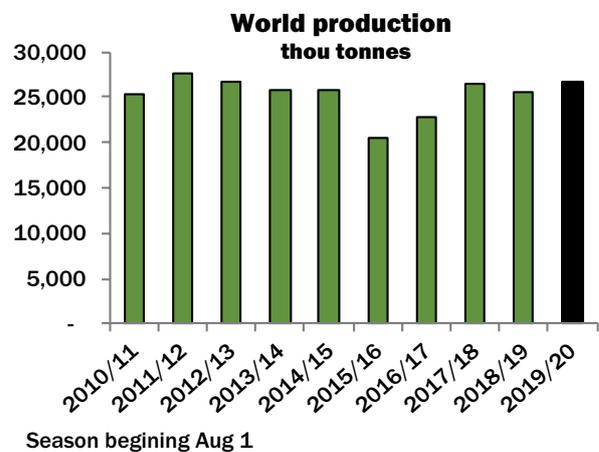
Despite the anticipated downturn in Australia, world production in 2019/20 is forecast by Cotton Outlook to rise by over four percent to 26.5 million tonnes, implying a surplus over consumption approaching one million tonnes.

Within this rather bearish global context, the statistical position in the US is of course of particular interest, given its paramount significance for the behaviour of the New York

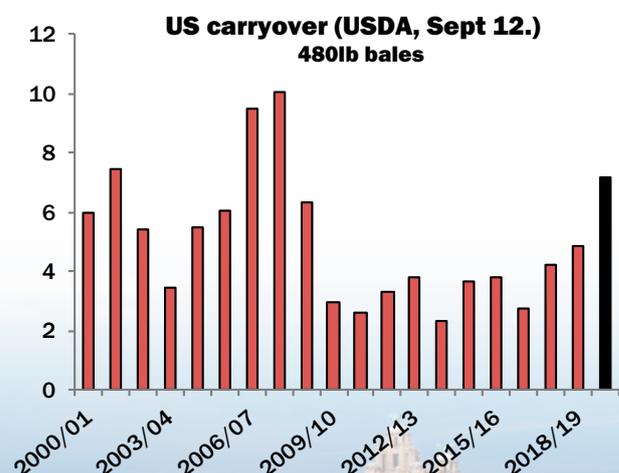
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No. 2 cotton contract. USDA forecasts that ending stocks will have risen during 2019/20 from 4.85 to 7.2 million bales (480 lbs) – the largest carryover since the 2007/08 season. That projection, however, is based on the premise that exports of 16.5 million bales can be achieved, one that some observers consider optimistic, in the context of barriers to sales to China, competition from a bumper Brazilian crop and slowing global consumption.



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The manner in which the excess supply will influence market dynamics over the coming months is the subject of much conjecture. Support mechanisms have assumed a greater significance as world prices have moved lower.

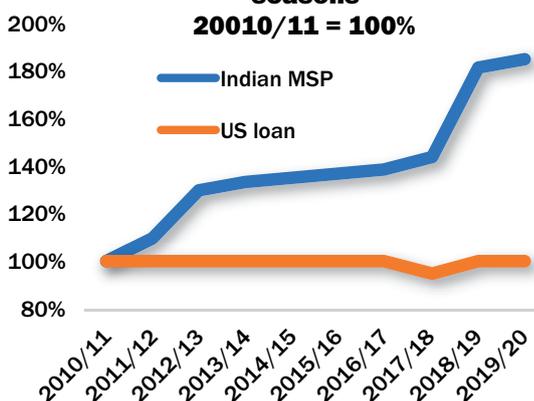
Only a modest proportion of the prospective US crop is believed to have been sold from first hands and the likelihood is that a good proportion will be entered into the Commodity Credit Corporation loan, which affords producers cash liquidity and allows them to await a more advantageous opportunity to market their crop. The provisions of the Marketing Loan, introduced in the mid-1980s, are intended to ensure the international competitiveness of US cotton, whatever the level of world prices. To this end, cotton can be redeemed at the Adjusted World Price if that value falls below the Basic Loan value (52.00 cents per lb), as occurred in late August, for the first time since May 2016.

One other reference point of potential significance over the months ahead will be India's Minimum Support Price for seed cotton. As mentioned above, this season's higher MSP has provided an incentive for farmers to plant cotton. However, the mechanism also has implications for the interaction of local and international supply and demand, and for the relationship between Indian and world raw cotton prices. In contrast to the US Basic Loan value, the MSP has been increased substantially over recent years.

As a result, the 2019/20 season's MSP implies an Indian export price well above the international market. How that disparity is resolved will depend in part on the policy pursued by CCI, not only as regards the scale of its purchases, but also – crucially – the manner in which it proposes to dispose of its accumulated stocks.

Until recently, China provided the world market with an underlying narrative that was unmistakably

US loan vs. Indian MSP over ten seasons



bullish, whatever the short-term movement of prices. Most traders subscribed to the view that once the State Reserve stocks reached a level considered the 'point of equilibrium', the country's structural deficit would result in a rising import requirement that would transform the dynamics of international supply and demand. As the consequences of the trade conflict with Washington have become clearer, however, estimates of Chinese consumption have been reduced sharply: today's structural deficit looks nearer to two million than three million tonnes. The former figure is close to the volume of imports recorded during the 2018/19 season. Moreover, the impressive reduction of State Reserve stocks over recent years has coincided with a less dramatic, but nonetheless significant increase in uncommitted 'commercial' stocks in the local market. Imported cotton consigned at Qingdao and other ports have also risen to unprecedented proportions.

For the time being, therefore, the galvanising prospect of more active Chinese import buying appears to have receded into the middle distance once again.



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Currency movements mask cotton market signals



Joe Nicosia

*Head, Cotton Platform
Louis Dreyfus Company*

It has been a turbulent year for the cotton market: prices have moved intractably lower in an unrelenting bear market fueled by a burgeoning global production surplus and rising pessimism regarding the potential for a resolution of the trade dispute between the United States and China. In such an environment, the steady selling pressure on ICE cotton futures is an understandable response as traders reprice the equilibrium level at which the market can reinvigorate consumption growth and rationalize production.

If we look back to the market conditions prevailing during last year's ICA Hong Kong event in October 2018, we see that nearby ICE futures stood at nearly 80.00 USC/lb amidst widespread optimism that trade discussions between China and the United States would soon achieve an amicable resolution. With the benefit of hindsight, we now know that this optimism would ultimately prove to be unfounded, with the international trade dispute growing ever more acute over the course of the 2018/19 marketing season. The headwinds from the deterioration of trade relations would eventually trigger a collapse approaching 25 percent for ICE cotton futures, and we now find ourselves in late August 2019 in a sub-60.00 USC/lb price environment. The worsening of industry conditions since ICA 2018 is best illustrated by the decline of 2018/19 global cotton consumption estimates over the course of the year: the estimate from the US Department of Agriculture (USDA) of total world use was lowered from 127.8 million bales in the October 2018 Supply and Demand Report to just 120.6 million bales in their August 2019 estimate, the latter figure marking the first annual decline

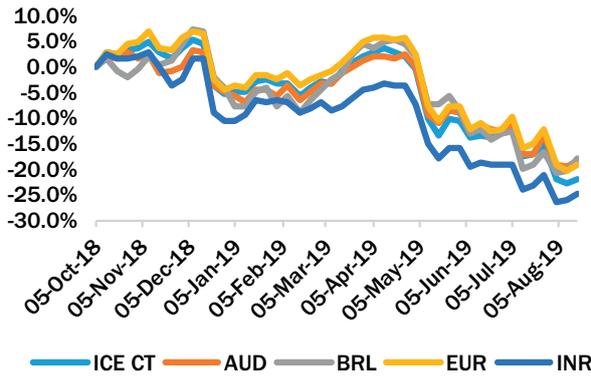
in global cotton consumption since the 2010/11 season.

One factor that is relatively easy to overlook, given the sustained price weakness enveloping our market, is the sharp reduction in 2018/19 of the World less China (WLC) net production surplus. According to the August USDA report, the estimated WLC net production surplus declined from 14.6 million bales in 2017/18 to 10.3 million bales in 2018/19; moreover, it is entirely possible that the decline in ICE cotton futures over the last year would have been even more severe had the WLC net surplus in 2018/19 been of similar size to that of 2017/18. Now as we look towards the imminent arrival of the 2019/20 crop, we see USDA estimates in August 2019 that forecast world cotton production rebounding to an eight-year high of 125.6 million bales, with the WLC net production surplus surging to 14.8 million bales. Why are we seeing a rebound in global cotton production despite the significant price weakness of ICE futures? With multiple factors at play, we must certainly note the relative attractiveness of cotton against competing crops such as corn and soybeans, which are going through their own periods of price weakness, as well as the generally hospitable growing conditions in most areas of the world supporting higher yield potential. Yet, there is another vitally important but often overlooked consideration that has supported cotton acreage in some major production areas: the general weakness of many foreign currencies against the United States dollar (USD).

The relative weakness of foreign currencies against the USD effectively provides a cushioning impact in local currency terms which has insulated



Rebased to October 2018



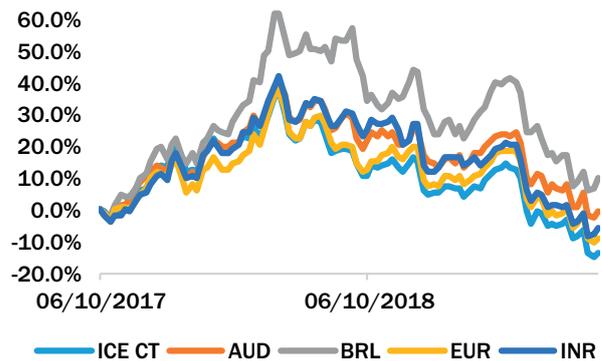
producers around the world from full exposure to the price decline of a USD-denominated commodity such as the ICE cotton futures contract. Turning again to the October 2018 period, it is illustrative to rebase the price of ICE cotton to this starting point in order to track the relative price movements of cotton in USD terms compared to the same value redenominated in the local currencies of other major cotton-producing areas.

As we can see in the chart above, while the value of ICE cotton futures denominated in USD terms is about 23 percent lower since our starting point in October 2018, concurrent devaluations of the Brazilian real (BRL), Australian dollar (AUD), and Euro (EUR) against the USD over this time period have offset a portion of the decline of ICE futures, producing net declines (as denominated in local currency) of between 17 and 19 percent. All else equal, those cotton growers selling in their non-USD local currencies have not felt the full deterioration of ICE futures. Since our starting point in October 2018, cotton producers in India pricing in Indian rupee (INR) terms appear to have seen a decrease in local cotton prices modestly in excess of the decline of ICE futures, but there have been two other important developments for Indian growers. Despite a modest recovery since October 2018, the INR remains historically weak relative to the USD, while cotton values in the Indian marketplace have been further boosted by a significant rally in domestic basis levels.

If we pull our time period under review back a further 12 months to October 2017, the effects of currency movement on cotton pricing dynamics at the local level become even more apparent. With ICE cotton futures at approximately 70.00 USC/lb in October 2017, the cotton market has subsequently proceeded to roundtrip what was at one point a substantial rally, and now in August 2019 stands approximately 14 percent lower than the price prevailing nearly two years ago. Yet, as the chart on the right illustrates, when we look at the evolution of ICE cotton prices over these last two years after redenominating into local currencies, the net price declines are again notably moderated. Relative to the 14-percent decline of USD-denominated ICE cotton futures since October 2017, cotton priced in EUR terms is only nine percent lower, while values are six percent lower when denominated in INR. In AUD terms, values are nearly unchanged with a net

decline of just one percent, while the substantial weakness of the BRL against the USD over the last two years has more than offset the decline in ICE cotton to the extent that cotton priced in BRL terms has actually moved ten percent higher over this time period. Furthermore, growers in many of these countries have benefited from a general appreciation of their basis levels in the physical cotton market (largely driven by Chinese appetite for non-US cotton in light of the trade dispute between the United States and China), which has further served to offset much of the decline of ICE futures for these producers.

Rebased to October 2017



As we arrive at the Northern Hemisphere harvest period for the 2019/20 marketing season, the global cotton market will need to reconcile the potential imbalance between supply and demand since we look to be entering an environment of potential oversupply. While the decline of ICE futures in recent months has certainly been dramatic, has it been enough to reinvigorate cotton demand despite the ongoing headwinds from trade frictions and macro-economic concerns? From a supply standpoint, the unavoidable time lag for changes in planted acreage to be reflected in the availability of physical cotton makes production rationing a prolonged affair, and especially so when the price signals sent by the ICE futures market are diluted or even outright offset by developments in the foreign exchange markets. The macro-economic forces driving global foreign exchange flows are several levels removed from the base fundamentals affecting the supply and demand of cotton, but the question nonetheless remains – will the burden of rationing future cotton supplies fall disproportionately upon those growers, principally in the United States, who price their production at the local level in USD terms? Or might we see the foreign exchange winds shift to a period of sustained USD weakness against other currencies, a trend that may cause those non-USD-based producers to pull back first? As long as we remain in an economic environment characterized by the relative strength of the US dollar, it will be difficult to induce substantial production changes in many of the key cotton-producing countries around the world when foreign exchange effects are insulating growers from full exposure to the price signals sent by the ICE futures market.



Advancing China's cotton industry by a process of reform and opening-up



Zhao Jing

China Cotton Association

In 1998, the Chinese government began the process of reforming the country's cotton industry and reorientating it towards the global economy. Thus, in the past twenty years, the sector has undergone major changes, some of which are outlined below.

Market liberalisation

Once management of the cotton sector had been liberalised, purchase and sale prices could be determined by market forces. This has energised the market, eliminating exclusivity and strengthening competition among enterprises. A survival-of-the-fittest approach has improved the operating efficiency of the industry.

Developments in production

In the space of twenty years, China's cotton yields have increased from 67 kg/mu to 121 kg/mu, placing them among the highest of the world's major cotton-producing countries. Since the price is established via the market, competition for high-value business has steadily improved the quality of cotton.

Consumption growth

China's textile enterprises have played a significant part in the process of economic globalisation and have taken full advantage of their strong labour force. In 2018, China's spinning capacity reached nearly 120 million spindles, an increase of 238 percent compared with 2001. China's

textile and garment exports totalled US\$276.7 billion, a five-fold increase over the same timeframe. The rapid development of the textile industry has stimulated a growth in cotton consumption so significant that it which now accounts for a third of the world's total.

Globalisation

Since China's accession to the WTO, the volume of cotton traded has grown rapidly, and the marketing system has developed as a result. Futures trading is now a standard feature of the market, complementing and underpinning physical business. The market price of cotton in China now has a significant impact on the global price, and the country's industrial standards and trade rules have been gradually brought into line with international standards. Thus, China's influence in the global industry has grown significantly.

In recent years, China's cotton industry has also been engaged in substantial supply-side structural reform, which has transformed the country's cotton production model, relocating the majority of cotton farming to Xinjiang. The introduction of the cotton target price strategy has achieved notable results; as discussed above, cotton prices are now determined according to supply and demand fundamentals, and the entire industrial chain has been invigorated. The process of de-stocking the State Reserve has been very successful: textile and garment exports



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have stabilised, and annual cotton consumption has arrived at a figure of over eight million tonnes. The steady development of the cotton industry has made a positive contribution to the entire Chinese economy.

In the past two years, as friction between the US and China on matters of trade has intensified, causing huge uncertainty in international commerce, China's textile and garment retail sales and exports have been slowing down and habitual trade routes have shifted.

However, from another perspective, this may be seen as simply an inevitable result of the industry's increasing globalisation. As the upgrading of China's textile industry proceeds rapidly, independent operators in the sector have pursued other innovations, such as the transfer of certain cotton processing operations abroad to locations that offer advantageous resources, while other, high-value processes are retained in China. In addition, government support and a strong manufacturing capacity as well as the huge domestic demand generated by China's population of 1.4 billion people will ensure the sustained development of the textile industry. The Chinese government has taken a series of measures to open up the market further, increase imports and improve business conditions, providing a long-term and stable policy environment for the development of the cotton sector.

As an industry organization representing the interests of all participants in the sector, from agriculture, industry, and commerce, the China Cotton Association has, since its establishment, been committed to promoting the sustainable and healthy development of the industry, and to building better systems of communication and cooperation between the government and the domestic industry, as well as between China and the international cotton industry. The China Cotton Association is eager to work with its international colleagues to maintain fair trading practices in cotton, discuss cotton industry policies and expand openness and cooperation.

In today's world, openness and cooperation are critical. China's cotton and textile industries have benefited from the opening up of the market, the introduction of competition, and increasing globalisation. In the future, China will continue to adhere to the concept of 'win-win openness', expanding its reach and helping to reshape the global value chain. It will continue to adopt advanced technologies, high-quality resources and modern concepts. As China enhances its own capacity, it also creates more development opportunities and space for global partners and helps to achieve a fairer, more efficient international market for high-quality cotton textiles and garments.



The Qingdao International Cotton Trading Centre – serving the global cotton industry



Yang Baofu

Vice General Manager

China National Cotton Exchange



As China's largest and most credible spot cotton trading platform, the *China National Cotton Exchange* (CNCE) is equipped with a mature operating system and boasts extensive operational experience. It provides nearly 5,000 customers with high-quality services that encompass the management of state cotton reserves, the marketing and delivery of domestic and imported cotton stocks, the provision of chain finance, warehousing logistics, and information training. Since its establishment 20 years ago, CNCE has adhered to a principle of 'No self-interest, no speculation, focus only on services', and has earned a good reputation among the cotton industries at home and abroad.

Qingdao handles a greater volume of imported cotton than any other port in the country and functions as an important distribution hub for such supplies. Naturally, the port is full of enterprises dealing with imported cotton. Business operations in the bonded warehouses, freight forwarding companies and customs offices all run smoothly, professionally and efficiently. The port has become a strategic location for China's cotton import business. As most people know, the structure of the country's cotton industry is such that domestic cotton depends on Xinjiang, and imported cotton on Qingdao. However, the city still lacks an authoritative and well-resourced third-party platform that can offer services such as chain finance and trade regulation to the whole industry.

Against this background, CNCE is taking full advantage of its expertise and resources to build a comprehensive service platform for imported cotton that will meet the needs of the international cotton industry. It plans to establish the Qingdao International Cotton Trading Centre in the city. The centre will make use of the benefits offered by the



Free Trade Zones and will utilize CNCE's extensive experience in cotton spot trading, logistics and systematic services to provide the imported cotton industry with industrial chain services including supply chain finance, trading oversight, logistics, bonded warehousing, mega data, conferences, training and so on. In this way, it will attract and coordinate investments from home and abroad, and act as a link between domestic and overseas markets. The objective is to support the industry's efforts to meet the huge structural demand for imported cotton in China, to guide and standardise international trade, and to build up the trading and settlement procedures for the international cotton industry in Qingdao: in short, to provide global resources to serve global customers.

I sincerely hope the Qingdao International Cotton Trading Centre can become a bridge linking international cotton practitioners, allowing them to meet, exchange ideas and cooperate, thus contributing to the healthy development of the international cotton industry.





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India's Minimum Support Price



Atul S. Ganatra
President
Cotton Association of India

In order to protect the interests of farmers, the government of India intervenes in the market via the operations of the Cotton Corporation of India (CCI) and the National Agriculture Cooperative Marketing Federation of India (NAFED). These agencies undertake price support programmes in the event that local market prices fall below the minimum level established by the government. The Minimum Support Price (MSP) serves as a long-term guarantee guiding the investment decisions of producers. It offers the assurance that prices will not fall below a fixed level even in the case of a bumper crop.

The major objective of the MSP is to ensure farmers are not forced into making distress sales at severely low prices. In an ideal world, the market price would always remain higher than the MSP as fixed by the government. With this guarantee, the farmer can always sell at the MSP if he is not able to procure a better price elsewhere.

The Commission for Agricultural Costs and Prices (CACP), which is attached to the Ministry of Agriculture and Farmers Welfare, is mandated to recommend the MSP of as many as 23 commodities, including cotton, in order to assure farmers of a remunerative and stable price environment.

While recommending price policies for various commodities under its mandate, the Commission keeps in mind the various terms of reference set out in 2009. Accordingly, the CACP analyses the demand and supply situation, the cost of production price trends in the domestic and international markets, inter-crop price parity, the terms of trade between the agricultural and non-agricultural sectors, and the

likely implications of the MSP on consumers of that product. Cost of production is an important factor in determining the MSP but it is certainly not the only consideration.

Based on the recommendations of the CACP, the Cabinet Committee on Economic Affairs determines the MSP of various agricultural commodities, while again keeping in view factors such as increases in the cost of production, supply and demand, inter-crop parity, domestic and international price trends.

CACP may choose to consider any of four types of production costs. These comprise the A2 cost, which effectively covers all upfront expenses, both in cash and in kind, incurred by farmers on seeds, fertilisers, chemical, hired labour, fuel, irrigation etc.; the A2+FL cost, which covers upfront costs plus an imputed value of unpaid family labour; the C2 cost, which is more comprehensive as it also accounts for rent payments on land and interest payable on fixed capital assets in addition to A2+FL; and the C3 cost, valued at ten percent more than the C2 cost, as it includes an additional management fee for the farmer. Since cost variations are large, CACP usually recommends that the MSP should be considered on the basis of the C2 production cost.

Last year, the government announced a whopping hike of over 26 percent in MSP for crops including cotton, based on a calculation of 1.5 multiplied by the A2+FL cost. The MSP established last year was 50 percent higher than farmers' cost of production. However, it did not cover the more comprehensive C2 costs of production as recommended by CACP. The MSP + bonus







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announced by the government last year for medium staple cotton was Rs. 4,020 per quintal, while that for the longer staples was Rs. 4,320 per quintal. This year, the government has increased MSP again, albeit marginally. In the case of medium staple cotton, the MSP has been increased by Rs. 105 per quintal this year, while for longer staples, the increase is Rs. 100 per quintal; both figures represent rises of about two percent.

Despite these increases, there remains a yawning gap between the cost of production and the MSP announced by the government. Indeed, the MSP is not adequate even to cover rises due to inflation, and farmers’ organisations have questioned the method that the CACP employs to assess the cost of production. The CACP, which has been entrusted with the job of enumerating the cost components for different crops, put the cost of cultivating cotton at Rs. 1,174 a quintal in Punjab, which is less than half of what the state has estimated. The situation is the same in several other states. The CACP figures are far lower than the real costs farmers are incurring to grow their crops.

Many feel that the system of supporting farmers via the procurement of cotton at the MSP has become outdated. Critics argue that the present cotton MSP is higher than the price achievable for Indian cotton on the international market, while the mechanism restricts the downward movement of domestic cotton prices. This renders Indian cotton and the entire value-added chain uncompetitive. The government agencies procuring cotton from the market incur costs for carry, interest and transportation, and sustain losses on account of the deterioration of the quality of cotton in storage. Ultimately, the MSP has the effect of distorting prices and acts as an artificial barrier in the path of the market forces intended to determine the prices.

There is no denying the fact that the hefty increase in the MSP has adversely affected exports of cotton from India, although the MSP is not the only reason for the country’s recent dismal performance of in that regard. The table below shows the annual increase in the MSP for cotton over the past five years and the associated figures for exports and imports of cotton. The data demonstrate that the increase in the MSP is strongly correlated with Indian cotton’s loss of market share on the international platform as exports dwindle year after year while cotton imports are on the rise.

Year	Growth	MSP (Rs. per Quintal)	Increase %	Export (In lakh bales of 170 kgs. each)	Import
2014-15	Shankar-6	4000	1.3	57.72	14.39
2015-16	Shankar-6	4050	1.3	69.07	22.79
2016-17	Shankar-6	4110	1.5	58.21	30.94
2017-18	Shankar-6	4270	3.9	67.59	15.8
2018-19	Shankar-6	5400	26.5	50	22

While it is important to provide price support to farmers, many feel that the government would do better to find an alternative solution such as providing a direct subsidy that would not adversely impact the attractiveness of Indian cotton vis-à-vis its international competitors, as well competing fibres.



Brazil – a leading light on the global cotton stage



Henrique Snitcovski
President
ANEA

Before looking ahead, we can reflect on some important milestones already achieved by Brazil’s cotton industry. The 2018 crop set a new record in terms of output and subsequently exports. It also consolidated Brazil’s position as the world’s fourth-largest producer with 2.1 million tonnes and as the second-largest exporter with 1.27 million tonnes shipped between July 2018 through June 2019. Export shipments grew 38 percent when compared to the same period the year before, reinforcing and expanding Brazil’s market presence among the main importing countries.

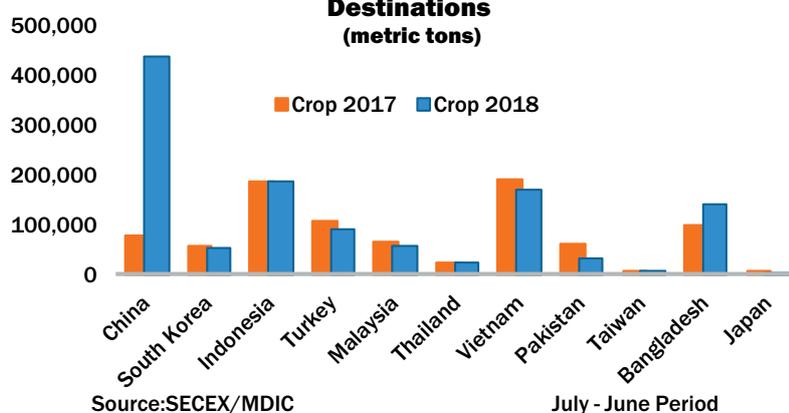
This took place during a period of poor economic growth: stagnant domestic consumption combined with limited spending power on the part of consumers meant that the outlook was indeed challenging.

The reduced flow of imports, which limited the availability of containers and the frequency of shipping lines to the main Far Eastern Ports, has required a new level of coordination and commitment from the entire supply chain.

The Brazilian Cotton Exporters Association promoted several meetings and created a task force to seek alternative strategies aimed at improving export capacity and reducing bottlenecks.

With better planning and a more systematic approach, the country was able to ship almost

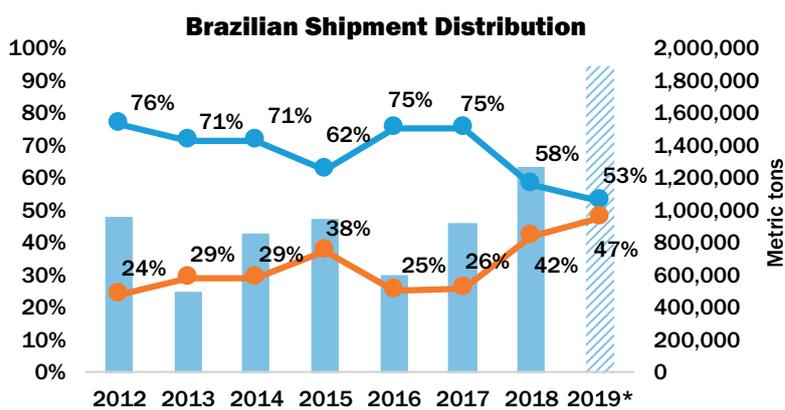
Brazilian Cotton Exports - Main Destinations (metric tons)



230,000 tonnes of cotton in a single month, overcoming another major challenge. As the average transit time from Brazil’s main ports to the major destination markets is approximately 38 days (longer than for other exporting countries), it has been necessary to develop a well-managed and fully integrated logistics operation that covers the whole process from origination to destination. As the crop expands, our challenges increase proportionally.

What lies ahead? Will Brazil be able to expand its presence in the market further, claiming about 20 percent of global cotton trade?

Historically, 70 percent of Brazil’s exports were dispatched during the offseason for the Northern Hemisphere crops. With production from the 2019 crop likely to surpass 2.8 million tonnes, the exportable surplus will definitely position Brazil as one of the market leaders. The country will no



Source: SECEX/MDIC/ANEA

*projected

In order to maintain the profile of Brazilian cotton in the main importing markets, fibre quality and a steady supply are key, as is remaining competitive.

In this new landscape, ANEA (the Brazilian Cotton Exporters Association) and ABRAPA (the Brazilian Cotton Growers Association) will further intensify marketing initiatives aimed at promoting Brazilian cotton overseas and understanding the needs of a market that is constantly changing. The goal is to protect market share and develop new consumers who are keen to take advantage of this new dynamic of continuous supply.

longer be a six-month exporter and will instead become a regular supplier throughout the whole year. ANEA's aim, therefore, is to achieve nearly 1.9 million tonnes of shipments between July 2019 and June 2020, representing a 50-percent increase from the previous season or a doubling of the volume exported only two years before.

It is a long journey to succeed and to ensure sustainable growth: "dreams are built... one brick at a time."



Productivity and quality management are key to the sustainability of African cotton



Marco Mtunga
President
African Cotton Association



association cotonnière africaine
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Cotton in Africa is important in the following ways: it is cultivated by nearly five million households; it creates growth, incomes and jobs in many sectors of the economy; it provides raw materials for the textile, edible oil and animal feed industries; it contributes to the development of rural areas; it contributes to food self-sufficiency; it provides between five and 50 percent of total export earnings for a number of countries; and overall, cotton provides a living for more than 15 million people in sub-Saharan Africa and hence contributes substantially to poverty alleviation.

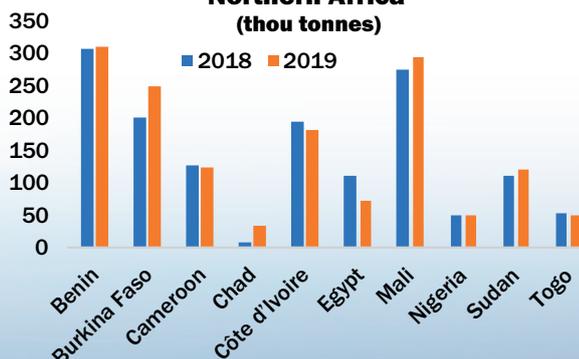
In April 2019, cotton farmers in the eastern and southern regions of Africa entered the marketing season for their crops with optimism that they would earn a decent income from their investment. However, a single tweet in May 2019 caught everyone off-guard and prompted an unfolding, unending disaster. The trade war between the giants has decimated the incomes of smallholder farmers in Africa, reflecting just how far-reaching and intertwined world trade has become.

Cotton in Africa serves as both a cash crop and a food security guarantor due to its relative resilience to climate change. Plummeting prices have impacted negatively on the welfare of farmers. As Africa struggles to cope with the ever-changing dynamics of the global cotton trade, its guiding principles should be to raise productivity and quality, and to add value. While undeniably important, price is an exogenous factor in the equation determining farmers' incomes, and so an overemphasis on price has never yielded the much-desired results. Instead, more energy should

be directed at the other factors in the equation, namely yield and quality.

Production of cotton in Africa faces a number of challenges including: low productivity of between 200 and 400 kgs of lint per hectare (against an 800-kg world average) arising mainly from the inadequate application of appropriate agronomical and plant protection technologies; inadequate application of inputs; inadequate research; usage of recycled seeds in some countries due to low mechanization and the lack of a seed multiplication system. Efforts directed at addressing these drawbacks sustainably will go a long way in raising the incomes of growers regardless of the prices offered in the market. The emergence of new pests such as the fall armyworm and sucking pests is challenging the status quo and farmers need to be equipped with the right techniques and means to fight infestations. Looking at who grows cotton in Africa, you get the impression that the crop is

Production of cotton Western and Northern Africa (thou tonnes)



Source: Cotton Outlook



Al Omer Group

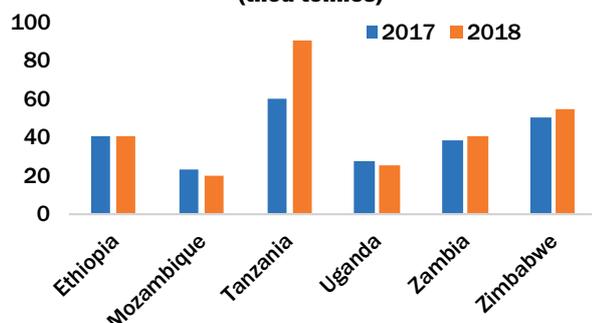
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tended by senior citizens. In order to ensure that the continent continues to grow cotton for decades to come, a swift intervention is necessary to attract youth to the industry. Mechanization using simple farm implements for planting and weeding, drones for spraying and mid-size harvesters is imperative to make cotton farming attractive to the younger generation.

Production of cotton in Eastern and Southern Africa (thou tonnes)



Source: Cotton Outlook

Quality management is an area where cotton-producing countries in Africa have the greatest opportunity to maximize returns from the crop. Given that over 99 percent of the crop is handpicked, save for a very small volume in Sudan and Cameroon, contamination from polypropylene materials has restricted the premium that could be obtained from business transactions. Experience from Eastern and Southern Africa, areas with more participants in the seed cotton market, points to difficulties in managing quality issues. A combination of high levels of competition (often, between six and 15 buyers will be present at a buying post) and low production discourages quality sensitivity and instead favours efforts to obtain the volume required to meet contractual obligations. Over-liberalization has resulted in countries losing the premium for their product that they previously enjoyed. In Western and Northern Africa, where liberalization has taken a slower pace, quality has been relatively well maintained in comparison with the southern part of the continent.

All countries have taken various measures to manage contamination. A zero-tolerance approach to contamination is advised and should be adopted at the farm and throughout all the processes of transportation to the buying post, storage at the buying post, transportation from the buying post to the ginnery, offloading at the ginnery, picking contaminants at the feeding point and ginning hall; the correct packaging materials should be used at all stages. Tanzania, for example, has taken the initiative, and quality has improved during the 2019/20 marketing season. The widespread adoption of instrument testing will ensure that the quality parameters of cotton on offer are clear, thus raising the bargaining power of sellers, and will bring the continent in line with standards in the most advanced cotton markets.

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The African Cotton Association is a platform through which countries are able to share experience, knowledge and technology in the areas of cotton research, production, ginning, classification and marketing. It has championed enhancement of production, productivity and quality of African cotton in order to guarantee its competitiveness and sustainability. The exchange of germplasm between countries has resulted in improved production in some territories; for instance, the variety currently being grown in Tanzania is a combination of Mali and Tanzanian varieties. Ginning outturn has jumped from 34 to 42 percent, which allows more revenue from the same volume of the crop.

Cotton, being a versatile crop, has played a pivotal role in many countries' progress towards industrialization. Africa is not an exception, but it is incumbent on countries to create the enabling environment that will allow them to seize the moment as increasing costs of production in Asia fuel the relocation of some production units. Africa stands to be the next destination for the textile industry if the investment climate is right. Africa needs to address the issues of power availability and reliability, ensure the workforce has the appropriate skills to suit incoming investments, and develop a workable system of labour laws and taxation on textile imports, including on second-hand clothing. In this way, the twin goals of value addition and sustainable cotton production can be achieved.

American Cotton Shippers Association ACSA American Cotton Shippers Association

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