Cotton Outlook

Special Feature
March 2014

WHAT DO CONSUMERS WANT?

32nd International Cotton Conference, Bremen, 2014

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Contents

Page design and layout by Pam Jones, Cotton Outlook.
Published by : Cotlook Limited, Outlook House, 458 New Chester Road, Rock Ferry, Birkenhead, Merseyside, CH42 2AE, U.K.
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Quality is high on the agenda

By Elke Hortmeyer, Head of Economic Research and Communications,

Bremen Cotton Exchange

In March 2014 we will be hosting the 32nd International Cotton Conference in Bremen. We are looking forward to the event and extend a warm welcome to Bremen to all our guests from Germany and abroad.

In the international cotton world there are now many conferences. The number of events is growing with both smaller and larger ones requiring attention. Competition is also good for business here, because in view of this inflationary trend it is becoming clearer what it is all about: Quality.

Only a few conferences in the industry can count themselves among the jewels of the international meetings and the International Cotton Conference Bremen belongs to this small elite. Against the background of a great tradition, a conference has developed that is not only able to keep to an excellent level but also to set new standards. In Bremen, all stages of the textile chain now come together. Not only are cotton testing methods discussed, but also other topics that have become extremely relevant over the course of time. This includes the producing countries themselves, whose cotton industry is analysed, the cooperation with other fibres or even the all-encompassing theme of sustainable development in all its areas. In March 2014, for example, the focus will be on the customer at the point of sale. In Bremen we have succeeded wonderfully in presenting this wide range of topics at a high level of quality. However, it is the natural fibre cotton which provides the dominant framework and basis for the presentations and discussions.

Not to be forgotten is the embedding of the entire event in the phenomenal setting of the more than 600 year old Bremen Town Hall. The Town Hall, together with the Bremen Roland statue which stands in front of the building, has been a World Heritage Site since 2004 and offers the Conference guests an incomparable atmosphere.

The foundations of the later Cotton Conference were already laid in 1955. Under the direction of Dr. Fritz Hadwich the first laboratory directors' meeting took place in Bremen, where a small group of experts discussed technical issues in cotton testing. Only a few years later, the number of participants had increased to 130 and by the beginning of the 1960's, the specialist meeting had become a small conference. Cotton testing methods were the main theme. How the necessary fibre qualities could be measured reliably and reproducibly and how the manufacturing industry could be supplied with reliable data. In addition, the textile machinery manufacturers reported on the current state of affairs: what machines were on the market for spinning cotton. Where did problems arise, how could they be resolved?

Changes

However, the world has changed significantly over the last 60 years and with it, the markets have also become different. Supply and demand are still the two fundamental factors, but the amounts to be dealt with have grown and the speed of consumption has increased extremely. Regardless of the demographic sub-factors such as the political and economic development of nations, strengths and weaknesses of individual regions and the migratory textile caravan, the consumption figures have changed accordingly, with demographics driving demand in parallel. Specifically, this means: In 1950, the world's population was about 2.53 billion, while now there are around 7 billion inhabitants on the planet. While in 1950, 7 million tonnes of cotton were produced, it is now 25 million. If we look inside the world of textiles at the speed of fashion collections alone, it appears there is a breath-taking pace.

This tempo and the increasing complexity of the world can and must be met by a Conference which reflects the current state of affairs. Here, in a nutshell, we must focus on what it is all about in the industry. Cotton production and consumption, research, textile machinery and markets.

The basic theme of the conference has always been the cotton fibre and its quality as a prerequisite for further textile processing. New techniques in textile processing and the improvement of yarn through seed breeding are essential issues, but how does the end user, the customer at point of sale, see the cotton fibre? How can the industry meet both customer requirements and the demands of the market? The presentations in Bremen answer this question up to the beginning of the production chain.

Hot Topics

In search of clarity, uncomfortable questions can also be asked in the old Town Hall in Bremen. This is because it is specifically in Bremen that at times "hot topics" are also discussed on a neutral, scientific level. Be it genetic engineering or the use of pesticides in agriculture – the focus is on neutral discussion, free of imprints in any direction. In March 2014, we will also continue this tradition and devote ourselves to issues that require neutral observation. Among other things, this will include the subject of water. Cotton and water – how does it really work? Is cotton actually this extreme water-consuming plant? How is the water consumption in textile processing? What progress has been made in agriculture, what is to be expected from research developments? Experts will report and discuss.

A further item on the agenda will be the topic of responsible textile production. Bangladesh has recently been a source of catastrophic news in this regard. A few bad apples – not limited to Bangladesh – have brought a trail of bad publicity for the textiles industry.

But it is not that simple. What does it mean to be at the centre of textile production with the need to serve the market? How big is the gap between customer expectations and price pressure? We will welcome a textile producer from Bangladesh who will report.

The cotton conference will also offer a forum to the most important working groups in the cotton world, including the ACME, CSITC, ITMF, IFCP, PSAP, SEEP and Bremen will thus become the centre of the cotton world for a few days. Cotton is one of the most important raw materials in the textile industry and with a share of around 80 percent, the leading natural fibre. The International Cotton Conference Bremen takes this into account.

Cotton consumption proving hard to recover

By Ray Butler, Managing Director,

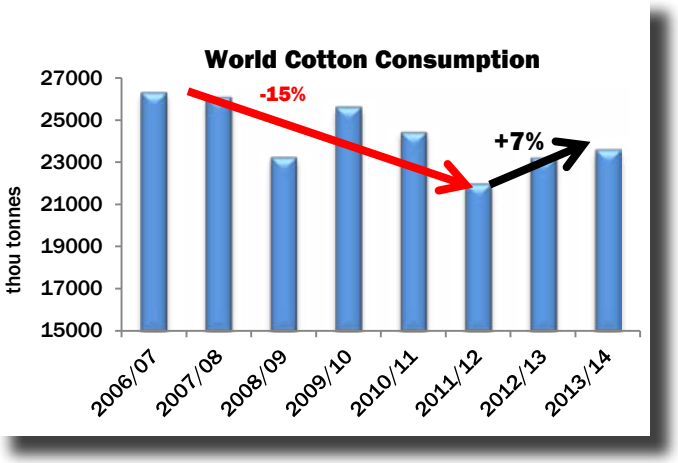
Cotton Outlook

China's cotton policy has had a significant impact on the world cotton market in recent years, especially since the market rode to unprecedented highs in 2010/11, which led to a government reserve stock policy that has seriously dented China's cotton consumption, and arguably has left global cotton use languishing in face of a highly competitive, technically improved man-made fibres industry. Changes are now afoot but how greatly these will impact cotton consumption remains in question.

World cotton consumption declined from over 26 million tonnes prior to the onset of the global financial crisis, to little more than 22 million in the 2011/12 cotton season, since when it has shown only modest recovery – by Cotton Outlook's estimate to something in excess of 23 million tonnes.

Cotton's competitive position was not helped by the extreme volatility that characterised the ICE futures market during the 2010/11 season. More than that, however, the response of Chinese policy makers resulted, perhaps inadvertently, in its domestic industry being presented with much higher raw cotton costs than their overseas counterparts, and resulted in the government having under its control, at the time of writing, an estimated 12.5 million tonnes or more (equivalent to over 1.5 times the Chinese industry's current, annual requirement). As Peter Driscoll argues elsewhere in this publication, the policy has left the door open for further expansion of polyester into cotton's traditional strongholds. Other effects have been to support cotton yarn production elsewhere (the partial recovery in cotton use alluded to above has occurred outside China, notably in the Subcontinent, Vietnam, Indonesia and including even the United States).

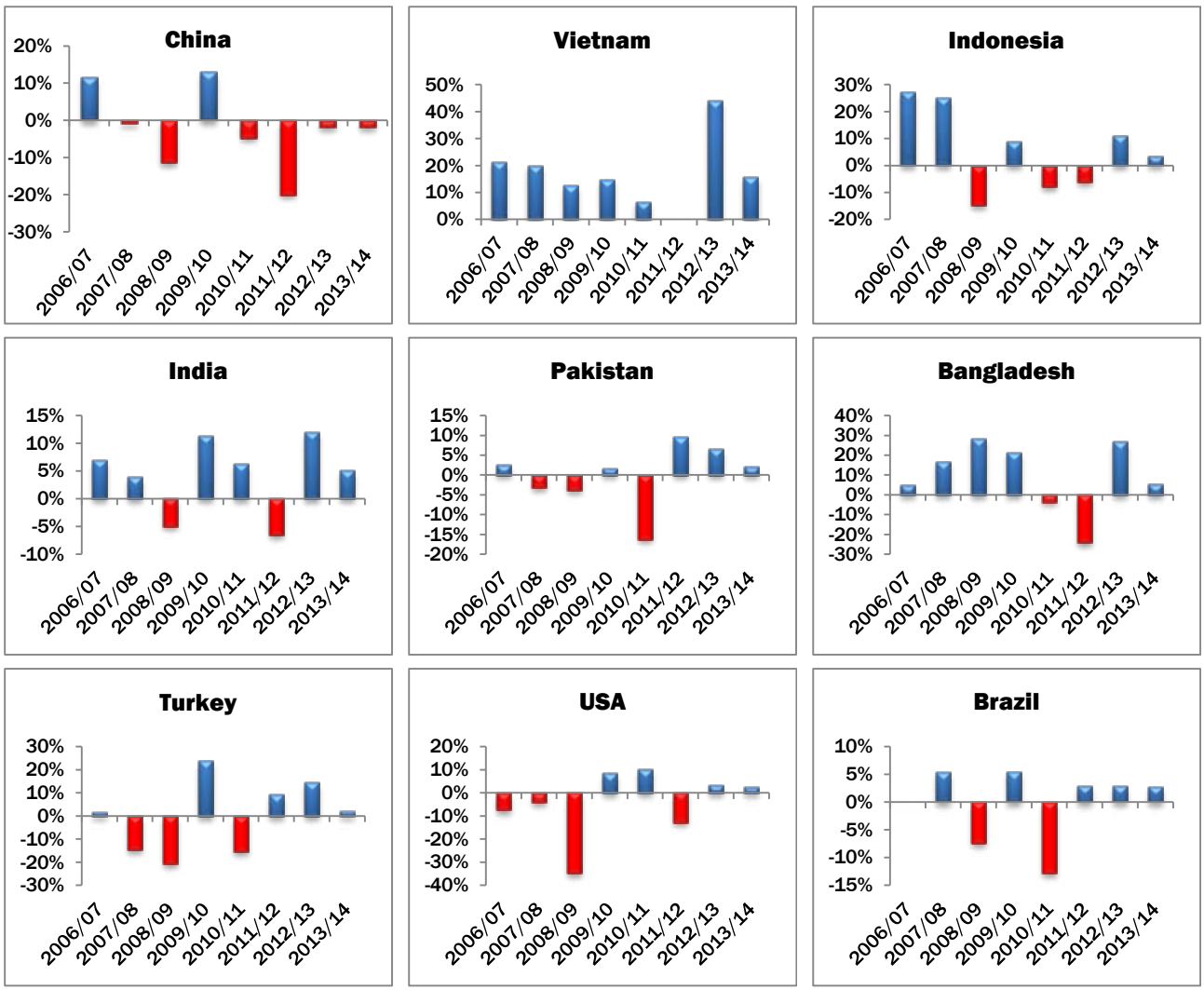
This is not to say that China's textiles industry has been in overall decline. Despite the obvious discomfort of the cotton spinning sector, and references to widespread closure of medium and smaller-sized mills, statistics regarding the overall level of yarn production, domestic sales and export revenues have remained impressive. In 2013, yarn production (all types) rose by 7.7 percent, to over 36 million tonnes; domestic sales of textiles and clothing increased in value by over 11.5 percent, while exports gained 11.4 percent. Competitively-priced polyester (mainly filament), now with technical attributes that in some instances compete with cotton's customary advantages of comfort and feel - enjoying far less price volatility - has largely won the day.



Arguably, it may be too late to regain much market share for cotton in China's spinning sector; other factors have also to be taken into account, such as China's loss of competitive advantage in terms of labour and energy and the outward flow of investment by Chinese enterprises to cheaper production locations, where free market access for cotton is not in doubt. However, Beijing officials appear somewhat belatedly to have recognised that political interference in the market on the scale in place since 2011 is untenable; the cost of operating a reserve stock policy has doubtless been hugely painful for the exchequer.

The change in policy now envisaged (details were sketchy at the time this article was written) places emphasis on market pricing and aims to divorce government support from agricultural price formation. Reference is also made to the development of a "sound agricultural market regulatory system", from which the inference to be drawn, presumably, is that the state will still aim to preserve market stability, but recognition is

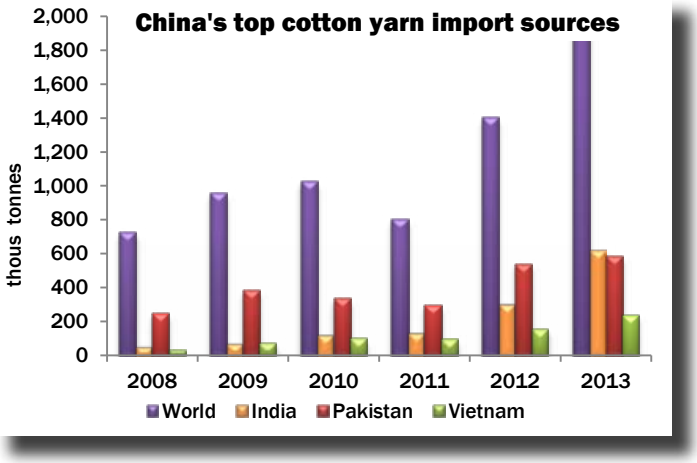
Changes in Cotton Consumption

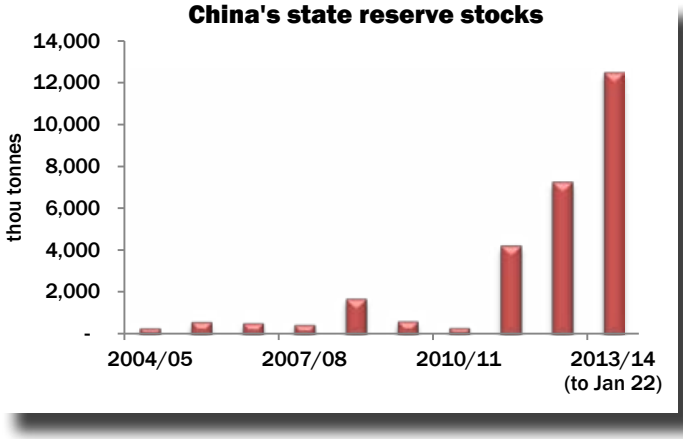


also given to the need for assistance to be given to the downstream industry through access to cotton at world market prices.

It would be foolhardy to pretend that the information yet available can be used to make sound judgement as to the implications for cotton both within and outside China. A return to market pricing, however, implies some easing of the competitive pressures on Chinese mills. Hand-in-hand may be a reduction in the incentive for yarn users to turn to imports on quite the scale of the recent past (which may be less good news for spinners elsewhere).

Whether these factors will be sufficient to greatly boost China's raw cotton consumption remains to be seen. For the Chinese and western retailer and consumer, moreover, price and product performance will remain key determinants as to their purchasing choice, which presumably leaves a greater battle for cotton in terms of convincing them both anew of cotton's attributes.





In a general sense, avoiding price volatility on the scale seen in the past few years, or putting systems in place to mitigate its effects, may also be a prerequisite to enhancing cotton's reputation as a fibre of choice. Whether this goal can be attained may depend on the precise manner in which the Chinese government goes about reducing its current, burdensome stocks.

From seed to shelf delivering what consumers want requires ongoing commitment

By Brent Crossland, Fiber Development Manager,

Cotton and Seed Operations US Bayer CropScience

As consumers are increasingly concerned with how their food and fiber is produced, the demand has grown for transparency and proven, responsible farming practices. While the term sustainability is gaining popularity, it is not a new concept for cotton growers who have continually improved their production practices with the aid of technological advances as well as increased capability of tracking their production from seed to fiber to finished goods on the shelf.

The challenges of a sustainable cotton supply chain goes beyond the farm to the merchant, mill, retail and even to the consumer. The production of superior seed that delivers higher fiber quality and yield has long been the goal of cotton seed breeders and has been delivered through branded cotton known as Certified FiberMax® and Authentic Stoneville® from Bayer CropScience. These branded cottons offer merchants a consistent supply of desired quality while the mills can minimize volatility in their operations with more consistent spinnability for lower conversion costs of quality fiber and yarn. The traceability and transparency of origin gives both retailers and consumer more information about their fabric with the connection to farmers who produced the cotton.

U. S. cotton growers committed to the principles and practices of sustainability are leading the way with e3 cotton that is certified, verified and audited to validate that it is sustainably produced. All e3 cotton starts as certified FiberMax or Authentic Stoneville seed that is traceable from the farm to the gin through the merchant, mills and retailer to the consumer.

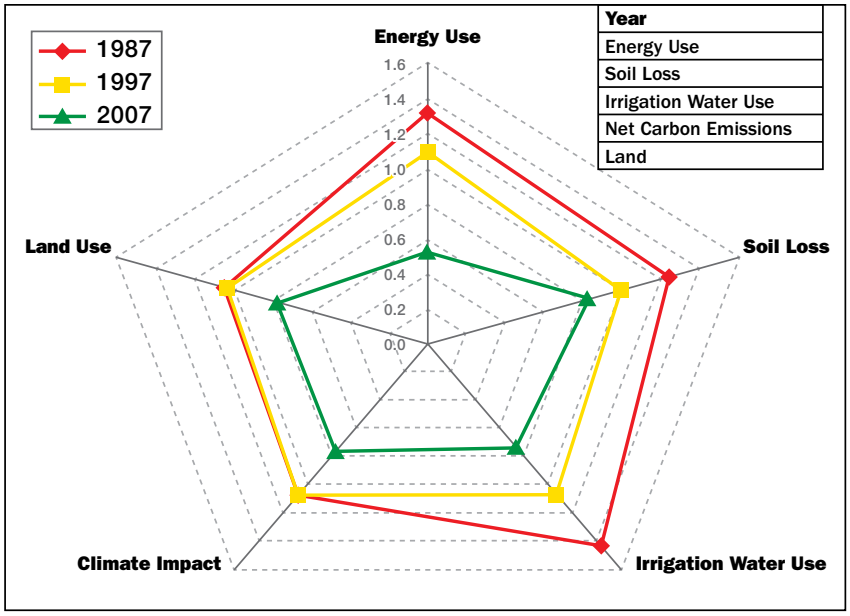
These growers are committed to continuous improvement as they are positioning their cotton for success in the marketplace. Sustainability is not simply defined as it is not a destination, but an ongoing journey. Branding at the retail level will verify to consumers that e3 cotton garments and goods were produced with sustainability in mind. That's good for the planet and good for business.

The revolutionary e3™ sustainable cotton program is a transparent, environmentally responsible, economically viable, and socially equitable program that provides stringent guidelines for farmers in the United States who grow Certified FiberMax® or Authentic Stoneville® cotton. e3 takes to the next level the Certified FiberMax and authentic Stoneville programs, which allow buyers to identify where their cotton was grown utilizing a certification database maintained exclusively by Bayer CropScience.

One nationwide consumer survey of U.S. consumers indicated that most like to consider themselves as being "environmentally friendly" or concerned. Some consumers are very concerned with sustainability and transparency. This research was conducted as a part of the MOPREMA project, a cooperative project between the University of Missouri Textile & Apparel Management department, the Missouri Department of Agriculture and Bayer CropScience. More than half of the respondents indicated a willingness to pay more for apparel items produced by socially responsible practices. This study conducted in 2010 defined this willingness as follows:

- 55% of U.S. consumers would pay more for organic cotton
- 55% of U.S. consumers would pay more for cotton grown with sustainable agricultural practices
- 57% of U.S. consumers would pay more for U.S. grown cotton. This scored high as a desirable characteristic even if other manufacturing would be off-shore.

Environmental Indicators for Measuring Outcomes of On-farm Agricultural Production in the United States



Source: Cotton Environmental Results from the 2012 Environmental and Socioeconomic Indicators Report, Field to Market.org

What is Sustainable Cotton?

The definition of sustainable has many variables that include new technologies as well as proven, time-tested production methods. The core focus of sustainable farming practices is to meet the current needs for productivity and profit without compromising the ability of future generations to meet their needs. These practices focus on optimizing the use of water, plant protection and plant health products as well as land and energy. Sustainable farming may or may not use plants improved through modern biotechnology.

Cotton growers in the United States are all held to high standards by law for worker health and safety, conservation practices, regulated pesticide use and water stewardship. U. S. cotton has continually decreased the amount of resources required for production over the past 20 years. According to Field To Market, this shrinking "fieldprint" is defined by reductions in energy, soil loss, irrigation water use, climate impact and land use.

So how is e³ cotton different?

All U.S. cotton can be tracked from the farm and identified by unique bale identification numbers linked to the gin, classing office and cotton quality data.

But cotton in the e³ program goes beyond this standard tracking. It is produced by growers who are certified by signed agreement to continually assess their crop from seeding through harvest for best management and sustainable practices. To qualify as an e3 cotton provider, these operators agree to maintain economic growth while protecting our planet and its resources and improving the quality of life for current and future generations.

The e³ commitment requires continuous improvement that is measured through the Fieldprint® Calculator created by the diverse Keystone Alliance for Sustainable Agriculture. This assessment tool documents how management choices affect overall sustainability performance and operational efficiency. This allows growers to verify their management decisions and practices are producing cotton using environmental, economical and equitable methods.

Acknowledging that cotton merchants and others may take actions in reliance upon the correctness of their certification, e3 growers agree to continuous improvement and to submit their information for third-party verification that is also subject to audit.

For mills and retail brands, there are three key benefits of the e3 program:

- e³ is socially equitable to address issues of working/living conditions of growers and laborers, needs of the surrounding rural farm community, as well as consumer health and safety aspects.
- e³ is economically viable to meet the individual economic needs of farmers, farm families, farm workers and customers, and to help make farms financially competitive enterprises that are consistently profitable year over year.
- e³ is an environmentally responsible program encouraging reduced use of water, land and energy while maintaining productivity.

This new and comprehensive program addresses the various and complex aspects of sustainable cotton. Bayer CropScience has assistance from Olah Inc., Kingpins show producer, in marketing of e³ cotton to the textile and apparel industries. Andrew Olah, chief executive of Olah Inc., says they are proud to support the e3 program. "In a world where sustainability has become a catchphrase," says Olah, "we are thrilled to be able to champion a cotton program that addresses the reality and science of sustainable cotton farming."

The e3 identity preservation and transparency of production practices starts with the seed planted and follows the cotton from picking in the field to the gin, the merchant, the mill and retailer through to the consumer. No other branding has this commitment of certification, verification and independent audit. The consumer now can know not only who grew the cotton for their apparel, but how was it produced.

Cotton is grown by growers who agree to certification, verification and independent audit by third-party experts including these considerations:

- Continuous improvement
- General operation

- Needs-based assessment of input requirements
- Water efficiency
- Optimized pesticide management & usage
- Soil & fertility management
- Greenhouse gas reduction
- Energy conservation
- Health and safety of workers
- Identity preservation

Farmer enrollment is voluntary, but once enrolled, farmers make a commitment to the program and to continuous improvement in productivity, environmental quality and personal well-being. Farm performance is self-evaluated though the Fieldprint® Calculator, an online tool designed by Field to Market, the Keystone Alliance for Sustainable Agriculture, and verified with in-season and post-harvest third-party audits. During harvest, bales are entered into the database and the certified product is sent to the brand. The Fieldprint Calculator self-assessment shows farmers the impact of farming practices on natural resources, helping them operate more efficiently and establishing a point of comparison with local data averages. Thus, farmers can identify situations where improvements can be made in areas of sustainability such as: productivity, land use, soil loss, irrigation water use, energy use and greenhouse gas emissions.

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Raising confidence in cotton quality

By Kai Hughes, Managing Director,

ICA Bremen

It was just two years ago that the newly formed ICA Bremen launched its International Laboratory Certification Scheme. Operating from its state of the art laboratory facilities in Bremen, Germany, the centre combines the global reach of the International Cotton Association (ICA) with the quality expertise of Bremer Baumwollbörse (BBB) and the Bremen Fibre Institute (FIBRE).

The scheme involves the assessment and international certification of cotton testing laboratories to implement an internationally recognised standard. This will establish a list of laboratories located worldwide which meet a high standard level of quality assurance, so that they can provide a reliable service to the cotton industry and be used to resolve quality disputes in line with the ICA Bylaws & Rules.

To ensure credibility, the certification procedure has been developed at the highest level by building on the work of the United States Department of Agriculture (USDA), Commercial Standardisation of Instrument Testing of Cotton (CSITC), American Society for Testing and Materials (ASTM) and our practical testing experiences gained over many years. Certification will also be easily monitored so that it can be suspended or rescinded if a laboratory fails to maintain those standards in any way.

So how has the scheme been received and what progress has there been?

It may seem a paradox to say that the scheme has proved very successful with only two laboratories having met the standards to be certified so far – Cotton South Africa, the first, and more recently Konstantinos V. Markou A.B.E.E., due to be certified at the end of March. It is important to the whole cotton community that by certifying a laboratory, ICA Bremen is effectively giving its stamp of approval that a laboratory is operating to the highest certifiable levels. This gives confidence to users in choosing a certified laboratory as well as offering them more choice. The scheme has attracted a lot of attention with 14 laboratories expressing an interest in being certified but certification is certainly no push over. There are eight criteria in the certification process:

Laboratory Specification / Conditioning: This lays down the requirement for the laboratory's atmospheric conditions, their monitoring, sample conditioning and other specifications. It looks at how the air conditioning system is maintained and whether the tolerances are in line with the ASTM and ISO.

Instrument and Maintenance: This sets out the requirements for instruments and their maintenance.

Calibration and Internal Verification: The laboratory must conduct a daily internal check test programme and the check test results must be within established tolerances set by the industry.

Testing Procedures and Samples: This defines the testing procedure and the specification of cotton samples.

External Verification: The laboratory must be a participant in the CSITC Round Trial for at least one year. It would be preferable to be involved in other recognised Round Test programmes such as USDA's monthly Round Trial or ICA Bremen's quarterly Round Trial.

Quality Management: The laboratory must have an operational and effective external or internal quality assurance programme. The external quality assurance programme should be based on ISO. Any internal quality assurance system should conform to standards set and investigated by an ICA Bremen questionnaire. The quality control system should cover, amongst other things, document control and traceability. The

calibration of instruments must be conducted using the standard procedure laid down by the manufacturer or in line with standard industry practice.

Human Resources: Operators need to be well trained in line with the quality assurance system.

On-site Inspection: Criteria are given for on-site inspections, both planned and 'unplanned'. All laboratories applying for certification will need to be assessed first.

A number of questionnaires are sent to the laboratory, which need to be completed and returned to ICA Bremen. ICA Bremen evaluates the information given and prepares a proposal to be put before an Advisory Committee, which consists of five members appointed by the ICA Bremen Board and consists of representation from across the cotton sector - controllers - spinners - merchants - growers - ICA Bremen staff. If the Advisory Committee on Laboratory Certification agrees to proceed with the certification procedure then an on-site inspection will be conducted. The cost of this must be paid for by the laboratory and is non-refundable regardless of the outcome of the certification procedure. Following the inspection, ICA Bremen may either make a final proposal to the Advisory Committee as to whether or not to accept the laboratory as a certified laboratory or raise any major or minor non-conformances with the laboratory and give a time frame for corrective action to be made.

The cost of maintaining certification is US $2,000 per year plus the costs of any on-site inspections that are required. Once certified, laboratories will receive surprise 'verification tests', whereby either ICA Bremen will send that laboratory test cotton samples for testing and verification or the laboratory will be required to send a subset of samples tested in their facility on a fixed day to be retested by ICA Bremen.

In addition to annual documentation checks, all laboratories must undergo an on-site inspection every three years, or if ICA Bremen has received a major complaint from a customer, or if there has been a major change in the laboratory's equipment or settings. Should a laboratory fail to meet the standard required following an inspection, a plan of action for corrective action will be agreed with the assessors. If, following such action, the laboratory still fails to meet the criteria then ICA Bremen may either suspend certification for a certain period of time or withdraw the certificate (in which case the laboratory will be required to reapply for certification).

The success of the scheme is dependent on maintaining a high quality of certified laboratories, not on the number. Laboratories need to be participants in the CSITC Round Trial for at least one year before they can apply for certification, which has resulted in some applications being put on hold. It is envisaged that a further two laboratories will have attained the standard to go through the certification process this year.

Questions often asked are why is a certification scheme needed and what benefits does it bring to the global cotton trade. At present, if there is a dispute on the quality of cotton traded under ICA Bylaws & Rules, the two parties may agree on the use of any laboratory or, failing that, samples must be sent to ICA Bremen. As the vast majority of international trade is conducted under ICA Bylaws & Rules the inference is that samples could be sent to ICA Bremen from all parts of the world. More 'locally qualified' laboratories are required that can test samples for arbitration but financially, it would not be viable for the ICA to build its own testing laboratories around the world – hence a need to work in cooperation with existing laboratories. However, buyers and sellers need to have trust in those laboratories and confidence that they are operating impartially and to the highest standards, so that test results are reliable and meet standards that are continually monitored and verified In the case that the two parties cannot agree on a laboratory, ICA Bremen will be used.

ICA Bremen has thus established a dependable mechanism for the resolution of quality disputes in the global cotton trade and provided an improved service through a clearly defined quality procedure that has received international acceptance and backing. Above all, ICA Bremen has set a clear example of how partnerships between key players in the cotton trade with a shared vision can drive up standards and increase trust and confidence in a market that has suffered badly over the past few years.

Concentrating efforts to meet consumers' cotton requirements

By Jean-Marc Derossis, Vice-President of ICA.

What does the customer of the cotton trade, the spinner (whether or not vertically integrated), want? To some extent, the fact we are asking the question is proof that the cotton trade is more than ever seeking to affirm its long-term relevance and that of the product it trades. After all, we could all stick to the fact that we trade a commodity and as such, there is nothing wrong with the product and all is just a question of risk management, quality and logistics. But the reality is there: cotton does not live in a protected bubble. Over the past few decades, it has been continuously losing market share within the fibre market because we have seen increasing and at times ferocious competition from man-made fibres - this despite the fact there is a broad consensus that cotton is the more desirable material to the end-customer.

I see four main areas where action either has been taken and/or where we need to concentrate our efforts:

- **Volatility:** cotton is prone to sudden spikes of volatility, never more so than during the now infamous 2010/11 season when prices went from 75 cents per lb to 220 cents and back to 90 cents in less than 12 months. This led to a massive shift in consumption from cotton to polyester and viscose at the time, a shift that is unlikely to be won back by cotton. Our customers want an element of predictability for the price of their raw material so as to ensure a better handle on their future profits - let's remember that textile investments, by their very capital intensive and long-term nature, cannot be switched on and off instantly. One has to be realistic in acknowledging the impossibility of avoiding cycles and volatility ultimately generated both by supply constraints, exposure to macroeconomic events and money flows in and out of the futures market. The trade has been working hard in the past 12 months to agree on a new World Contract that will allow a much wider range of origins to be tenderable, which should help price discovery and possibly reduce the risk of extreme volatility. But it can only help our customers if there is a widespread education effort around risk management concepts and tools so that our customers (and suppliers too) are better equipped to overcome sharp movements in cotton prices. Unfortunately, people tend to have short memories and the merits of risk management often appear obvious only when it is too late. I would venture to suggest that the cost of risk management to the spinner over the long run is minimal compared with the potentially lethal shocks of a volatile market.
- **Cash flow constraints:** understandably, spinners prefer to have cash and financing lines invested in new machinery and new plants rather than raw material inventory. From buying "prompt' cotton to the time it reaches our customer's warehouse, the lead time can sometimes run to 4 or 5 months, during which time money and credit lines are tied up, and the market might be up or down 50%. In the last few years, the trade has been developing consignment business from Chinese and Malaysian warehouses so as to reduce the timescale. Whilst this works well with a market in full carry, it seems a costly exercise in a backwardation, which has been the case for long periods over the last couple of years. Yet again, the new World Contract should hopefully help address the issue - although one should expect progress rather than panacea.

- **Being a proactive part of the supply chain:** the trade has been involved both upstream and downstream so as to communicate the main requirements from spinners and textile manufacturers and work hand-in-hand with producers to steer cotton production towards meeting those requirements:
  - The trend towards sustainable cotton growing: BCI is finally taking off rapidly and will help deflect the criticisms levelled at cotton over many years regarding pollution, excessive water usage and adverse social impact.
  - The eradication of contamination: a massive effort has been made by extending the production of machine-picked cotton and also with regard to ensuring lower contamination in hand-picked cotton - which has been fruitful, for instance, in West Africa
  - The last technological revolution: BT seed has allowed cotton to fight for its market share by substantially increasing yields. What would cotton's market share be today without it? And more to the point, what is the next technological revolution ready to hit the fields?

More than ever, the trade needs to be fully engaged with organisations like the ITMF, the ICAC and BCI to listen to and understand the ever changing needs of the supply chain and in particular of its downstream customers. The Board of the ICA has clearly recognised this need with its recent appointment as directors of Patrick Laine from BCI and Pascal Brun from H&M.

- **The rules of the game:** Our customers are as fed up as we are with counterparties that do not honour their commitments. It puts those who behave honourably at a financial disadvantage to those who disregard the rules. The ICA has been making strides in ensuring that the latter are moved to the sidelines and find it as difficult as possible to buy their raw material competitively. There has to be more danger than benefit for somebody who defaults and in this respect, a very decisive effort is being made by the Association, both through its Business Intelligence Team and its Enforcement Working groups, to ensure the awards produced under ICA Rules are enforced vigorously, even in difficult jurisdictions.

Ultimately, the good news is that retail customers want more cotton. The challenge remains to bring to market the next technology that will boost yields to ensure cotton supply keeps pace with demand.

Outside of the more specific targets mentioned above, our aim as an industry should be to maintain a stable market share for cotton within the overall fibre market. This would guarantee a bright future for the whole cotton supply chain.

What the consumer wants:
Canclini's experience through nearly 9 decades

Canclini Tessile S.p.A. is an Italian company founded in 1925 by the grandfather of Mr. Simone Canclini, now CEO of the Company. The roots of the company are in the worldwide famous Como district of the premium Italian silk textiles industry, following which the company moved into the cotton field and still maintains the DNA and expertise attained in working for many years with this precious fibre. The company, present worldwide and for many years a reference point for the most important brands of the fashion industry, produces premium cotton fabrics and is proud to list among its clients, international designers, famous brands of men's garments and refined, made-to-measure tailors. The company's achievement results from the perfect balance of many elements. Canclini Tessile is a B2B company, and the main challenge is to follow and meet the needs of both brands/producers and final customers. Mr. Simone Canclini explains the secret of this perfect blend, based on passion, quality, experience, research, technology and dialogue.

CANCLINI
1925
CREATING TOGETHER SIDE BY SIDE

"Since the early days of the company, my family paid great importance to the needs of our clients and final consumers. Over the years, in face of a changing scenario and competitive arena, we also changed the tools to reach the same goal and today, under my leadership, we still constantly verify all the emerging trends and opportunities of the market to offer the best product to our customers.

There are many challenges nowadays, considering not only that customers are increasingly knowledgeable, but also that many external factors (such as rising costs of raw materials and energy, and the general economic situation) have a strong impact on our industry, probably more so than in any other. In our day by day activities, we try always to reach our goals and that, so far, has been reflected in our results.

The first, and probably, most important goal is **quality.** We always pay high attention to the quality standards of our product, meaning that we always use the best quality cottons, the best yarns, the best dyeing and finishing products. The cottons used include Egyptian Giza 45, American Supima, Caribbean Sea Island and other cottons that can provide the best fit for our requirements in terms of lustre, softness, moisture transmission and strength. Obtaining the best raw materials is a continuous challenge, especially after the 2011 crash in global cotton prices, but we are deeply persuaded that a good shirt starts from a good fabric and, of course, from high quality cotton. We have never chosen to decrease cotton quality so as to preserve margins. This choice has paid back. Although we had to cope with the general crisis that has strongly impacted our sector, our clients have rewarded us for our quality choice and we have seen the effects of our significant investments translated into our results, both in Italy and internationally. Nowadays, both manufacturers and final customers are focused on quality garments. Both premium and entry level segments of the market want value for money, they want reassurance that the product they buy is high quality, durable and, especially in recent years, sustainable, respectful of the environment and social responsibilities. We always pay high attention to the environment, doing our best to preserve nature and resources as much as possible. Manufactures and consumers want to be informed about the materials used, their origin and how they have been treated. This is the reason why we are always very transparent in our company and in our technical communication: we provide specific certifications and clear and detailed information on our articles to meet the clients' information needs. Indeed, not only we have many licences to certify and state the use of specific cottons, but we also have international certifications that guarantee our fabrics are not harmful to human health (for instance, Oeko-tex certification, which confirms the safety of a fabric).

Another key aspect of our activity is the importance devoted to **research and development**, as regards both **style and the production processes**. My cousin, Mauro Canclini, since many years head of our style department, leads a team of creative designers and technical experts, who translate the emerging trends into different seasonal and specific collections. One of the biggest challenges in a B2B sector like ours is not only to offer to the clients – designers, industry manufactures or tailors – the product that mostly underlines their creations and models, but also to catch, understand, revise and implement all those trends that only a couple of years after their launch will be, very likely, before the eyes of the final consumers. It

is for this reason that Mauro and his staff travel around the world continuously, engaging in dialogue with clients and with experts of different fields (such as design, art, architecture, sociology and lifestyle) and undertaking broad and intensive researches on fabrics. The style research covers not only contemporary sources, such as finding special, precious districts where it is still possible to find special products (the most recently studied and re-interpreted is the craftsman Japanese denim production, which is at the base of the "Special Make up – Fall/Winter 2014/15"), but also ancient sources: the company proudly owns a huge archive, containing many volumes and books of international fabric collections from different countries and epochs, representing different fabrics typologies and styles. A visit to our archive is a source of inspiration not only for our creative staff, but also for our clients. As a matter of fact, our style department, season after season, studies many exclusive products side by side with our clients, starting very often from a visit to the archive. The two sides together create unique collections, designed and produced exclusively for the client's own lines, merging innovation with respect for the style of the client's brand.

Together with the style aspects, we are also very active on research and implementation of new production processes, techniques, instruments and devices. We constantly hold dialogue with expert buyers of the sector – many of our negotiations are based on meetings with buyers who are highly skilled professional experts in respect of technical aspects of cotton, weaving and

finishing - and we always try to offer them the most innovative textiles. This can be achieved only by using the most updated technologies, state-of-the-art machineries and through many different studies and proposals. Our company is very flexible in terms of production and we can easily satisfy both short runs and large-scale orders, working to tight and reliable delivery schedules.

Technology is another arrow in our bow, not only at the production level, but also in terms of communication. Technology has helped broaden the customers' vision and their desire for detailed information, so as to know all aspects of the product they intend to purchase, including the best price, the closest place to buy and the fastest delivery. Consumers also want to have details about the direct experiences of other users, to find inspiration, guidance (including warnings, should there be any). They also want to express their own opinions on products, suggest or criticise new proposals and evergreen classics, as well as state their personal experiences and observations. For us this is extremely important because we not only closely follow professionals and trend setters, but also listen carefully to final customers thoughts on design, trendy inputs, sources of inspiration, style expression, iconic brands and give their own testimonials. They are interested also in the technical characteristics of products' overall production aspects. For these reasons, besides the detailed information given to professionals, products), we also update our website constantly and have created a frequently visited *Facebook* page.

Furthermore, in order to satisfy the increasing curiosity of our clients and final consumers, we offer frequent **real shopping experiences**: we have organized shows several times in prestigious shops in Italy and around the world (in countries such as Canada, Spain and Japan, to name a few), where we were pleased to explain to clients all the characteristics of our products and collections and allow them to experience personally our fabrics and their characteristics.

The cotton and textile industry is a fascinating field, one of the rare occasions where quality, research, processes and production encounter requirements for beauty, self-expression and style, and where it is possible to find, beside the serious aspects, the fun side of fashion, life and living styles. We love our work, our collections and making our clients proud of their collections and experience delight when they find in our articles (or we create for them) the perfect match for their models, original ideas and inspiration".

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Tracing cotton fibres from the plant to the end product

By Bruno Widmer, Agricultural, Global Business Manager Fibres,
SGS Société Générale de Surveillance S.A.

Cotton producers are keen to replicate the success of traceability programmes in agriculture and forestry across the global cotton fibre market. Traceability in the cotton fibre market ensures that cottons identified under a specific scheme, comply with its ethos and principles, as well as defined quality, safety and social responsibility criteria. Differentiating themselves in this way opens the door to more profitable production and markets.

Increasingly, producers, manufacturers and retailers want to promote products based on geographic origin, quality, safety and social responsibility. Traceability enables the supply chain to verify the history, location, or application of an item by means of a documented and recorded identification system. In the cotton fibre industry, this entails applying unique identifiers to bales and tracing their progress throughout the supply chain.

Despite the success of traceability in other industries, the textile industry and its production chain has struggled to put effective programmes in place. Traceability in agricultural production, for example, is already very common. For instance, consumers are invited to scan barcodes on food packages to learn where the meat, fruits or vegetables are produced and by whom.

Why is it not common yet in the cotton fibre industry?

Traceability of seed cotton from the field to the ginning factory is possible, and necessary to achieve a good and even quality in bales when cotton is handpicked. The module in mechanical harvesting is an identifiable unit belonging to a part of a cotton field and can be clearly identified. As soon as a cotton bale enters a spinning mill it effectively loses its identity, and is only identifiable by tracing documents and written declarations.

The production of cotton yarn frequently involves a mixture of fibres of different growths and origins. The resulting yarn is traded to knitters and weavers who will buy a product that meets their requirements at the best price and quality, as necessary, to produce the fabric. This means that the fabric can consist of several different yarns.

In the finishing of the fabric, an additional production stage complicates the process and the documentation. In many cases, cut and sew operations make garments out of patches of fabrics from potentially different batches. In the textile production chain, 'tolling' (outsourcing selected production stages) is very common. Often, the buyer of the final product is not even aware of where production has taken place. As a result, finished garments on the shelf may look the same but, potentially, they are produced by different suppliers, from different fibre supplies, origins and locations around the world.

Traceability options

The foremost ways to identify a product in the supply chain, from its raw material to the finished product, are:

- Chain of Custody (CoC) verification.
- Identity Preservation (IP) certification.
- Mass Balance (MB) accounting.

Each method has different ways to identify and verify the origins of the fibres used in a given textile.

Chain of Custody (CoC)

CoC certification follows the path fibre products take from the field to the consumer, including all processing, manufacturing, transformation, storage and distribution links. The CoC certification plays an important role in ensuring the traceability of fibres from origin, through the entire supply chain, to final product. This enables companies to provide third party verification of the claims they make to their customers.

CoC certification involves three key elements:

Accurate and reliable information on quantities of materials purchased, produced and sold: A central part of any CoC system is to gather, record and verify information on quantities and volumes of materials involved. Linking and cross-checking the quantities at subsequent stages of the supply chain provides evidence of any accidentally or intentionally caused irregularity and discrepancy which then can be addressed and corrected.

Management of critical control points (CCPs): CCPs are managed by systems, usually based on the principles of identification, segregation and documentation. This is handled separately at each point along the supply chain, or where material from a certified or controlled source could become mixed or replaced by material from uncertified or uncontrolled sources.

Adequate training and supervision of personnel: A fundamental component of an effective CoC system is to have adequately trained personnel, who will follow the established procedures for CoC control. Uncontrolled sources do not meet the requirements necessary for product inclusion.

CoC certified and verified garments can be labelled as compliant to the relevant standard(s).

Identity preservation (IP)

IP certification goes a step further and protects speciality cottons, like organic fibres, or brands that identify the fibres as being produced for a specific cause and traded and manufactured separately.

As a rule, IP schemes define the presence of these cottons in a garment, either as a declaration of percentage, or as the entire product. Often, CoC certification is required in addition to the strict separation of cargoes. In the textile industry meeting cotton fibre quality requirements for a final garment remains challenging. In many cases, to guarantee the quality of these textiles, they can only be manufactured in an integrated textile manufacturing environment, from yarn to final garment.

Mass Balance (MB)

Used widely in engineering and environmental analyses, mass balance (MB), also known as material balance, is an application of conservation of mass to the analysis of physical systems. By accounting for material entering and leaving a system, mass flows can be identified which might have been unknown, or difficult to measure without this technique. The exact conservation law used in the analysis of the system depends on the context of the problem, but all revolve around mass conservation, i.e. that matter cannot disappear or be created spontaneously. Based on this explanation, MB is considered useful for the textile industry.

MB in the textile industry assumes that the supply chain does not allow physical separation, as this would prevent flexibility of procurement for quality and price, as well as timing of the production of fibres, among other reasons. Mass balance accounting allows use of common price risk management tools at the same time as preventing additional, uncontrolled financial pressures and other burdens.

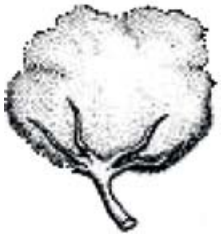
These systems are combined with CoC certification and applied to a specific CCP such as the gin, the spinning mill and MB accounting throughout the textile industry. MB accounting verifies inbound and outbound information, either physically recorded in documents or provided over a web-based application.

The attraction of handling and using fibres under this system is that it allows purchase and sale of cottons that are produced and sold in different qualities, without jeopardising the product claims desired and required by manufacturers, retailers and consumers.

Third party certification and verification

As possibly the world's most important natural fibre, cotton is used in myriad products and applications. To ensure its traceability, safety, quality and sustainability the cotton fibre supply chain can choose to comply with a variety quality schemes and methodologies.

Demonstrating compliance in the market place however, requires verification by an independent party, either through an assessment against a standard, or through full certification.



With a global network of testing facilities and expertise, SGS can support the cotton fibre industry to improve standards, social responsibility and profitability.

Do consumers have a choice?

The competition between cotton and manmade

By Peter Driscoll, Managing Director,

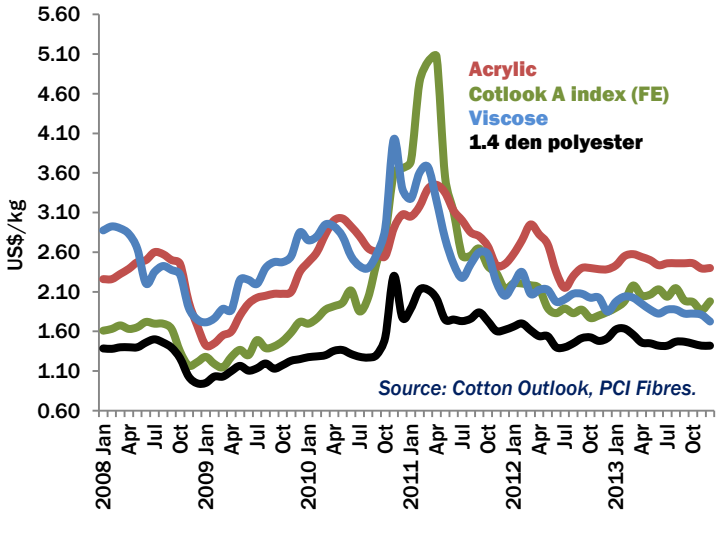
PCI Fibres

It is generally understood that one of the last things a consumer considers when shopping, if at all, is the fibre composition of a garment. Fit, appearance, price are considerations that are much higher up the list. And, even if the shopper is directly interested in fibre content, they can easily be deceived, until they look at the fibre content tag. No matter the level of expertise, we can find it very difficult nowadays determining the composition of a garment just by appearance and touch. Tremendous advances have been made in fibre technology and fabric finishing, and these have tended to blur the characteristics of different fibres in terms of fabric handle and drape.

Deep down however fibre content is an issue. If a garment is uncomfortable, without analysing its content in detail, the consumer won't be buying the same again. And conversely, if it is comfortable, then fibre content will not be an issue. Provided the supply chain delivers the right merchandise, considerations of fibre content need not arise; unless, that is, other factors are brought into play.

But these other factors are being brought in to play, especially among retailers and brand names, and a few consumers: factors around animal welfare in wool production; and around land and water usage for cotton; factors that are not an issue when it comes to the production of most manmade fibres. They can be summed up loosely under the term 'Sustainability', a term that is steadily taking on more and more significance. And it is a term that can be embraced to a limited extent by the polyester industry. Cotton's biggest competitor among the manmade fibres has a strong story to tell on recycling, thanks to the advent of the polyester bottle which, after use, is being processed back to a usable raw material for the fibres industry. This is a first step for manmade fibres. The next is to move away from oil and gas as prime feedstock to biomass, though there is much more work to be done in this field.

A. **Asia/Far East staple prices**

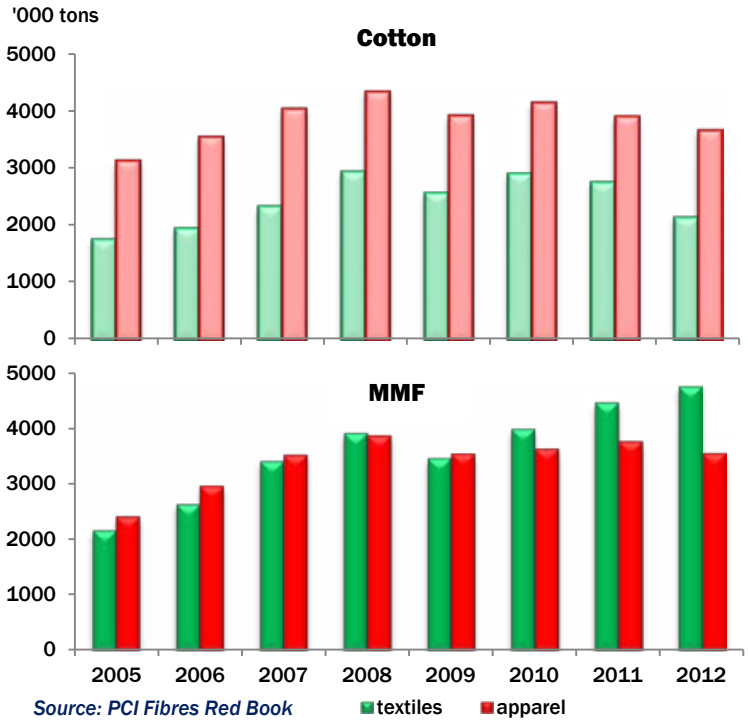


The consumer then remains the final arbiter, but for all practical purposes the textile industry decides the fibre content of a given design; once, that is, a route to achieving the required design has been identified. And the final decision is largely based on production efficiency and cost; presenting a considerable problem in recent years as far as cotton has been concerned.

Considerations both of production efficiency and cost control have taken a toll of cotton volumes. The textile manufacture can, given time, cope with higher prices, but finds it far more difficult to manage the volatile pricing of cotton seen quite recently. It is not possible to say with any precision, but the 2010/11 price spikes might have lost the cotton market worldwide some 2 million tons in 2011 and nearer 2.5 million in 2012; and all this at a time when the world was being flooded with liquidity because of the banking crisis. Manmade fibre demand in 2011 rose by more than 4 million tons and in 2012 by more than 3.5 million.

Cotton's market share, at least according to the estimates of PCI Fibres, fell from 33% in 2010 to 30% in 2011 and 28% in 2012 when global fibre demand is estimated to have reached 80.8 million tons. The PCI Fibres figures include all applications, apparel, household, floorcoverings, technical. They only exclude the so-called "hard" fibres; such as jute and sisal, or slit and split polypropylene. The PCI Fibres analysis does not therefore include artificial grass, but would include uses such as tyre-cord fabric in rayon, nylon or polyester; once a market for cotton.

B. **China net trade in apparel/textiles**



as can be seen in **Chart B**, a comparison of China's net trade in cotton apparel and textiles; noting that some of the fall in net exports of cotton textiles in 2011/12 can be attributed to large inward flows of cotton yarn.

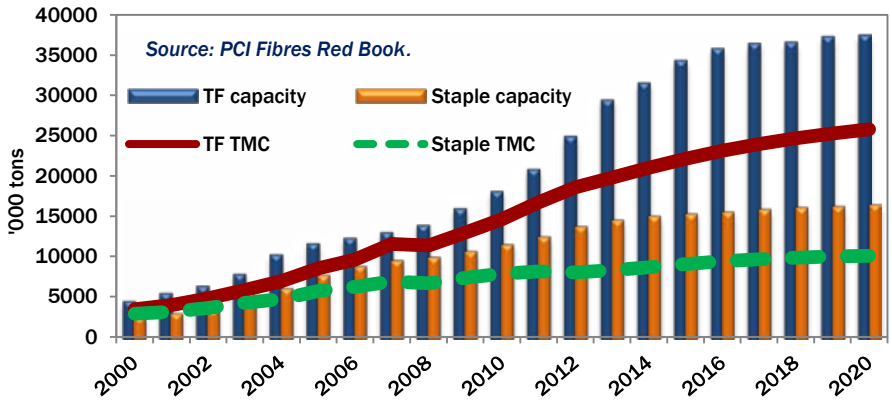
But polyester staple and viscose staple were not necessarily the winners during the cotton spike and its aftermath. China, particularly since 2009, has been experiencing, and is still experiencing, a huge expansion in polyester textile filament capacity, far greater than anything seen in polyester staple, reference **Chart C**. The application of polyester textile filament in its many forms, reference the opening remarks above, has involved some of the greatest deceptions in textile history; with a vast range of fabrics achievable, and, more to the point, as merchandise that is very acceptable to the consumer, sometimes to the detriment of cotton. Cotton might well have lost more ground to filament polyester than to the staple form. Indeed, polyester staple itself is losing share to filament. And with so much capacity to move, the polyester textile filament sector will continue to push into new aesthetics. The challenge to cotton is now not only cost and production efficiency, but also product variety.

Chart A compares prices in Asia for various short staple fibres. Some of cotton's competitors like polyester tried during the spike to follow cotton up in price, but at the time there was no demand for extra polyester, at least as staple fibre. Now the market has experienced more moderate price movement in cotton, and buyer confidence is gradually returning, but cotton is still at the mercy of government intervention, and the threat of further volatility is always there. And the manmade fibres remain very competitive; thanks more recently to a surplus of viscose and polyester.

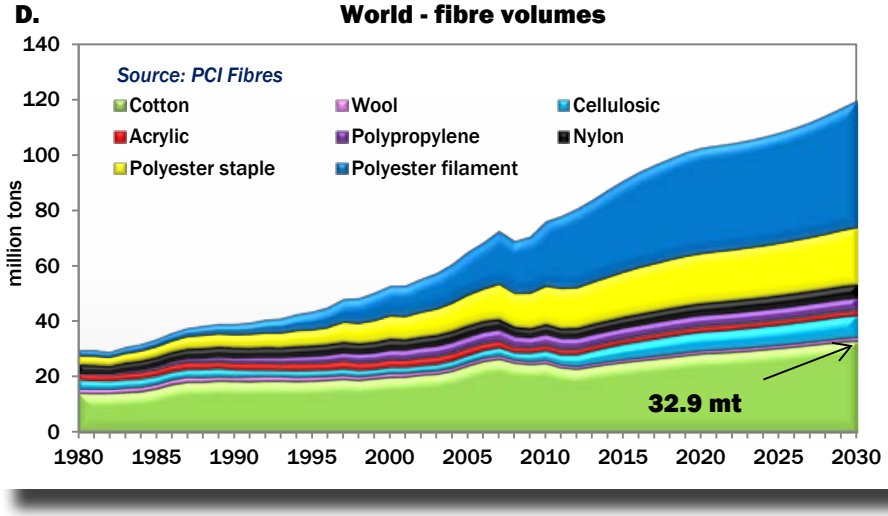
Through all this the cotton sector has certainly suffered,

But there is still a huge demand for cotton in the long-term. **Chart D** shows polyester filament is

C. **Polyester China: capacity/TMC**



D. **World - fibre volumes**



emerging as the dominant fibre category, but there is still growth in cotton, the leading comfort fibre. The cotton industry can be quite volatile in its view of the future, swinging from high optimism to low pessimism. Cotton volumes have taken a dip, but can also recover, not with the growth rates of polyester, but still with forwards movement. 33 million tons of cotton demand in 2030 need not be an unreasonable expectation, and compared with polyester it is a modest one.

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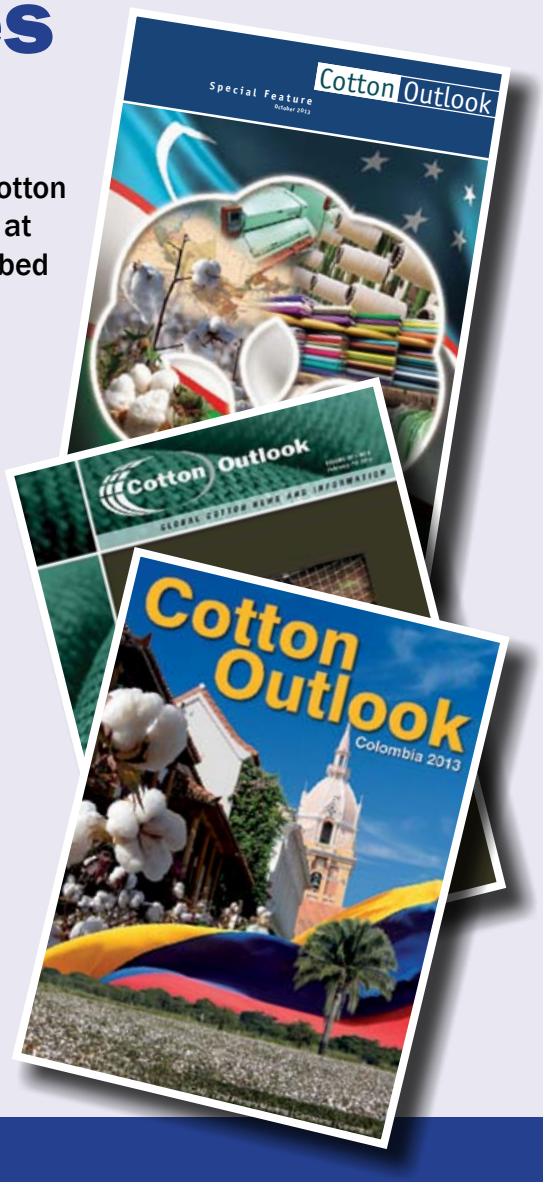

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