

Cotton Outlook

Special Feature



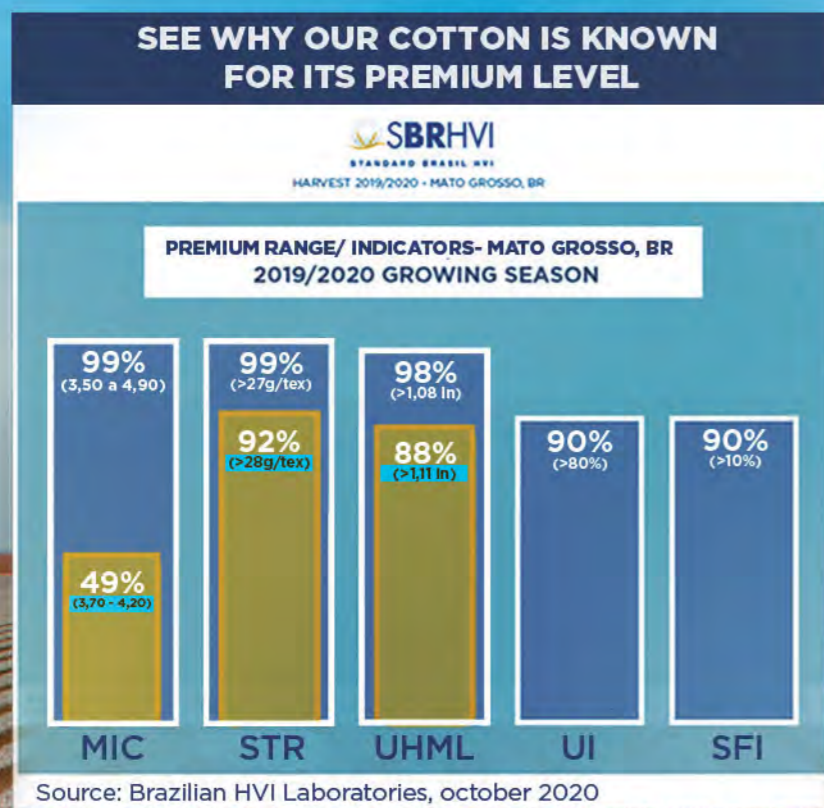
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ANEA: the first twenty years



Over the past two decades, ANEA's annual gathering has gained an ever more prominent place in the calendar of global cotton events. Imaginative presentations, complemented by opportunities to discuss the cotton issues of the day in a relaxed and informal setting, have attracted a growing participation from all sectors of the domestic industry and the international market.

The instinct to gather together, even (perhaps especially) in times of adversity has always been strong in the cotton market. The cancellation of almost all the events scheduled for 2020 has thus been both a disappointment to all, but also a reminder of the relationships of friendship, trust and confidence that bind together our global cotton community.

This year's ANEA event was to have marked the association's 20th anniversary. It would have taken place as Brazilian production reached the landmark of three million tonnes and exports rose to unprecedented levels, the culmination of a huge and coordinated effort on the part of the industry and a just cause for celebration. But it was not to be.

Cotton Outlook's association with ANEA goes back to the very early stages of the organisation's existence and we therefore wished to mark the achievements of its first twenty years with this digital Special Feature. We are grateful to all who have contributed and hope that next year's 21st anniversary will allow for the renewal of personal contacts built up over two decades but unavoidably interrupted during 2020.

Published by : Cotlook Limited, Outlook House, 458 New Chester Road, Rock Ferry, Birkenhead, Merseyside, CH42 2AE, U.K. Tel : 44 (151) 644 6400 Fax : 44 (151) 644 8550
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The world cotton market: two turbulent decades



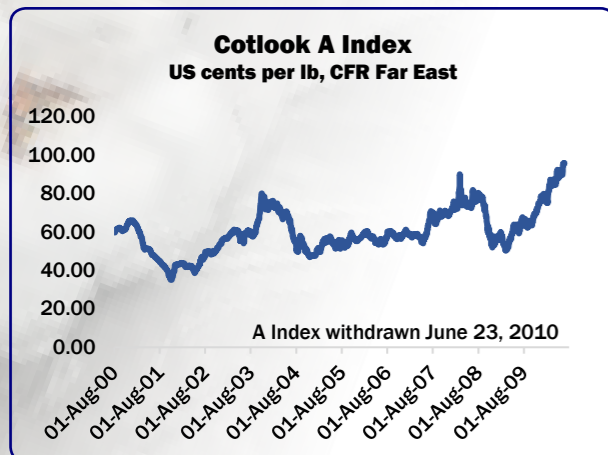
Mike Edwards,
Editor, Cotton Outlook

The rise of Brazil as a major producer and ANEA's life as an association have coincided with some momentous changes in the world cotton market, as well as huge and often unforeseen fluctuations in prices. During the past two decades, the Cotlook A Index – the barometer of the international cotton market – has recorded a high of 243.65 in March 2011 and a low of 34.95 in November 2001.

2000/01 to 2007/08 Expanding trade, shifting consumption... and growing Chinese imports

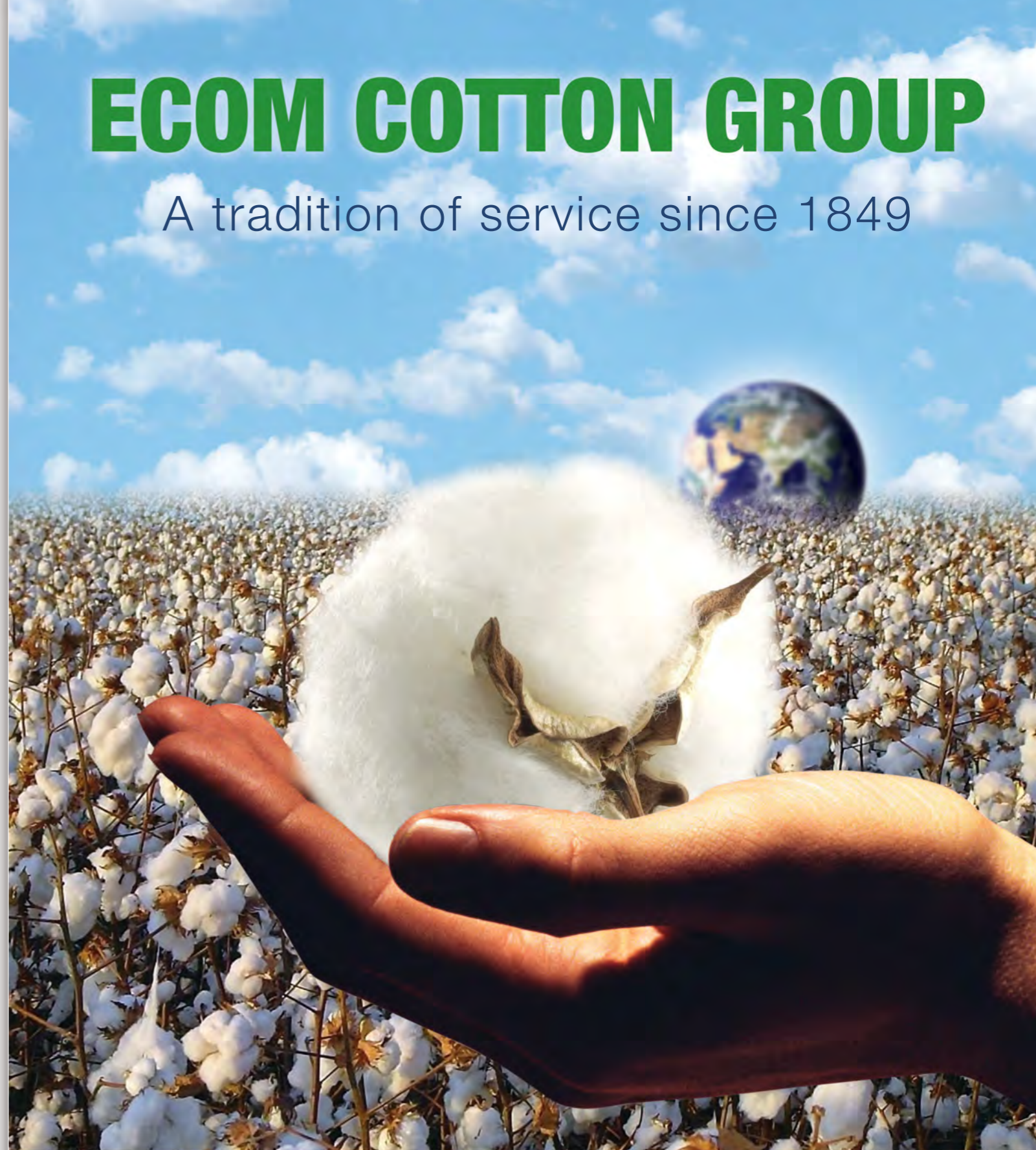
The early years of the 21st century were a period of great expansion in international textile trade, characterised by heavy investment in new spinning capacity as well as far-reaching changes in trade flows. These developments were accompanied by major shifts in the global distribution of raw cotton consumption, to which international merchants dealing in the commodity had to respond.

Two events in particular contributed to this process. Late in 2001, China's integration into the world economy was cemented by the country's accession to membership of the World Trade Organisation. And in 2005, the final quotas that had regulated international textile trade during most of the post-war era, the last relics of the so-called Multi-Fibre Arrangement, were abolished. The



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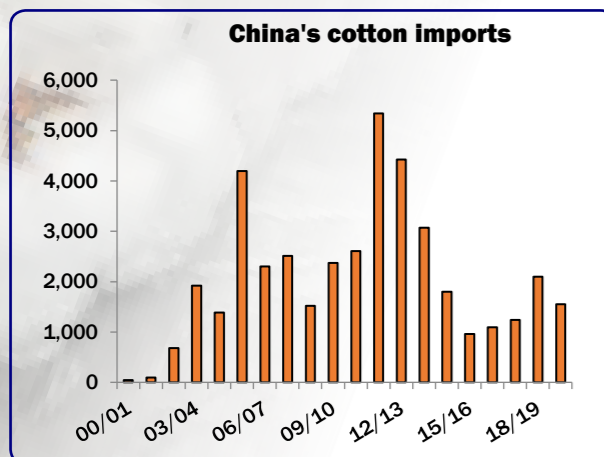
liberalisation of trade brought with it cheaper textiles and apparel as low-cost producers – foremost amongst them China – made inroads into the global marketplace.

China's raw cotton imports in the 2000/01 season amounted to just over 50,000 tonnes. The terms of accession to the WTO included a commitment to allow the import each year of 894,000 tonnes under a Tariff-rated Quota (TRQ) that attracted duty at the rate of one percent. By 2005/06, imports had risen to over four million tonnes, and in 2011/12 the record of 5.3 million tonnes was attained. Throughout the past two decades, the rise and fall of import demand from China has been a key influence on the international market.

During the early years of the century, Chinese demand contributed to a strong advance of world prices. From a low point below 35.00 cents per lb in November 2001, the A Index had risen to 80.00 cents just two years later.

Pressure from the supply side then intervened. In addition to the growth of production in Brazil, India – long considered the sleeping giant of world cotton, with the largest cultivated area – began to achieve better yields with the introduction of genetically modified seed varieties. Like Brazil, the country turned from net importer to net exporter on an increasing scale.

The Index fell back below 50.00 cents per lb in August 2004 before beginning a gradual retracement towards 90.00 cents per lb in March 2008. World consumption was steadily gaining ground under the influence of the trade liberalisation referred to above and a broadly favourable economic backdrop. The excess supply was thus absorbed by mills in China and elsewhere. By the 2006/07 and



2007/08 seasons, world consumption was estimated at more than twenty-six million tonnes, while production too was pushing new boundaries.

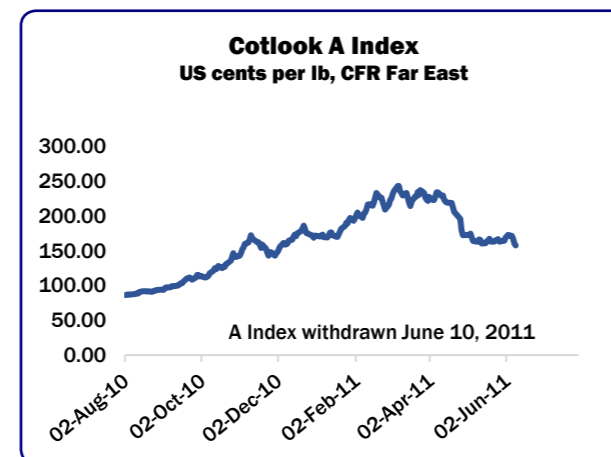
2008/09 to 2009/10 Financial crisis and a shock to consumption

The upward trajectory of raw cotton prices associated with burgeoning trade and investment was brought abruptly to a halt by the financial crisis that engulfed the global economy in 2008. In what was to be the first of a number of shocks, world cotton consumption declined by eleven percent during the 2008/09 marketing year.

As economies regained stability, however, the recovery of mill activity was remarkably swift, and the 2009/10 season saw consumption restored to pre-crash levels. World prices, too, began to regain ground. Inventories at all stages of the cotton textile supply chain had been pared to a minimum during the financial crisis. Restocking empty pipelines created a virtuous circle of improving demand and rising prices. By June 2010, the Cotlook A Index had advanced to the mid-90s cents per lb. Indeed, the Index itself was withdrawn – a rare occurrence – a few weeks before the end of the season, owing to an absence of offers for several of its constituent origins.

2010/11 The unforgettable season – record world prices and extreme volatility

Nothing, however, could prepare the market for what was to unfold in the following twelve months.



The upward momentum of the previous season was fully maintained at the start of 2010/11. The Cotlook A Index crossed the threshold of a dollar per lb in mid-September. A 'dollar Index' has only been recorded on a handful of occasions in the 50-plus years of its history. One month later the Index was approaching 130 cents per lb. By the turn of the year, it had surpassed 170 cents per lb, and the two-dollar barrier was breached in early February.

One should point out that this was not purely a New York-inspired speculative move. Demand in the physical market was real, not to say insatiable, as cotton yarn prices were also rising strongly. Basis levels relative to New York rose to unprecedented heights. At its peak, the A Index was no less than thirty cents above the underlying futures contract. Driving this trajectory was the anxiety of downstream manufacturers and brands with regard to their capacity to source the cotton products demanded by their consumers.

The market's upward momentum seemed unstoppable – until of course it stopped. The A Index reached an all-time high of 243.65 cents per lb on March 8, 2011, having risen more than four-fold in just two years. But the reversal of direction, when it arrived, was brutal.

The collapse of prices during the balance of the season was accompanied by market dislocation, a proliferation of contractual difficulties and, as the term 'demand destruction' entered the lexicon, a disastrous loss of world consumption. This was to be the century's second major shock to world consumption, which fell by four percent in 2010/11 and by a further eight percent in the 2011/12 marketing year. However, as farmers reacted to the spectacular prices obtained during the previous campaign, world output rose in 2011/12 by nearly nine percent to 27.6 million tonnes, a record that remains intact to this day.

2011/12 to 2013/14 China absorbs global stocks

World supply and demand were therefore massively out of balance in the aftermath of 2010/11. Between 2011/12 and 2013/14, world stocks rose by nearly eleven million tonnes. International prices should have collapsed under the weight of this additional

supply. But during the period in question, the A Index in fact remained relatively strong by historical comparison.

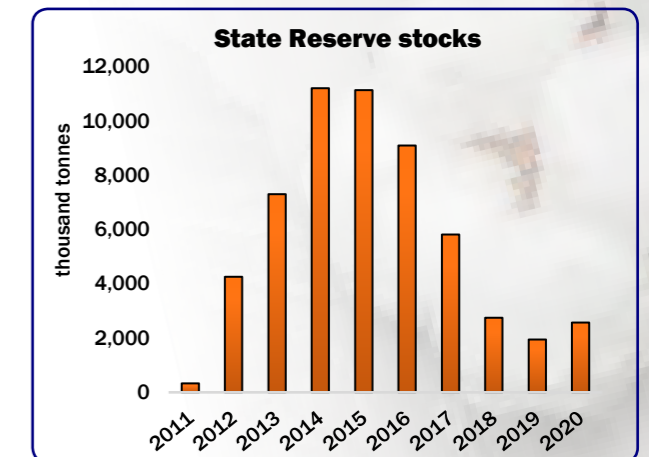
The explanation of this paradox lies in the policy pursued by China during the three seasons in question. The state would purchase the entire domestic crop at a price well above the international market. The policy was interpreted as an endeavour to support domestic production and control supply, thereby pre-empting a repeat of the damaging events of 2010/11.

However, during the three seasons in question Beijing also sanctioned raw cotton imports on a huge scale – well above the WTO commitment and far beyond the country's apparent needs. Even with hindsight, the rationale for the duration of this import policy is unclear. At first, the intention may have been to rebuild a strategic stock that had been depleted by the (vain) efforts to stop the escalation of prices in 2010/11. That objective was quickly achieved, however, and thereafter the liberal import policy seemed intended more as a tool to assist the country's spinning industry, disadvantaged as it was by the high domestic support price, to retain at least a semblance of international competitiveness.

Whatever the thinking, the stark fact was that at the end of the period, an estimated 11.2 million tonnes were held in Chinese government warehouses. The country had effectively absorbed the global surpluses almost in their entirety.

2014/15 to 2017/18 China destocks, world consumption recovers

For some time, the twin Chinese policies of domestic procurement and huge imports – the



result of which was an ever-increasing strategic reserve – had seemed unsustainable and the 2014/15 season saw the country embark on a new course.

Domestically, the previous regime was replaced by one that provided substantial support to production in Xinjiang, via a target price well above the world market, but far less generous treatment to producers in the traditional cotton-producing provinces in the east of the country. Imports would be confined essentially to the 894,000 tonnes Tariff-rated Quota referred to above.

The third important element of policy was the progressive disposal of the state reserves. The absorption by China of the global oversupply had prevented the collapse of world prices in the aftermath of 2010/11, but by the same token those stocks now clearly posed a threat to the market's future stability.

In the event, the manner in which Beijing managed the destocking process proved instrumental in preserving the relative stability of world prices. Crucially, the supplies were made available only to domestic buyers, thus avoiding the shock that might otherwise have fallen on the global market.

After an inauspicious start, which saw little more than 60,000 tonnes sold by auction in 2015, the destocking process gained momentum, and by 2019 China's stocks were reduced to below two million tonnes. In the meantime, while the eyes of the world were fixed on this process, the structure of China's domestic production was being reshaped. The key role of Xinjiang was consolidated, while production began to fall elsewhere. Today, production outside Xinjiang represents less than ten percent of national production, versus over 50 percent ten years ago. Overall, a growing structural deficit was emerging, as national output was in decline but consumption was increasing.

The point was approaching at which China would need to return to the international market, rather than the State Reserve, in order to make good the shortfall of domestic output.

At the same time, raw cotton demand outside China was also rising, most notably in key markets such as Bangladesh and Vietnam. The recovery of world consumption following the shock caused by record prices and volatility

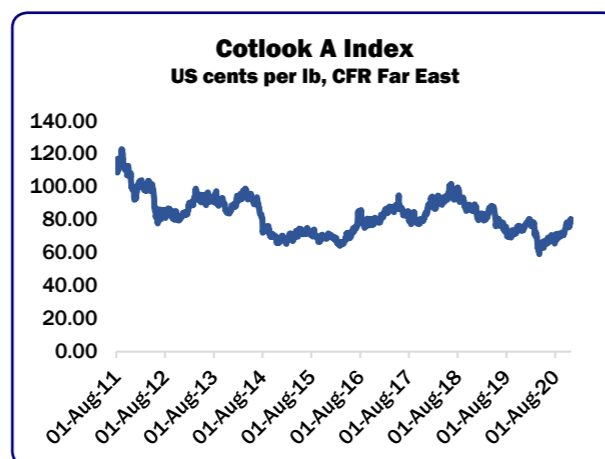
in 2010/11 had been a slow and painstaking process. But by the middle of 2018, it seemed plausible that world consumption would surpass twenty-seven million tonnes for the first time. Only once in history, as we have seen, has world production crossed that threshold – in 2011/12, when enthusiasm had been stimulated by the stellar prices achieved during the previous season.

As the 2017/18 season drew to a close, a conjunction of bullish elements therefore seemed to be in alignment: in June 2018, the A Index was back above a dollar. Would that be sufficient to ensure that supply matched demand?

2018/19 to 2019/20 Trade war and a pandemic

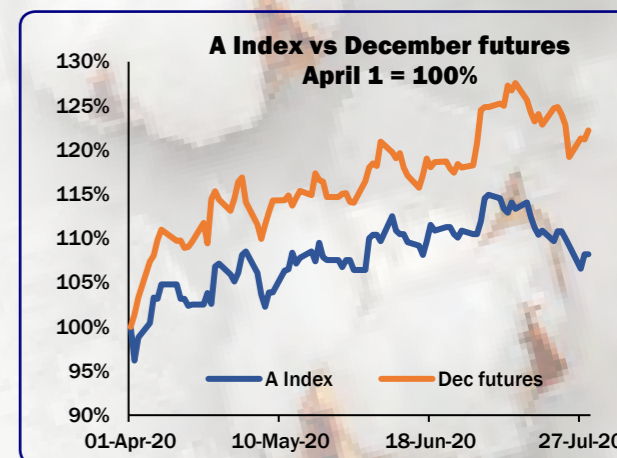
The prevailing bullish sentiment was soon undermined, however. Trade tensions between the United States and China resulted in a series of 'tit-for-tat' tariff measures. Those imposed by Beijing on imports of US raw cotton resulted in a diversion of import demand to Brazil. Overall, however, the trade war took a toll on business confidence and, more concretely, on global mill consumption of raw cotton. Spinning activity in China was primarily affected, but the persisting conflict had a more pervasive impact on sentiment in the textile sector. World cotton prices weakened progressively: in mid-August 2019, the A Index dipped below 70.00 cents per lb.

However, as an accommodation between Washington and Beijing appeared to be drawing closer, the market began to recover. During the first half of the 2019/20 cotton season, prices were on a steady upward trajectory. January 2020 seemed to mark a turning point, as President Trump and Chinese



Vice-Premier Liu He signed what became known as Phase One of a trade agreement that had for some time proved elusive. Crucially, from our market's perspective, cotton was included in the list of US agricultural products that China undertook to purchase in potentially market-moving volume. That moment coincided with the high point of the Index for the season, just over 80.00 cents per lb.

Even as the signatures were made, however, the emergence of Covid-19 heralded a period of chaos in the international cotton market unprecedented in living memory. Measures to protect public health caused the closure of spinning mills, while the sudden collapse of retail demand in major markets prompted the near paralysis of cotton textile supply chains. Garment export orders were cancelled,



spinners sought to defer raw cotton shipments and Letters of Credit were left unopened.

By the end of 2019/20, Cotton Outlook's estimate of world consumption during that season had fallen below twenty-two million

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tonnes – the twenty-seven million referred to above by now a distant memory. The Covid pandemic has thus caused the third major shock to global cotton consumption of the 21st century, and the most severe.

World cotton production, however, was barely affected by the pandemic. At its onset, crops in the Northern Hemisphere had been harvested and those in the Southern Hemisphere had already been planted. Production in Brazil would reach a new record in 2019/20 at over three million tonnes of lint.

As a result, the equilibrium of world supply and demand was destroyed, and world stocks at the end of the season rose by an estimated 3.9 million tonnes. As Covid's impact swiftly eclipsed any optimism associated with the Phase One agreement, the collapse of world prices began. By early April, the A Index had fallen below 60.00 cents per lb, having lost over 26 percent of its value in just two and a half months.

But surprisingly there followed a period of recovery. The New York futures market led the retracement in response to two principal influences. At the macro-economic level, the monetary policy adopted by the US Federal Reserve and emulated by central banks around the world injected huge sums of money into the economy. This served first to arrest and then to reverse the downward spiral of share prices and those of other financial assets. Commodity futures, including cotton, followed the upward trajectory.

Secondly, China began to comply with commitments made under the Phase One agreement, which had almost been overlooked amidst the acute disruption caused by the Covid pandemic. Weekly US export statistics began to feature substantial sales destined for China, widely attributed to various state-owned entities. From January to early September, USDA reported the purchase by China of over four million running bales (about 915,000 tonnes) of US upland cotton.

The rise of futures, however, was not fully replicated in the global market for physical cotton, and the recovery of prices for non-US cottons was far less pronounced. For origins such as Brazil and India, as well as for African Franc Zone producers, the imbalance of supply and demand caused a significant erosion of

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basis relative to New York. Between early April and the end of the 2019/20 season, the New York December 2020 contract gained 24 percent in value whereas the increase of the Cotlook A Index, which reflects physical offering rates for a basket of origins, was less than 13 percent.

2020/21 and beyond – where to now?

World prices continued to strengthen during the early months of the current season. The Cotlook A Index is once again close to 80.00 cents per lb, above its long-term average. The basis for Brazilian and other growths has recovered some ground.

By late November, Cotton Outlook's estimates suggest that world production and consumption during the 2020/21 season will be close to equilibrium – each somewhat above twenty-four million tonnes. Consumption thus remains well below twenty-seven million tonnes, the figure that had captured the market's imagination as recently as 2018.

Although the huge surplus from the previous season has not yet been absorbed, neither has it pulled world prices downward once again. While optimism is growing that vaccines in development will before long bring the pandemic under control, its economic consequences may act as a brake on any further advance of world prices for some time to come. It is already clear that the retail landscape in which cotton textiles and apparel markets function has been altered permanently. What implications this might hold for patterns of fibre consumption and trade will become apparent over time. The future promises to be at least as challenging as the first two decades of this century.



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Revisiting the origins, foundation and early years of ANEA



Antonio Esteve,
First President of ANEA

In the 1990s, Brazil witnessed the demise of cotton production in the main producing states at the time, Paraná and São Paulo. The model was not suited to the times as it involved a low-yielding, hand-picked crop produced on relatively small farms. With rising costs and falling yields, as well as inefficient intermediaries, the state of the crop was going from bad to worse. Exports could not be further from reality. In fact, in the mid-1990s, Brazil was a major cotton importer, to the tune of some 600,000 tonnes. But at that same moment, silently in the background, the foundation for a new cotton production model was literally being cultivated. Farmers in the state of Mato Grosso were looking for an alternative cash crop to soybeans, and cotton was the target. Shortly thereafter, Bahia followed suit, as did other states. By the year 2000, it was evident that with a growing cotton crop, and a limited domestic market, exports were inevitable. Farmers were working intensely on technology, higher yields and

lower costs of production. It was only a matter of time before Brazil would be producing export surpluses.

At that point, the textile industry was represented by ABIT (Brazil's textile association), while producers had also come together to create ABRAPA (Brazil's cotton producers' association) and cotton brokers were organized under the "*Junta de Corretores*". However, cotton exporters did not exist as a species, and obviously did not have any representation. In Brazil, as in many places, if you don't have a representative body, you are nothing when it comes to lobbying or negotiating with the government, or with other organizations for that matter. What to do?

In July of 2000, sitting around the table one day for lunch at "*La Parilla*" in São Paulo (which we affectionately refer to as "*O Bifão*" because one of their trademarks is a party-

size two-kilo steak) were Rodrigo Somlo of Multicotton, Peter Graham of Weil Bros, and yours truly. During that lunch was born the idea of a cotton exporters' association. I promptly recalled my days at ANEC (Brazil's grain exporters' association) and had the idea of forming ANEA – piggy-backing on an existing structure, which meant low costs as well as rapid implementation and recognition. When I called Sergio Mendes, Executive Secretary of ANEC, he was thrilled with the idea and we quickly established, with the support of Blairo Maggi (then the President of ANEC) a partnership that has lasted for twenty years and is still going strong. The first General Assembly took place on September 26, 2000 and the organization was officially registered on November 8, 2000.

An interesting anecdote from that time: prices were quite depressed, and there was lots of market chatter about the government minimum price support program. In August 2000, a PEP (Price Equalization Premium) program was being debated. Although there was no real export surplus and ANEA did not yet exist, we still managed to get cotton exports included in the first PEP program in September 2000. This was ANEA's first win, achieved even before the organisation existed officially.

There were five founding members: Multicotton, Weil Bros and Ecom were joined by Maeda, (actually a producer), and Santista (a textile mill). Admittedly, it was difficult to find members for a cotton exporters association when cotton exports hadn't really begun.

Well, the government did launch the PEP with an important premium specifically for cotton exports in September of 2000, in spite of opposition from the domestic textile industry, and not surprisingly Rodrigo got a call from a major textile mill complaining, "How do five miserable cats with no entity representation manage to get an export premium for cotton???!!" Rodrigo, Peter and I had a good chuckle about that one! And, a couple of PEP auctions later, Brazil's first cotton shipments of the new era were on their way to Turkey. The rest is history, as they say, and twenty years later we are looking at exporting over two million tonnes, and are the second largest cotton exporter in the world, behind only the United States.

In 2002, during my tenure as first president, we implemented the annual ANEA Cotton Dinner and Golf Tournament, with the idea of promoting Brazil's cotton sector and attracting foreign buyers. The dinner is similar to what many associations do around the world, but why include golf? Well, the official reason is so that we can attract foreign buyers who play the game, but in fact the real story is that the three miserable cats who had the idea of ANEA in the first place are all golfers, and why not mix business with pleasure? The dinner has been an outstanding success every year, while the golf tournament quickly became a charity event that supports of NGO called *Casa da Paz* (a youth centre for underprivileged children near São Paulo in Embu Guaçu). Ever since, ANEA and its members, as well as many friends in the cotton world – be they producers, brokers, textile mills, truck companies or port operators – have been strong supporters of *Casa da Paz*, adopting it and making a major contribution to its survival and success.

Peter Graham succeeded me as president in 2005, and during his tenure two important developments were promoted. First, we established a close working relationship with the International Cotton Association. Secondly, and perhaps even more importantly, we led an initiative to create a Cotton Sector Ethics Committee. The Committee is formed of representatives of the four main cotton sector entities: ABIT, ABRAPA, Junta de Corretores and ANEA. The aim is to pre-empt contract disruptions and defaults by presenting problem cases to the committee and applying peer pressure for members to stay in line, as in mediation. This procedure has avoided many contracts going to arbitration. Both these initiatives have gone a long way to preserving the principle of contract sanctity in Brazil.

ANEA currently has twelve members: ADM, AMAGGI, Cargill, CDI, Cofco, Glencore, Ecom, LDC, Olam, Omnicotton, SLC and Timbro. The organisation had five presidents since its inception 20 years ago: Antonio Esteve (Ecom), Peter Graham (Weil), Marcelo Escorel (LDC), Marco Antonio Aluisio (Ecom) and currently Henrique Snitcovski (LDC), while the next president will be Miguel Faus (Omnicotton).

As ANEA, we look forward to continuing to build and strengthen Brazil's cotton exports over the years to come.

Preparing for a new era



Henrique Snitcovski,
President of ANEA

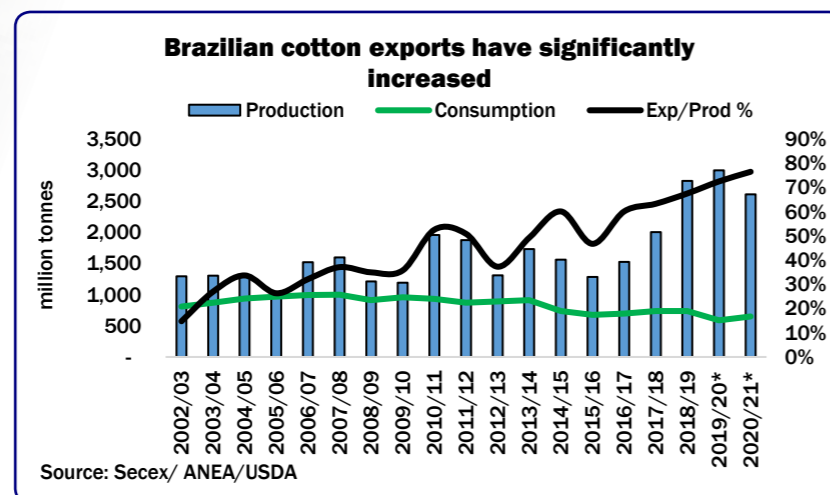
The year 2020,
20 years of ANEA,
2 million tonnes exported,
2nd largest global exporter,
25% of world trade in cotton.

Do these numbers mean something is changing in Brazil?

There is certainly an interesting coincidence in the numbers achieved, but what they say about Brazilian cotton production is more important: growth, organisation, consistency and consolidation.

Produced on a large scale, with technology and precision agriculture, planted in rotation with other crops,

with the highest raingrown yields in the world, this is Brazilian cotton, synonymous with sustainability. Those who have already had the opportunity to visit Brazil's cotton fields will know what I am talking about. For those who have not, there will be no shortage of opportunities in the near future to meet in person in safety and tranquillity. That is what



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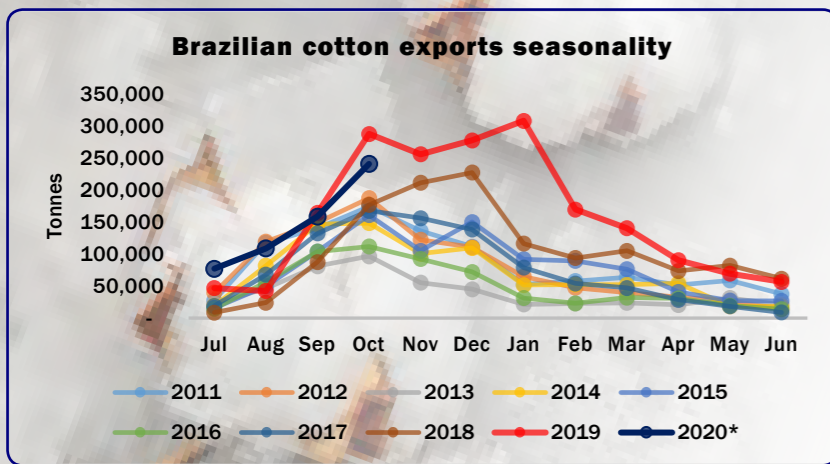
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twelve-month presence. This is an important achievement and a source of reassurance for the textile industry, which needs to programme the composition of its blends in advance, with a guarantee of consistency and quality.

In recent years, 70 percent of Brazilian shipments have been concentrated in the second six months of the calendar year, while 30 percent have

we earnestly wish for. Our cotton world is missing its important industry meetings and the strengthening of personal relations that they promote.

Because of the pandemic, in 2020 we could not hold our traditional ANEA Cotton Dinner & Golf Tournament, the largest and most important cotton event in our country, at which we had hoped to celebrate ANEA's 20th anniversary and the achievements of our market, as well as debating the challenges and prospects that lie ahead. To mark the 20 years of our organisation, we have received an affectionate tribute from our nominated charity Casa da Paz – a birthday cake and a hand-painted plate from the deprived young people who benefit from the institution. A fitting way to mark this anniversary and an honour for me, as president of ANEA, on behalf of all our members and associates.

This year, we are taking the opportunity to renew our brand and prepare ANEA for a new era. The modernisation of the logo coincides with a series of sectoral initiatives, promoting Brazilian cotton and bringing its consumers closer to the new reality.

So what will be different about this new reality?

As Brazil consistently increases its share of major import markets, the country is leaving behind the role of seasonal supplier, in favour of a



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been distributed over the first six months of the following year. Our presence in the international market is therefore reduced, just as the Northern Hemisphere crops arrive in the greatest volume. This strong presence in the inter-crop period for the major exporters continues. However, for the 2019 crop, whose export cycle ran from July 2019 to June 2020, we saw a change in this pattern and a progressive evening out of the curve. This is the new course that Brazil is plotting, with continuous flow and supply, meeting the needs of the domestic and international markets simultaneously.

We have already reached the important landmark of export shipments in excess of 300,000 tonnes in a single month, demonstrating that the organisation of the sector and investments in infrastructure are able to match the growth in production. In addition, ANEA's logistics committee is working hard towards the modernisation of execution procedures and anticipating potential bottlenecks that might affect exports. Since we are further away from the principal consuming markets than other exporting countries, integration and good organisation are crucial in order to maintain competitiveness and flexibility in execution. The consistent shipment of impressive volumes fosters confidence and credibility, and thereby mitigates the effect of transit times of 30 to 40 days between port of embarkation and destination.

It is with this outlook that we are preparing for the next phase, raising the popularity of our country's fibre with

transparency and reliability. In order to reinforce this commitment, ABRAPA and ANEA have developed a partnership with the Agência Brasileira de Promoção de Exportações e Investimentos (APEX-BRASIL), to launch "Cotton Brazil." This project involves the physical establishment abroad of what we refer to as the "Brazilian Cotton Embassy", in order to promote the sector in an integrated and structured way appropriate to this new era. Ahead is a daunting task, which we nevertheless approach with the confidence that we will achieve great success, as we work tirelessly to develop and strengthen the entire cotton value chain.

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The road to three million tonnes: the rise of Brazilian cotton production in the 21st century



Milton Garbugio,
President, ABRAPA

In 2019/20, Brazil produced three million tonnes of cotton fibre of quality, 80 percent of it certified by ABR/BCI, with traceability in 100 percent of output and bale-by-bale HVI data internationally certified by ICA Bremen in ABRAPA's Central Laboratory. In order to understand what all this means for Brazil and to appreciate the rungs the cotton producer has had to climb in the country's transformation from the world's second largest importer at the end of the 1980s to the second largest exporter in this second decade of the third millennium, we need to make a brief journey back in time. This will allow us to understand the historical context and the relationship between cause and effect that have brought us to this point.

Cotton existed in Brazil even before the Portuguese colonial period from the 16th century onwards. Indigenous people cultivated, spun, wove and even dyed cotton, using methods very similar to those observed elsewhere in the Americas, as well as in Asia and Africa. With the advance of colonisation, above all in the 17th century, output expanded to meet the needs of the colonisers, who



manufactured mainly rudimentary, rough fabrics for clothing or artefacts and in order to cover the nudity of the indigenous peoples who had been converted by the Portuguese.

Cultivation took place in the vicinity of houses, as a subsistence crop, and was generally accompanied by cattle husbandry. The cotton grown was a Brazilian *Gossypium barbadense* variety, a perennial extra-long staple arboreal cotton, originating from South America.

It was above all due to the industrial revolution in the 18th century that cotton left household production to gain the status of a commoditised business. The country's production was now based on the North

Photo by Carlos Rudiney Mattoso



American 'plantation' model, characterised by large estates, monoculture and slave labour. From then on, Brazil assumed a strategic role as supplier of raw materials to a growing textile industry in England. At this time, the main producing states were Maranhão, Pernambuco, Ceará, Paraíba, Minas Gerais and Bahia.

From that point until the end of the 20th century, cotton in Brazil experienced a series of ups and downs, dictated by the prevailing winds of the world market, favoured by the rise of modern capitalism, by industrialisation and wars, or prejudiced by inappropriate and onerous systems of taxation.

In the history of Brazilian cotton production, the American Wars of Independence and Secession and the two World Wars were major drivers of an expansion that invariably proved of a temporary nature. During the American Civil War, the United States was out of contention as a supplier and Brazil filled a large part of the deficit. During this period, a more modern annual upland variety with a shorter staple was introduced into the state of São Paulo. However, the bulk of output remained in the northeast, where the traditional longer staple cotton was produced. US production was also sidelined by the World Wars, as well as by the cotton boll weevil, which did not

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arrive here until 1983, a century after the US.

At the beginning of the 20th century, Paraíba was vying with Liverpool for the title of the world's major cotton trading centre. From the 1930s to the 1980s cotton production developed in the south east, under the lead of São Paulo (following the coffee crisis) and Paraná. The north east was still on the map in terms of area but suffered as a result of the low productivity of its customary varieties. The arrival of the boll weevil in Brazil in 1983, coupled with problems that arose from monoculture and the excessive use of practices harmful to the soil, sounded the death knell for north eastern cotton production, where the crop had come to occupy four million hectares but with derisory yields.

At the end of the 1980s, cotton cultivation had almost been consigned to history in Brazil, which began instead to import the fibre in large quantities. The reversal of the trend would come in the 1990s with the migration of the crop to central Brazil, a region without any cotton tradition, where it was necessary to start from scratch, but in the right way. In twenty years, production in the *cerrado* grew from 700,000 tonnes to three million.

It is impossible to separate this story from the creation of the Brazilian Cotton Producers' Association, ABRAPA, on April 7 1999. The organisation was born under the sign of development, its strategy being to ensure the sustainability of activity. Upon its creation, as the realisation of a union of Brazilian cotton producers, ABRAPA left behind a history of temporary successes, failures and efforts to relaunch Brazilian cotton cultivation as an economic activity. It initiated instead a new phase in that history, which would see Brazil's name established decisively on the world cotton map.

Administered exclusively by cotton producers, all its initiatives are of an integrated and strategic nature, and reflect four basic commitments: to quality, sustainability, traceability and promotion, without neglecting technology. Each of these pillars has its own specific programme: for quality, the Brazil HVI Standard (SBRHVI); in the area of sustainability *Algodão Brasileiro*

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Responsável (ABR), benchmarked with BCI; the *Sistema ABRAPA de Identificação* (SAI) addresses traceability; and as far as national and international promotion are concerned, *Sou de Algodão* is directed to the local market, while the recent *Cotton Brazil* initiative targets international consumers, especially in Asia, where ABRAPA has opened a representative office in 2020.

Over the past four years, Brazil has almost doubled the area devoted to cotton, from 939,000 hectares in 2015/16 to 1.6 million in 2019/20. This has been done through the adoption of techniques such as double cropping, which is employed on 55 percent of the country's cotton area, whereby soybeans and cotton are sown on the same land in one year. In the same period, production has risen from 1.3 million tonnes to three million and the country became the world's second cotton exporter. This expansion has transformed the country from a source of fibre during the second half of the year to a 12-month supplier. In recent seasons, with great effort, and in collaboration with government bodies,



exporters have succeeded in surmounting historical logistical barriers, posting new export records month after month, despite the impact of Covid-19.

To engage in cotton cultivation is a decision that the Brazilian farmer takes on his own account and at his own risk, as there are no government subsidies. Our competitiveness rests on the intensive application of

technology, thanks to which we attain record yields for raingrown cotton of 1,800 kilos per hectare – more than double the global average. On its path to three million tonnes, Brazil's cotton sector has shown great resilience and adaptability, focusing mainly on innovation, technology, sustainability and quality. The future undoubtedly holds in store many challenges and changes that Brazil's cotton sector is certainly ready to overcome.



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Sustainability: the foundation for a cotton industry made to last



In recent seasons, Brazil has established itself as the world's foremost producer of sustainable cotton. That position is confirmed by the Better Cotton Initiative (the global Non-Governmental Organisation based in Switzerland). According to a report released by BCI in July of this year, Brazil's share of the fibre certified by the organisation rose from 31 percent in 2018 to 36 percent in 2019. The country has been gaining ground since 2013, when the *Algodão Brasileiro Responsável* (ABR) programme was benchmarked with BCI under unified criteria.

But while BCI lends credibility and international visibility to Brazilian cotton, it is in our fields that the concept of sustainability – environmental, social and economic – has been embraced with even greater rigour. That is why Brazil has its own programme for certification of good farm practices that follows the framework of the country's labour and environmental legislation, acknowledged to be amongst the strictest and most comprehensive in the world.

In July of this year, ABR extended its reach from the farm to the ginning sector (*Unidades Beneficiadoras de Algodão*), the first industrial link of the textile supply chain. This is further proof of the innovative and pro-active mindset of the Brazilian cotton sector in matters of sustainability.

Currently, about 80 percent of Brazilian cotton is certified under the ABR/BCI programmes. Since the benchmarking of the two programmes began, a producer who adheres to ABR can opt automatically to be licensed by BCI as well. Participation is voluntary and by joining the cotton producer commits himself to following rigid protocols.

In the diagnostic verification phase alone, which precedes ABR certification, there are 224 items to be addressed. Then a further 178 are needed for finalisation of the process, which culminates in certification and issue of stamps. This last figure corresponds to the number of sustainability indicators in the ABR programme, 153, plus 25 required by BCI.

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In this process, eight criteria are observed: contract of work; prohibition of child labour; prohibition of forced labour or degrading work conditions; freedom of association in unions; prohibition of discrimination; safety and a healthy work environment; environmental performance and good agricultural practices.

ABR, like BCI, is based on continual improvement of social, environmental and economic practices wherever cotton is produced. Farmers are wedded to the three pillars of sustainability: the Social Pillar, which is centred on the health, safety and well-being of the worker; the Environmental Pillar, based on environmental performance and good agricultural practices, the promotion of a healthy relationship between man and nature, and a focus on the appropriate use of natural resources; and, finally, the Economic Pillar, which envisages sustainable cotton production from the perspective of the remuneration of the farmer, who is then motivated to remain in production. These elements combine to promote wealth generation and social development in the locality where the enterprise is established and at the state and national levels.

Certification is the culmination of three main stages, the first being a diagnostic assessment of the unit of production, followed by the correction of any potential shortcomings. Last comes the audit proper. All these stages are underpinned by norms of behaviour embodied in the eight criteria described.

The operation of ABR/BCI takes place under the auspices of state cotton producers' associations affiliated to ABRAPA. It is they who in practice oversee the implementation of the programmes, visiting farms participating in the initiative to give guidance and oversee compliance with all criteria. To accomplish this, they have at their disposal multi-disciplinary teams, which include agronomists, and technicians in the field of agriculture as well as health and safety at work.

To guarantee the integrity of the certification and licensing system, farms are audited by internationally recognised third party enterprises. Currently (for the 2019/20 crop) these are ABNT, Genesis Group and Bureau Veritas.

In order to be recognised by the market, within or outside the country, sustainability requires work and investment so as to ensure compliance with the relevant criteria. Structures and processes must be made fit for purpose and, in most cases, business culture must undergo a change. The decision to participate in the programmes is therefore not restricted to the owners of the farming enterprises. It involves everyone associated with the production process. But when this commitment to sustainability is made, the benefits are felt by many people and extend beyond the cotton sphere.

Cotton cultivation, as undertaken in Brazil over the past twenty years, forms part of a varied matrix of production. There is no monoculture: those that farm cotton also produce soybeans, and very probably corn, millet, sorghum and other crops in a rotational system. Good practices – agricultural, managerial, social and environmental – therefore influence the entire business of the farm.



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One thing that sets Brazilian cotton apart and contributes greatly to our fibre's competitiveness in the international market, apart from high yields – more than double the world average per hectare – is that it is also almost exclusively raingrown, thanks to the modern production system the country has adopted. Only eight percent is produced with the use of supplementary irrigation, whereas the global average is around 60 percent.

In this way, Brazilian cotton makes a major contribution to reducing the global cotton industry's *water footprint*. In the pursuit of continuous improvement, researchers continue to work on the development of technologies that optimise the use of resources, such as water, fertiliser and pesticides, while paying heed to the quality requirements of our customers.

A challenge of this magnitude cannot be undertaken in response to fashion or short-term trends but rather with the awareness that we produce the fibre that the world needs, since in addition to being natural, renewable and biodegradable, it is produced sustainably.

In this way, we contribute not only to the sustainability of our domestic production, but also to that of the textile value chain as a whole, helping to preserve the planet for our generation and those to come.



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Science and technology: the basis of Brazilian cotton's quality and competitiveness



Research and innovation have played, and continue to play, a fundamental role in Brazilian cotton cultivation over the past two decades. Although cotton has a history in Brazil that goes back five centuries, only in the past twenty years, with the aid of research, development and the incorporation of technology, have we progressed from a lint production of 700,000 tonnes to the record crop of three million achieved in 2019/20.

A number of factors, the most important of which was the appearance of the cotton boll weevil, rendered the production model that had prevailed for centuries in Brazil unviable. The insect's arrival in the country in 1983 delivered the *coup de grâce* to production in the north east, which was already in fragile health. Over the next few years, the country became the world's second largest importer of cotton. Until then there had been no significant investment in cotton research and the model of production had become unsustainable.

The turning point in the history of Brazilian cotton production took place in the final

decade of the last century, thanks to the boldness of pioneering producers and the work of research institutions such as Embrapa, not forgetting the work of the *Instituto Agrônomo* in Campinas, which actually initiated the first ever programme of cotton research in 1910.

But it was the work of Embrapa Algodão (above all the researcher Eleusio Curvelo Freire and his team) as well as the entrepreneurial audacity of Olacir de Moraes, the famous 'King of Soybeans', that provided the key not only to the continuation of cotton production in Brazil but to a genuine revolution that raised the country to the position of major global player that it occupies today.

The development of the ITA 90 variety, in the Fazenda Itamaraty farm in Campo Novo dos Parecis in Mato Grosso state in the 1990/91 season, was the leap forward that allowed the start of a new story, in a new situation, with new protagonists and a new cotton suitable for Central Brazil. From then on, many other varieties arrived and Brazilian cotton developed in terms of yield and quality.

The appearance of the *helicoverpa* bollworm in the 2013/14 season, and the repercussions of this crisis in the following campaigns, necessitated another radical transformation with the definitive adoption of GMOs, which arrived very late in the day. This voracious insect, which producers initially did not know how to manage, caused an inversion of the relationship between fields sown with conventional versus transgenic varieties. In round numbers, the matrix shifted from 80 percent conventional and 20 percent transgenic, to the exact opposite.

The change initially brought with it disadvantages in terms of yield and fibre quality. But over time, research, the transfer of technology through field days, and the support of agricultural consultants, amongst others, enabled the control of a pest that had caused damage counted in the billions of dollars to cotton, soybeans, corn and other crops. Furthermore, great strides were made in the improvement of materials and techniques. It is extremely important to emphasise the contribution to this process of farmers' own research entities, such as the Fundação MT,

IMAmt, Fundação Bahia and the Fundação Goiás.

One outstanding development in Brazilian cotton research is currently the partnership between ABRAPA, the Instituto Mato-grossense do Algodão (IMAmt), Embrapa and the Fundação Eliseu Alves in the Plataforma Bicudo (boll weevil platform). This initiative aims to develop a transgenic variety resistant to boll weevil, still the country's major cotton pest. Ramularia is the disease that causes most concern, and required the creation of the multi-disciplinary Ramularia Network, in order to seek solutions with which to combat the fungus that causes it.

One of the great innovations in Brazilian cotton over the past two decades has been the production of cotton as a second crop. This system allows the farmer to produce soybeans and cotton sequentially, on the same land and within the same agricultural season. Early in Brazil's agricultural year, in October and November, soybeans are planted. Shortly after that crop is harvested, in January and February, cotton is sown, then picked in July and August of the same year.

Brazilian Cotton, Brazilian Company

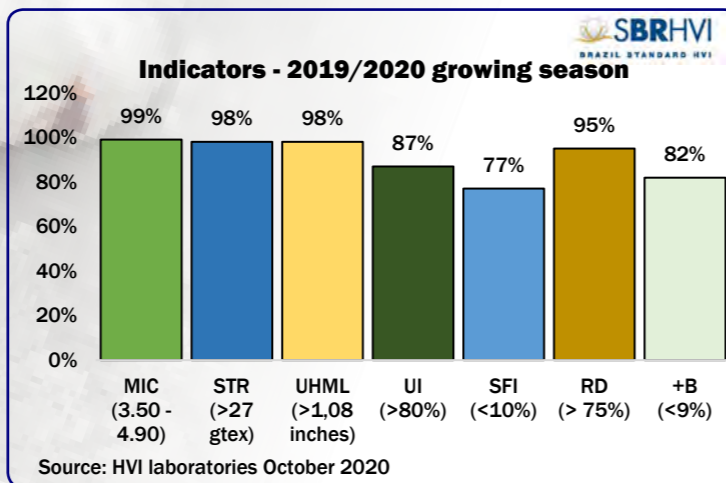
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This system of production is sustainable and revolutionary, representing today more than half of the nation's cotton output, and optimising the use of natural productive resources on almost a million hectares.

All this investment in scientific research has raised the productivity, enhanced the sustainability and, consequently, improved the competitiveness of Brazilian cotton. But it is fundamental to stress that, as concerns quality (which for our purposes here relates to the intrinsic and extrinsic characteristics of the fibre), the improvement of genetic material, production techniques and ginning have brought about significant advances leading to Brazilian cotton's emergence as a more and more desirable element in the spinner's blend. Major advances have been made in Micronaire, strength, staple length and reflectance, all of which are manifested in the value placed on Brazilian cotton in local and export markets.



The indicators represent hard-won gains by the producer, season after season, reflecting an ever more professional, sustainable and precise modus operandi. Influenced also by continued investment in scientific research, Brazilian cotton is being raised to unprecedented levels, be it in terms of yield (1,800 kilos per hectare in 2019/20), sustainability or quality. There can be no doubt that the road ahead leads to more innovation in the search for an improvement in quality parameters from each crop produced.

Bureau Veritas certifies traceability of Brazilian cotton

First in the World to have the "Certificate of Origin". Now the bales are traceable, identifying the latitude and longitude where each bale was harvested, gin location and the route taken to destination.

World leader in tests, inspections and certifications; Bureau Veritas launched their New Cotton Traceability Programme at the Cotton Dinner in Liverpool, England, in 2019. It is an advanced technology based on the tracking of seed cotton modules/bolls and actual cotton bales by means of chips known as RFID.

During a technical visit made by ABRAPA last September it was possible to accompany and validate the new technology end to end, starting in the field, through the scale at the gin, then to the stocks, through processing and storage. In addition, successful HVI tests were run at the laboratory.

In the following month, various bales were tested to validate the efficiency of the "Smart Warehousing". This system permits digital mapping of the stacks/lots by means of portable sensors mounted on the forklifts locating bales within the warehouse/yard.

A final series of tests took place in November, at the port of Santos with success in the "Smart Warehousing" process, both in the reading at unloading and when stuffing containers for export.

In 2019, Bureau Veritas certified the unloading of approximately 800 thousand cotton bales in Asia. For 2020, the company already has contracts for close to 4.5 million bales for certification at destination.



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