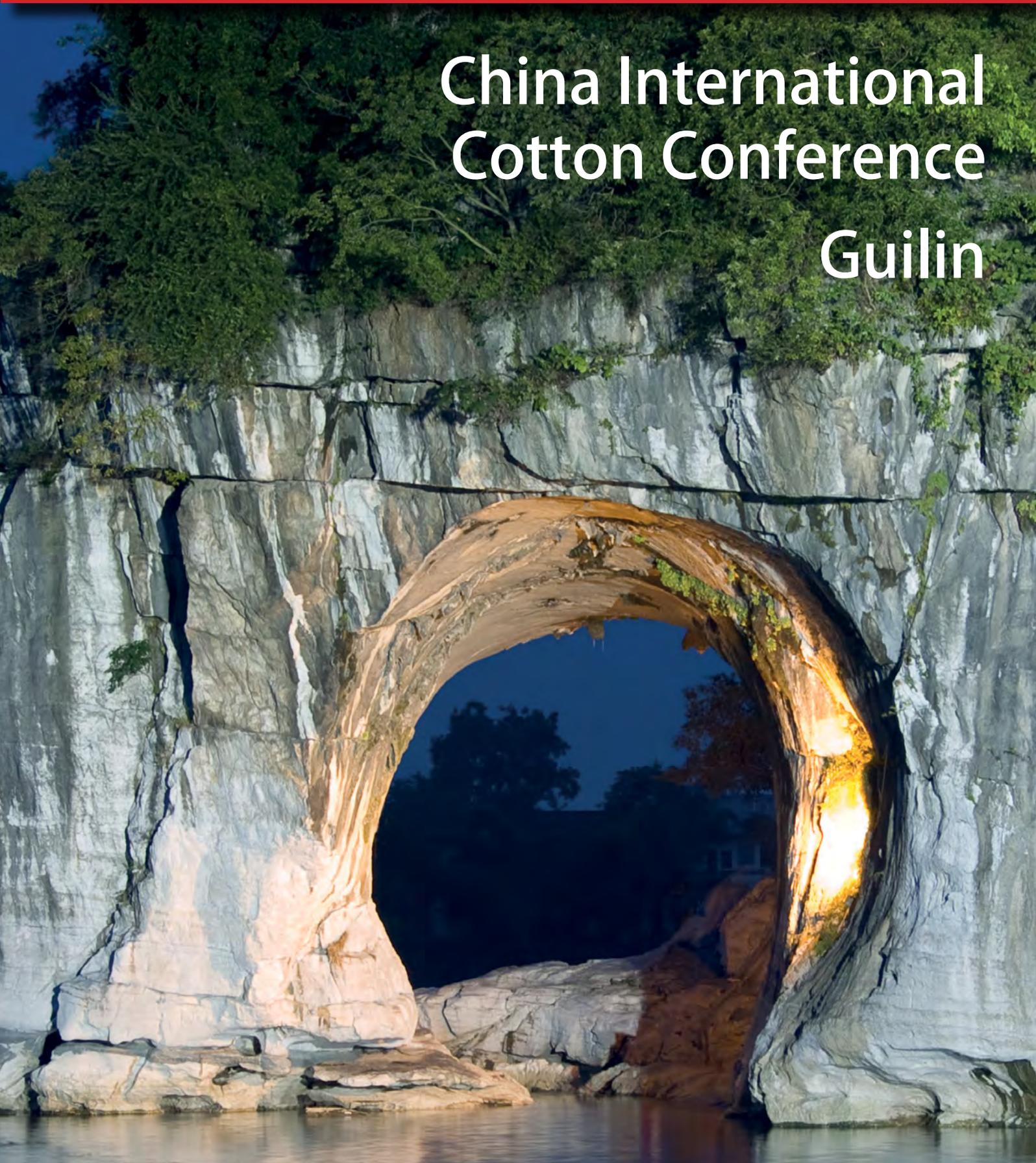


The logo for Cotton Outlook, featuring a stylized globe icon with white and grey curved lines on a red background.

Cotton Outlook

Special feature
June 2023

A photograph of a natural rock archway in Guilin, China. The arch is illuminated from within, casting a warm glow. The surrounding rock face is grey and textured, with green foliage growing on top. The archway frames a view of a dark blue sky and distant trees.

China International Cotton Conference Guilin

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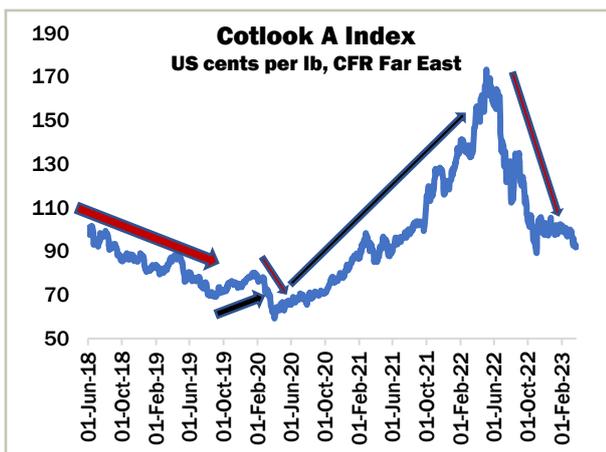
Qingdao to Guilin – four eventful years



*Mike Edwards, Editor
Cotton Outlook*

Volatile world prices

As delegates gathered in the port city of Qingdao in June 2019 to attend the China International Cotton Summit, world cotton prices had already been in steady decline for about one year. The Cotlook A Index – the barometer of the world market – was fluctuating in the mid to high 70s cents per lb, having surpassed the dollar mark twelve months earlier. The principal reason for the decline was the impact on global raw cotton consumption and textile business of the trade tensions between the United States and China. Cotton and textiles became directly involved as a succession of tariffs were imposed by each side. Business confidence more generally was dealt a major blow. The low point of this phase of the market would be reached in early September, when the Index dipped briefly below 70.00 cents per lb.



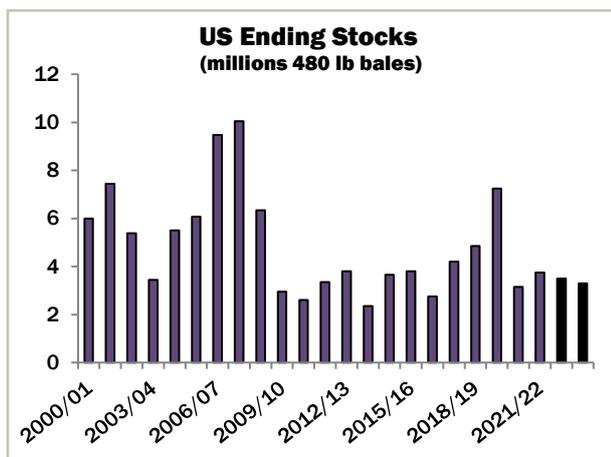
There followed a period of rapprochement between Washington and Beijing. As relations improved, so prices staged a recovery. On January 15, the Phase One trade agreement was signed by US President Trump and Chinese Vice-premier Liu He and the same day the A Index reached 80.00 cents per lb.

The positive mood was short-lived, however, as very soon the Covid pandemic began to inflict severe disruption on the global cotton-textile supply chain. Demand for raw cotton contracted sharply. Supply, however, was unaffected: picking of the Northern Hemisphere crops was virtually complete, while cotton in the Southern Hemisphere had already been planted. The stark imbalance of supply and demand was plain to see.

What occurred next was therefore entirely unexpected and, in its initial stages, had little to do with cotton. The response of central banks to the Covid crisis was to inject huge amounts of money into the economy. Some of this found its way into financial markets, including commodity futures, of which cotton was one. Textile consumers were also the beneficiaries of governments' largesse.

From the beginning of April 2020, New York futures embarked on an upward path. Physical prices were initially slow to follow but gained support from a weather-related reduction to the size of the US crop and China's purchases of US cotton in compliance with undertakings made under the Phase One accord. As a result,

US stocks fell from 7.25 million bales (nearly 1.6 million tonnes) at the start of the 2020/21 season to a much more manageable 3.15 million (less than 700,000) by its end.



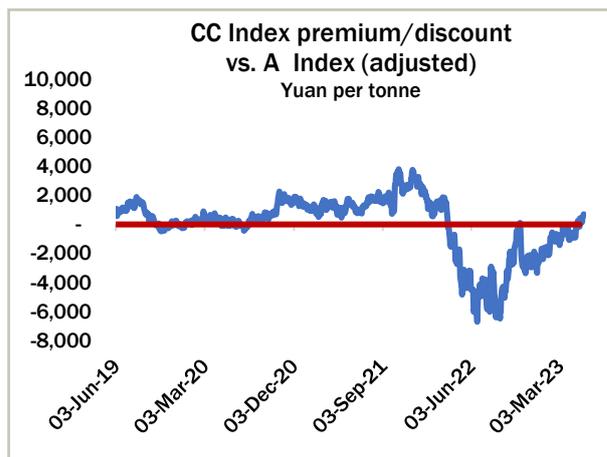
Assisted by on-line shopping and spending by consumers of the savings accrued during periods of enforced lockdown, the supply chain came back to life. By the later months of 2021, demand for cotton yarn was high and spinners were making good money. Disrupted freight logistics added to the urgency of mill demand for raw cotton and contributed to an increase in shippers' basis levels relative to New York. The bull run that began in April 2020 – in very unpromising circumstances – was sustained for much longer than anyone could have anticipated.

The upward momentum of world prices continued well into 2022. The A Index reached a peak in early May of 173.45 cents per lb, a level second only to the all-time high (243.65 cents per lb) attained during the record 2010/11 season. However, as the market scaled new heights, raw cotton replacement costs increasingly diverged from the prices obtainable for yarn. During the same period, the macro-economic environment became less and less supportive. War in Ukraine and spectacular hikes in energy, food and other costs prompted governments to increase interest rates in a manner not seen for many years. As consumers' spending power was reduced, confidence throughout the cotton

textile supply chain ebbed away. From early May, the collapse of world cotton prices was severe. By early November, the A Index had lost nearly half of its value in just six months.

Chinese and world prices

The recent past has seen some substantial and rather unusual shifts in the relationship between the world values and domestic prices in China. The China Cotton Index reached a peak just below 23,000 yuan per tonne in mid-February 2022. Ten months later, the value was below 15,000 yuan, a loss of 35 percent. As already noted, the peak in world prices arrived a few months later. For a lengthy period in the middle of 2022, the CC Index was showing a substantial and uncharacteristic discount in relation to the A Index (adjusted to comparable terms). Over a period of months, that disparity has been reduced, then eliminated. The two values were close to parity by late April.



Poor consumption, uncertain outlook

Where to from here? Since early November, the futures market has shown no clear direction. The spot month has occasionally dipped below 80.00 cents per lb, only to move above that threshold once again. Rallies toward 90.00 cents have failed to reach that mark. Meanwhile shippers' basis levels relative to New York have been subject to continued

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attrition in recent months, reflecting mill buyers' reluctance to pay prices that still place them in a loss-making position, given the stagnation of yarn selling rates. Forward demand for raw cotton is lacking and spinners are wedded to a hand-to-mouth buying policy.

The fundamental difficulty facing spinners is a lack of downstream demand for yarn, attributable to the global macro-economic influences alluded to earlier in this article. The outlook for textile demand is uncertain and rising interest rates have provided a disincentive to build or maintain inventories at any stage of the cotton textile supply chain. World consumption in 2022/23 is languishing around 23.2 million tonnes, according to our latest forecast, far below the peak levels attained at various points since the turn of the century when economic conditions were more benign.

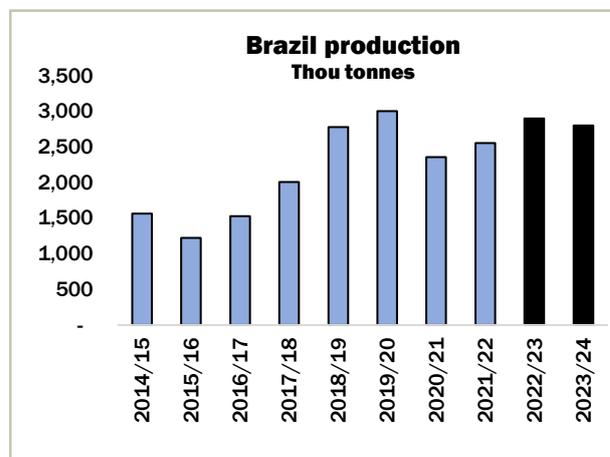
Global supply

On the supply side, meanwhile, the period between the Qingdao and Guilin gatherings has seen some noteworthy developments. World production during the past two seasons is estimated at around 25 million tonnes.

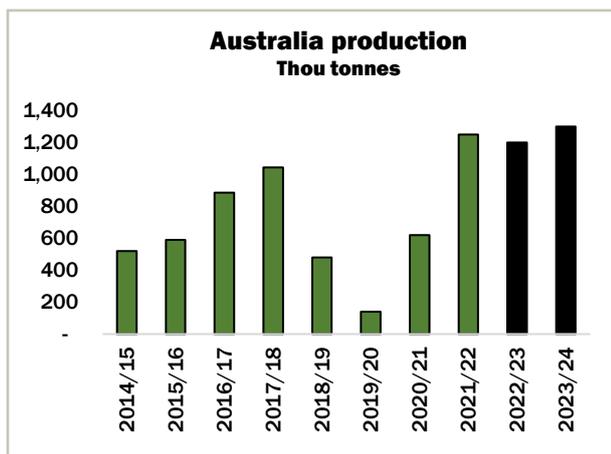
There have been major setbacks to production in India and Pakistan, where yields have continued to disappoint. In the latter country, the 2022/23 crop was also affected by disastrous flooding. By contrast, drought in the major West Texas growing region caused record abandonment and thus took its toll on the size of United States crop. Output in the African Franc Zone was reduced sharply as a result of pest attacks.

However, the two major Southern Hemisphere producers, Brazil and Australia, have proved a more reliable source of supply

over the past two seasons. This year, Brazilian production may challenge the record of three million tonnes established in 2019/20. In Australia, the end of the crippling drought that sharply reduced output over three seasons from 2018 to 2021 has allowed a recovery to well over a million tonnes.



The composition of the global exportable supply has thus shifted in favour of the Southern Hemisphere. By the time delegates gather in Guilin, the Australian harvest will be well advanced and picking in Brazil also under way. Much of the supply from both crops has still to be absorbed – even before the 2023/24 Northern Hemisphere crops come to market. In this context, a recovery of global cotton and textile demand is urgently needed.



Prices: a constant rise or a flash in the pan?

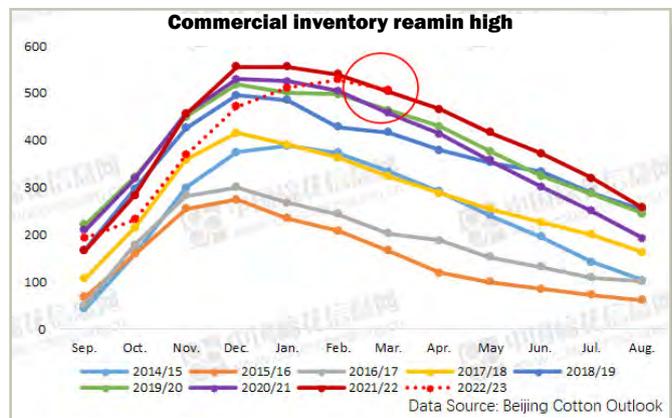


Beijing Cotton Outlook

Domestic cotton prices have maintained a strong upward trend lately, briefly moving above 16,000 yuan per tonne before returning to a fluctuating pattern. The current market scenario can be attributed to a series of factors, including the introduction of supportive macro-level policies, a tentative recovery in downstream demand, as well as a potential decline in domestic raw cotton output this year brought about by area reductions in Xinjiang and the adverse weather experienced this spring.

A bumper crop year in 2022/23 with a large unsold inventory

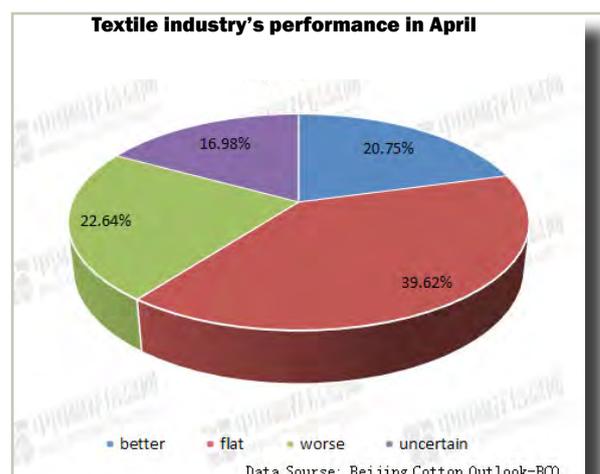
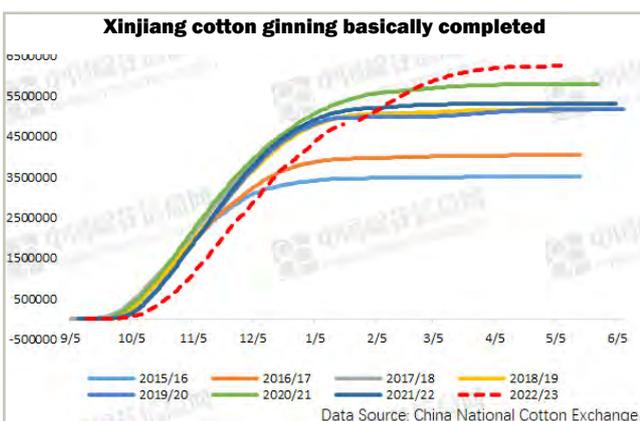
Ginning of the 2022/23 crop is drawing to a close, with a daily ginned volume falling to less than 1,000 tonnes in Xinjiang. As of May 9, ginned volume in the region had reached 6.23 million tonnes, which is a new record by some margin. Moreover, the unsold inventory has also been maintained at a high level. According to Beijing Cotton Outlook (BCO), by the end



of March, commercial stocks in the country had hit a record high of 5,072,400 tonnes, up 40,000 from the same date last year.

Domestic sales better than exports and a lack of bulk forward orders

In the circumstances, faced with a relatively abundant supply, the downstream market





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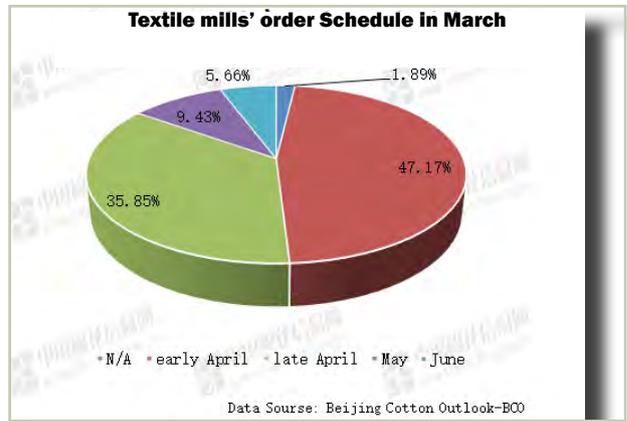
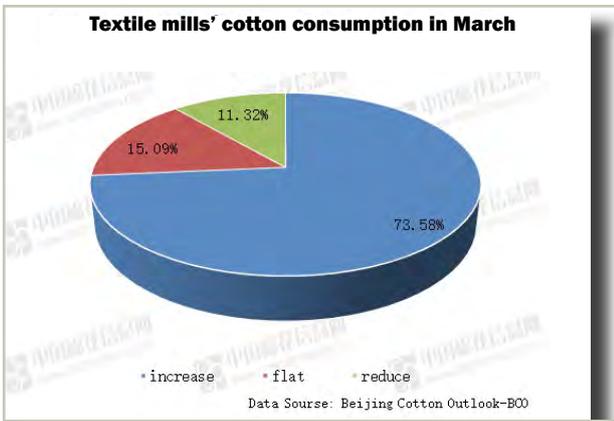
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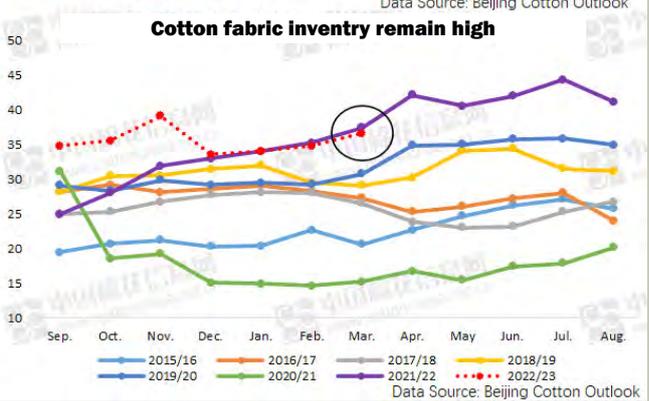
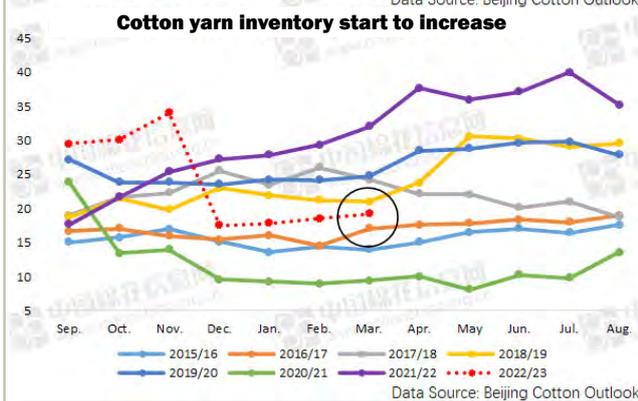
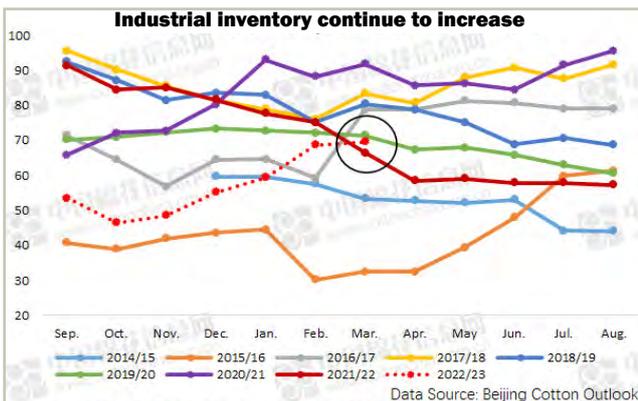


has shown some resilience in the short term, which may prove difficult to sustain over the longer run. According to the results of a recent survey undertaken by BCO, at present spinners' downstream orders for the domestic market are greater than those destined for export: overseas demand for yarn is in fact relatively low. However, at the same time, the competition spinners face in trying to agree sales to the local industry is also fierce, with the result that many mill buyers have adopted a wait-and-see stance in respect of purchasing raw cotton, while they experience low demand for their yarn output. Meanwhile, such orders as are received are mostly smaller with shorter lead-times than the volumes and schedules mills had become used to. With the conclusion of the traditional 'peak season' in March and April, spinners have begun to

lose their confidence in the medium-term prospects for the market.

A reasonably robust supply chain, with support but room for expansion limited

Following the removal of Covid restrictions, domestic consumption did recover fairly rapidly and improved further after the Lunar New Year holidays. Enterprises at all stages in the industrial chain have changed tack from inventory accumulation to a rapid de-stocking, which has left inventories at a much more manageable level. According to BCO, by the end of March, cotton stocks held in spinners' warehouses amounted to 696,100 tonnes, up slightly both from the previous month and the same moment last year. Stocks of yarns and fabrics held by downstream manufacturers



have fallen significantly from their earlier high level. Thanks to the relatively healthy inventory structure within the industrial chain, the market has been able to absorb and digest the additional inventory and has felt limited price pressure at moments when the market has rallied. However, while manufacturers worked through their orders, additions to the order book were limited, and so stocks of yarn, and especially fabric, have again begun to rise again, which risks transferring pressure back upstream to spinners and ginners.

Output to fall in 2023/24, as cotton area is reduced and plant development is affected by adverse weather

As mentioned above, the domestic cotton market is currently in a relatively healthy state: the reasonable condition of the industrial chain, plus the recovering macro-economic environment have resulted in a rapid price rally bolstered by concerns about falling output this year owing to weather disturbances.

BCO's latest production survey suggests that given the high costs and low earnings associated with the cultivation of cotton compared to grain, area in 2023/24 could be decreased significantly from the season before. If that turns out to be the case, then the recent field damage caused by high winds and low temperatures in Xinjiang is even more concerning.

BCO has recently finished its spring survey of production in Xinjiang, which showed that sowing is effectively complete in southern



areas, apart from some tracts that may need to be replanted following the adverse weather. Sowing progress is slower in the north, perhaps about two weeks later than normal, but is also approaching its final stages. When it comes to the cost of cotton cultivation this year, land lease fees and agricultural inputs are basically at the same level as last season, while labour costs could rise further. Overall, the total cost of production is expected to remain high, at around 3,000 yuan per tonne. It is likely that the over-capacity in ginning will persist, and we may well see another rush to buy seed cotton this fall.

Short-term rallies unsustainable, rush to buy new crop may happen again

In all, the recent rapid rise of cotton prices in China is the result of an optimistic outlook for the domestic economy, and a potentially tight supply situation. However, the absence of consumer demand is likely to limit the performance of the rally, and the uncertainty regarding the weather also adds an element of risk. In terms of the industry itself, there is the chance that the price will rally again during the growing period as a result of weather factors, but the foundation of such a rise would not be solid and would be full of uncertainties, so we at BCO are still of the opinion that a sustained upward trend may be difficult to achieve.

Over the medium to long term, we are expecting cotton prices to hit a higher level in the last quarter of the year, although the trajectory could be tempered by a few factors. On one hand, the recovery in consumption and macro-economic support will reduce the downside risks in the market, or even provide more opportunities for a rebound. Moreover, a series of factors such as output reduction, over-capacity in the ginning sector, the anticipation of rush buying, and high planting costs could all lead to a fiercely competitive purchasing market for seed cotton in the coming harvesting season. On the other hand, however, there are still uncertainties regarding the strength of demand within the industry itself and the dependence on external stimulus and support. This being the case, it is hard to envisage a linear upward market, or strong price movements, but a gradual upturn in the underlying trend may take place.

China will play a more diversified role in the world cotton market



*Wang Haoyu aka Horace
Hooray Trading (Beijing) Co., Ltd.*

A universal way to aid recognition is “Sorting and Tagging”, which helps to speed up the learning process and deepen the memory. Nonetheless, a dilemma arises when the tagged object is subject to change. The Tag itself can become misleading. Stereotypes lead to critical mistakes.

A good number of our cotton colleagues have struggled to make sense of the Indian supply and demand situation over the past five seasons. Some may have misjudged the situation and taken the wrong position. The current season is still quite a puzzle and the approaching 2023/24 campaign as well. This may in part result from the aforementioned Tagging dilemma. For decades, Tags have been applied to the Indian cotton market, such as:

- “The biggest cotton producing country”
- “One of the top cotton exporting nations”
- “The most competitively priced cotton origin”
- “Seasonal weakness will kick in as new crop arrivals will force the price to go down”
- “If there’s a surplus of cotton supply, it will only be alleviated by aggressively priced cotton or yarn exports”

However, gradual changes over the past several years have altered the interaction of supply and demand in India. As a result, some

of the customary Tags are now misleading. For instance, we have witnessed:

- “A few consecutive seasons of lacklustre to disappointing cotton yields that make crop prediction almost impossible”
- “A stronger consumption base, especially when it comes to domestic downstream demand, which helps to tone down the reliance on exports”
- “Farmers’ stronger financial position enables them hold seed cotton and resist early season price weakness”
- “A shift in the major cotton export flows, China, Bangladesh”

and so on and so forth. All of these changes signify a profound transformation of India’s role in the world cotton and textile markets.

Perhaps a similar change – or one even more profound – is also under way in China, a change that will inevitably transform the world cotton market as we know it.

In a humble attempt to address this topic, we propose a brief review of China’s role over the past two decades, mindful that a certain degree of Tagging and Stereotyping is unavoidable.

- A. “The world’s biggest cotton producing country, albeit surpassed by India in certain seasons”
- B. “The world’s biggest cotton consuming

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country, a position so far yet to be challenged”

- C. “The world’s biggest cotton importer, albeit surpassed by Bangladesh in certain seasons”

China has world’s biggest cotton trade variables and therefore represents the market’s X-factor. On the one hand, the country’s role is affected by yearly variations in the size of import quota, and by a uniquely managed State Reserve with its rotation programme. On the other hand, China has without doubt the largest local cotton trading community, which not only deals in domestic cotton, but also actively pursues speculation with regard to cotton prices and engages in arbitrage between the value of domestic and imported bales.

- D. “The most complete and sophisticated textile supply chain, not limited to cotton but also incorporating other fibres. The industry is fully competitive from raw material production, to processing, to advanced manufacturing, to wholesale and retail, all of which are integrated into the global supply chain.”

In ZCE’s cotton futures and options plus related derivatives, China possesses (and is still developing) the world’s second largest cotton hedging and risk management tool, with the biggest physical delivery.

I venture to suggest that it was in consideration of the above that USDA invented the well-known China+Rest of World balance sheet paradigm, which explains very well the major price movements in the world cotton market.

This has been particularly true of situations in which world prices have recovered from a period of depression. However long the market bumps along the bottom and whatever the initial trigger for a reversal, eventually it is the restocking of China’s inventory and in particular the volume of imports that have given strength to the rally. And thanks to the Chinese textile sector’s integrated and sophisticated nature, as already described, once a bullish trend has been ignited, it is more than likely that it will prompt substantial imports of yarn from the Rest of the World. And then eventually it can all be summarised

as “China is absorbing cotton and yarn inventories from elsewhere in the world and thus tightening the ROW balance sheet.” The pattern might not be as clear when prices are falling but it is also common to see destocking by China’s cotton textile industry, with a reversal of the import flow of cotton and yarn.

Our next step will be to try to analyse what might go wrong with the abovementioned China Tags and why we might be misled.

First and foremost, we must address the much-discussed geopolitical issues. In recent years, a basket of terms have been invented, the first that comes to mind being ‘Decoupling’, refined in recent months by some as ‘Derisking’. We might prefer to use a more neutral term: ‘Reshuffling’. Whichever word we adopt, it is clear that China is accounting for a declining share of US textile imports, both in volume and value. In the meantime, we have also witnessed the consistent rise of textile exports into the Belt & Road countries, with ASEAN members the most prominent. Some will be quick to apply the Tag of “Transshipment Trade” to this shift. We would like to propose an alternative perspective. When China encounters strong resistance to the export of finished products, cooperation between countries and different segments of the supply chain help to stabilize China’s position.

Let’s go back to the Tags listed above. Personally, I would reckon C & D are the most direct influences China exerts on world cotton and textile markets in any particular season. If one accepts USDA’s logic in constructing a balance sheet around the China+ROW relationship, China’s function will be akin to that of a water pump. The intensity of its flow will very much determine the tightness in the ROW, and prices.

We would contend that although the two key factors are still very much in play, the intrinsic drive for China to import is shifting subtly yet profoundly. In the two decades since China joined the World Trade Organisation, China’s cotton imports have been motivated by the shortfall of demand versus domestic production. On top of that, China is arguably a world leader in terms of the efficiency and low cost of logistics. This means that theoretically mills have access to all cotton origins via

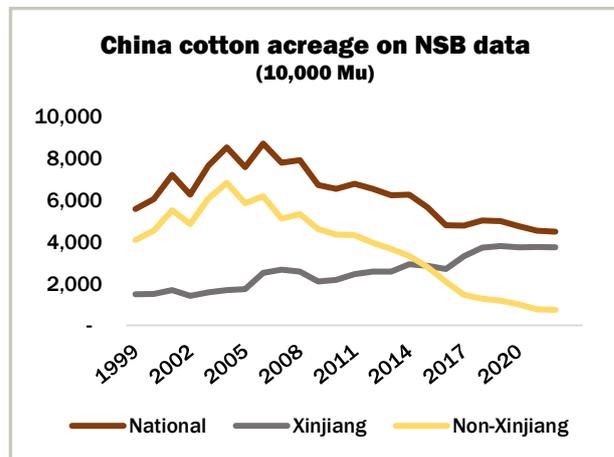
imports and are technically competent to maximise spinning value through blending of fibre. They are then in a position to provide a full catalogue of yarn and fabrics from which the downstream industry can select.

For similar reasons, mills could use cotton from the domestic crop to compete freely for local and export business. That flexibility has been challenged since 2018, when the Trump Administration initiated trade conflict, and the position has not improved, since the following Democrat administration has kept in place most of the punitive duties on imports from China. Furthermore, Washington has sanctioned Xinjiang cotton and products made therefrom. Considering that Xinjiang dominates the domestic crop, this is essentially a sanction on almost all China cotton and cotton-made products. Quite naturally, the global trade flow of the past two decades has been disrupted over the past five years. Of course, the pandemic was not helpful either.

In short, since China was unable to export its cotton products freely, consumption stagnated and the industry lost its appetite for cotton and even yarn imports. This prompted hand-to-mouth buying, with import enquiries forthcoming only when export orders were finalised. For precisely the same reason, when the intrinsic drive to import cotton subsided, the X-factor – the variation of China’s import demand – very much rests on the relationship between the China Cotton Price vs International Cotton Price. This can be Tagged as Import Margin/Profit or the ZCE vs ICE arbitrage model. And inevitably, international traders show an increased appetite for knowledge with regard to the operation of the China Reserve.

To make this dynamic harder to understand and trade, just as intrinsic import demand subsided, Xinjiang cotton production took another notch upward to pass the milestone of six million tonnes for the first time, with a year-on-year increase of almost a million tonnes. And aside from the acknowledged favourable weather during the 2022/23 season, one factor might be that actual area surpassed the public data by a clear margin, according to private guesstimates.

Yes, we did witness Beijing trying to send signals to restrain the continuous acreage



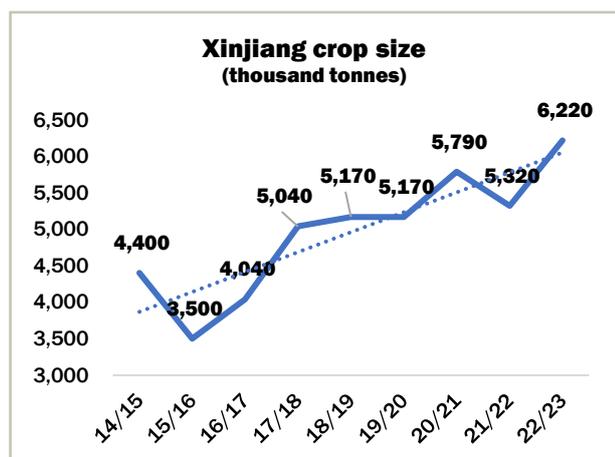
expansion in the region. NDRC and the Ministry of Finance did send an update in April to clarify and fine-tune the Target Price Subsidy, openly suggesting the subsidy has a ceiling of 5.1 million tonnes. Inevitably, this policy ‘tweak’ quickly prompted a lively debate on how large an acreage would be maintained in Xinjiang. We even noticed some mainstream media, citing senior traders, suggest that a contraction of acreage due to the policy adjustment, as well as the unfavourable weather in the beginning of the 2023/24 planting season, might pull Xinjiang crop down by a million tonnes, year on year. Due to a lack of convincing data, the early stage of the season, and most importantly the unpredictability of Mother Nature, we refrain from making any crop projections here. On the other hand, we would like to put certain points into perspective for your reference.

The Target Price Subsidy: calculated by simple maths and the exchange rate, this is still by far the highest price paid and the most reliable subsidy for cotton farmers in the world.

Prior to the recent policy tweak, the area in Xinjiang was showing a steadily rising trend,



which could easily be cross-referenced via public data on cotton area and crop size over the past decade.



One cannot assert that there is no competing crop in Xinjiang, and it is safe to say that in certain locales crops such as chilli and tomato served as a perfect alternative. On the flip side, it is also very safe to say that, at the scale of the entire Xinjiang region, there is

not a single alternative crop that could replace cotton and provide enough returns and a sound policy safety net, coupled with tested all-round services for farmers.

Due to a series of energy bill and taxation benefits in Xinjiang, there has been a transfer of mill capacity from Eastern provinces into the region. Hence, production of the mainstream 32 count yarn and that of other commodity products have shifted westward. A stable local cotton consumption is definitely positive for the maintenance of a stable local area and supply.

All things considered, we may or may not encounter a major reduction in crop size in the coming or any other particular season. We would suggest that the reduction be treated as temporary for now, as everything points to a stable cotton planted area in Xinjiang in the foreseeable future. However, I would venture to suggest that further expansion of Xinjiang's planted area cannot be ruled out.

What are the implications for China and the world cotton market, if we are faced with the



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Nea Erythrea 14671
Athens, Greece
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Fax: +30 210 8073156
Email: info@nicot.gr



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possibility that domestic cotton consumption is past its peak, coupled with a relatively stable domestic planted area and supply, while export business is subject to geopolitical and other pressures? This combination may force China into a more diversified role. The country may still function as a mainstay of world cotton trade and imports in particular seasons. Yet it might slow down significantly in some other seasons. In extreme cases, China might participate as a cotton export origin. We will try to make one or two cases by way of illustration.

Scenario A. Suppose that Chinese mills are running at a high rate of capacity in the current season, and it is projected that cotton carry out will be low, plus the downstream is working with low inventories and capacity usage (ironically, this sounds similar to the current season). The market looks as calm as it can be, but it could very well burst into a rapid and fierce rally if worries about new crop planting or weather emerge.

Couple that with the Xinjiang Ginners' Dilemma, whereby the region's ginning capacity exceeds the crop size by a clear-cut margin (perhaps a ratio of 2 to 1), thus forcing ginners to fight for seed cotton and bid up the price when arrivals are coming in. One might argue that this is not a unique dilemma in China as Indian ginners also encounter a similar problem. True, yet when one factors in the huge liquidity and trading activities on ZCE and the world's largest local trading community, the game of ZCE/ICE arbitrage via importing physical bales and hedging against ZCE could be viewed as a huge amplifier, boosting China's imports to a level that vastly surpasses underlying import demand. That will also be known over time and traded by the industry on the basis of third-party data such as weekly US export reports. And the next domino will fall under the influence of reports that "Huge demand from China is buying up and buying out Southeast Asian and Subcontinent yarn markets". Through such a dynamic, China would be capable of triggering and leveraging an import figure far larger than the gap between supply and demand in its domestic balance sheet, hence boosting market prices significantly. If, as the season progressed, the expectation of crop damage was found to be misplaced, the inflated

import volumes would compete fiercely for the limited physical demand from mills and downstream manufacturers. We would then witness a huge volume of invoicing back and reselling by the Chinese trading community. Under such circumstances, China will play a similar role to its old self and serve as the major Water Pump, the Big Leverage, The First Domino. Yet the internal dynamics would be completely different from in former times. In the second half of a season, a reversal of trade flows towards the ROW is likely to happen.

Scenario B. Suppose that Chinese mills went through a sluggish business environment and operating capacity was low. More likely than not, mills and downstream manufacturers would hold a neutral level of inventory, and the market would also carry a decent amount of cotton over into the new season. Then good weather prevails and farmers stick to cotton in Xinjiang, based on returns and subsidy. Ginners would enjoy a much more favourable situation, although their previous dilemma would remain in place. As the season progresses, Chinese spinners' import policy would most likely revert to hand-to-mouth mode. Plus, the domestic harvest would weigh on demand that was already pressured by slow downstream offtake. This conjunction of circumstances would lead to a downward spiral, in which the deterioration of China's domestic business and prices would in turn cause imports to slow as the previous dynamic of arbitrage shifted suddenly to the exact opposite. No margin for imports would lead to lower imports of cotton and yarn and a looser balance sheet for the ROW. The very extreme side of such a scenario was visible in the 2021/22 season, China was forced to collapse the domestic cotton price to eventually find the market it needed (in that season the arbitrage was trading for -6,000 to -3,000 yuan per tonne, equivalent to -40 to -20 US cents per lb). Bear in mind that at that point we did NOT have administrative permission to export cotton directly. Offtake was predominantly if not completely via yarn and fabric exports. Since Beijing signalled permission earlier in this season, China will have another option to export cotton directly if need be. This would be a completely new role for China to play in world trade.

In the classical Chinese novel *The Romance of the Three Kingdoms*, there is a famous

opening speech: “论天下大事，分久必合，合久必分”。 There is more than one good translation. One is “Here begins our tale. The empire, long divided, must unite; long united, must divide. Thus, it has ever been.” (Moss Roberts). The other is “Unity succeeds division and division follows unity. One is bound to be replaced by the other after a long span of time. This is the way with things in the world.” (Yu Sumei and Ronald Iverson).

This not only describes the regularity with which dynasties shift on the surface, but also reflects the guidance of Chinese traditional wisdom to embrace with detachment the inevitable major changes in the world.

Prior to the so-called industrial age, both the ancient countries of China and India were famous for their textiles. This all collapsed when steam engines replaced human labour and modern factories replaced household workshops. Hence, the centre of the industry shifted to the Manchester/Liverpool areas

(as we all know this was the origin of the ICA and Cotlook). In the following decades, the industry looked to the US for its cotton supply and followed the efficiency of labour to Japan.

The global shift is not over as China took up the torch around the turn of the Millennium with entry into the WTO and returned to centre-stage. However, the cost of manufacturing in China is continuously on the rise, as a result of labour protection, business taxation and pollution management. For some time now, pundits have been suggesting that China should pass the torch to others. However, as explained in my article, although China is seeing a decline in its of dominance of world cotton and textile markets, the very delicate and integrated nature of the textiles industry demands efficiency and collaboration. China will still play a leading role. It will still be the most obvious elephant in the room. Members of our small cotton community: please take a breath and feel the vibe and pulse of China!



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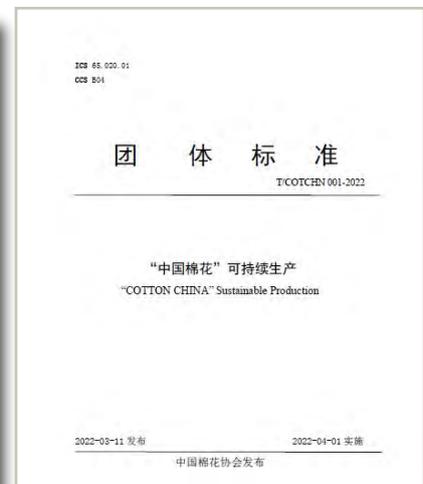
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CHINA COTTON ASSOCIATION

Wang Jianhong
*Executive Vice President and
Secretary General of the
China Cotton Association*

For over 5,000 years, cotton has been the natural choice of fibre for human beings seeking refuge from cold; it has brought us warmth and comfort. Its journey begins in the earth, and after various changes in form it finally returns to the earth. So as members of the cotton industry, it is our responsibility to make this journey sustainable and allow the warmth to continue.

As one of the world's leading cotton producers and consumers, China is now poised to play a much bigger role in the field of sustainable cotton. In June 2021, the China Cotton Association, together with the China Chamber of Commerce for Import and Export of Textiles, the China Cotton Textile Association, the China Home Textiles Association, and the China National Garment Association jointly launched the China Cotton Sustainable Development Project (CCSD) which champions the concepts of eco-friendliness, high quality, respect for producers, and whole-journey traceability in the arena of cotton. The CCSD is committed to producing and promoting sustainable cotton and contributing to the long-term successful development of the country's cotton and textile industry.

The journey of sustainable cotton begins on the farm. CCSD has established a sustainable



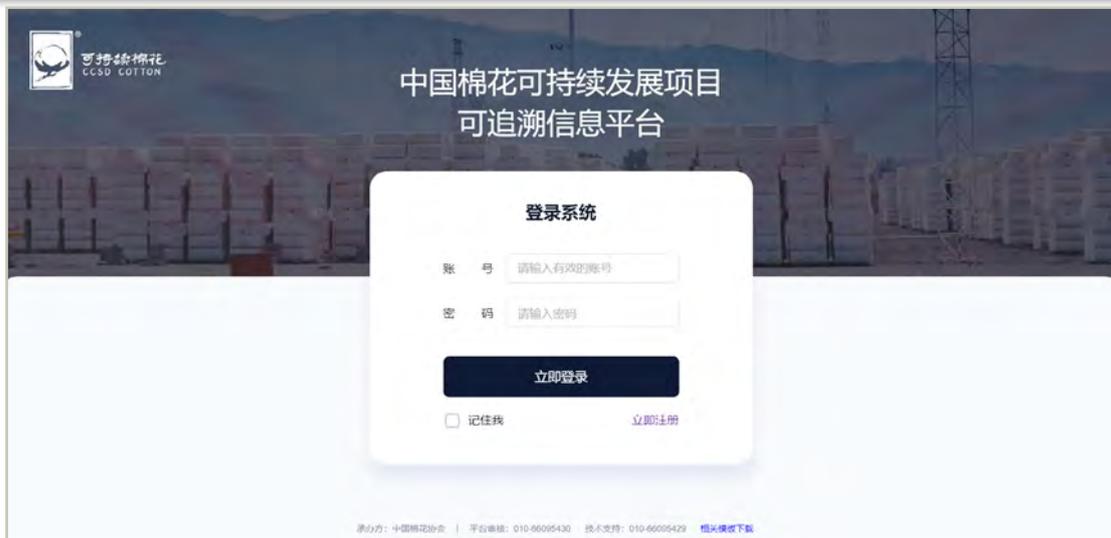
production system, based on the standards outlined in two publications from the China Cotton Association: 'Sustainable Production of Chinese Cotton' and the 'Operational Guide for Sustainable Production of Chinese Cotton'. Four training programmes have been organised so far, and nearly 40,000 cotton farmers have participated in the sessions.

Standardised management practices are implemented in four areas: sustainable production; environmental and resource protection; quality and traceability; and occupational health, safety and welfare and social responsibility. The aim is to transform traditional cotton production methods to a more sustainable model. In 2022, the CCSD entrusted Beijing Zhonghe Jinnuo Certification Centre and the SGS-CSTC Standard Technical Service Co., Ltd. with the task of verifying and certifying over 1.2 million mu of land dedicated to cotton cultivation, which accounts for about

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170,000 tonnes of sustainable cotton in total.

At the 2023 China International Fashion Expo, held on March 28, the CCSD launched a brand promotion campaign with the title 'Sustainable Cotton – a Promise that Begins in Cotton Fields', and the first batch of authenticated sustainable cotton production certificates were issued to six organisations: the China National Cotton Group Company (Xinjiang) Co., Ltd.; Xinjiang Lihua (Group) Co., Ltd.; Hubei Yinfeng Cotton Co., Ltd.; Xinjiang Guoxin Seed Industry Co., Ltd.; Xinjiang Guotai Cotton Industry Co., Ltd.; and Xinjiang Jiashenghua Cotton Industry Co., Ltd.

It is important to be able to track sustainably produced cotton through all links of the industrial chain. The CCSD has therefore established a traceability management

system and provides both certified and non-certified supply chain management solutions according to the different needs of enterprises. As part of this management plan, the China Cotton Association will commission a third-party certification agency to carry out the supervision of sustainable cotton production and marketing with reference to its own published standards. This agency will monitor the raw material at its source and track its progress through the value chain as it is processed into cotton products, thereby ensuring the authenticity and traceability of the sustainable cotton used and providing consumers with specific proof of the source of raw material (in direct supply and separation modes).

For the non-certified management system, CCSD has established a traceability information

platform that works according to the principles of mass balance, creating quotas for the equivalent amount of sustainable cotton and tracing the circulation of that quantity of sustainable cotton through the entire industry. Final consumers will be able to buy products tagged with a label indicating the sustainably grown cotton that their garment represents. This will help customers make more responsible and sustainable purchasing choices.

Sustainable cotton will reach a 'closed loop' at the brand end. The CCSD also provides retailers with promotional materials to support the sustainable cotton brand. The 'Sustainable Cotton' logo is now the main identifier of the CCSD and has been designed in two parts: a green seal with a black and white ink painting of a cotton boll, and the Chinese script that reads 'Sustainable Cotton', together with the English wording that says 'CCSD COTTON'. The whole image represents the continuation of the long history of cotton planting in China, underlining the concept of sustainable development, and highlighting the industry's great vitality.

At present, all members of the CCSD programme are permitted to publicise their participation in the sustainable cotton production and promotion scheme. In particular, finished end products produced in accordance with the CCSD supply chain non-certification management system may be included on the list of sustainably produced goods. All use of the publicity materials will be included in the third-party supervision, so as to convey the concept of sustainability to consumers.



So far, a total of 30 key enterprises from every stage of the industrial chain have joined the project, becoming guardians of sustainable cotton on its journey from the field to finished product. Tong Liya, a famous actress from Xinjiang, will act as the ambassador of CCSD's public welfare promotion scheme. According to Tong, 'CCSD will continue to supply the warmth of childhood with high-quality sustainable cotton, and will always accompany you in the name of sustainable cotton. China cotton warms the world'.

Ensuring sustainability requires the participation of the whole industry. The CCSD committee will bring together the efforts of all parties to help manage the project: all 15 members of the programme are from cotton and textile industry associations, research institutes, organisations with a focus on sustainability and representative enterprises of the whole industry chain. In addition to aforementioned organisations, the membership also includes the Cotton Research Institute of the Chinese Academy of Agricultural Sciences, Zeyang Tianxia (Beijing) Management Consulting Co., Ltd., China Textile Cotton Import and Export Co., Ltd., Wuxi First Cotton Textile Group Co., Ltd., Huafu Fashion Co., Ltd., Esquel Group, and Shenzhen PurCotton Technology Co., Ltd.

A simple cotton plant gives rise to countless possibilities, while highly committed industrial workers use their wisdom and skills to spin a better life for us. Today, we as cotton people begin our mission to make our future more sustainable.

China Cotton, continue to warm the world!

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Analysis of inputs and applications: guaranteeing the high yield of Xinjiang cotton



**Hainan Growing
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*Professor Xiong Wei, Senior Engineer
Hainan Good Harvest Agricultural Technology Development Co., Ltd.*

Xinjiang investment in cotton research: how to organize and transfer technology to farmers

Cotton research in Xinjiang is mainly funded via key R&D projects led by the Ministry of Science and Technology, the Ministry of Agriculture and Rural Affairs and the authorities in the autonomous region. The annual investment in various technologies is no less than 500 million yuan.

In line with various national policies, the focus of our science and technology research and development department is the training of technical agricultural managers, farmers and other technical personnel. In order to provide an effective scientific and technological service, it seeks to implement innovations, deliver technical services and train personnel. It does this via various types of technology demonstration, on-site meetings, technical exchanges and research progress press conferences. It also publishes a large amount of technical material, making full use of TV, radio, newspapers, telephone, mobile phone messaging and other media to carry out extensive publicity and consultation campaigns across the main producing areas of Xinjiang. The cotton field planting and management technology is fully funded by the government and belongs to public welfare activities for

free. Cotton seeds and agricultural machinery and equipment are jointly developed and produced by enterprises and research institutes, so that Xinjiang stays up to date and to make it convenient for cotton farmers to make purchasing decisions.

Main research focuses

Further research efforts to guarantee the high quality and high yield of cotton in Xinjiang include:

- cotton physiological and biochemical mechanism research,
- high-quality gene discovery and mining,
- high-quality cotton variety breeding,
- disease, insect and weed control,
- management and implementation of new research findings, including the whole mechanisation operation,
- cotton field machinery and agricultural technology,
- water, fertiliser, medicinal operations and research technology,
- agricultural machinery and equipment including the research and development of high-power tractors, high-standard agricultural field preparation machinery and equipment, efficient and accurate seeders, film residue recycling

machines, cotton pickers and cotton processing equipment,

- and finally, the sustainable development of organic cotton, sustainable cotton, best practice demonstrations and green production technology research.

In recent years, a series of high-tech products and technologies have been applied to cotton sowing, harvesting and production. What specific measures have been developed?

Sowing: High germination rate seed production methods

In order to solve the problems of 'high yield, low efficiency' and 'high yield, low profits' in

traditional non-precision-sown cotton fields, methods of large-scale propagation suitable for fine seeding, processing and seed selection have been developed, which have solved a series of problems such as poor seed maturity, or difficulties in the traditional process of removing cottonseed. The comprehensive application of these new technologies has achieved the organic integration of agricultural machinery, agronomy, seed production and processing, disrupting the traditional pattern of technical research focusing on a single knowledge field for cotton seedling protection. The key technologies and theories adopted are as follows:

- (1) Seed propagation methods suitable for precision-sown cotton fields



In order to improve seed maturity, seeds produced in northern Xinjiang can be propagated in southern Xinjiang, which effectively solves the problem of insufficient maturity caused by a considerable number of seeds propagated in proximity.

(2) Seed cotton processing methods and new seed selection technology

New seed selection technology involves polishing, winnowing, gravity selection, seed breaking, colour selection, coating, weighing and packaging. It removed the randomness in the layout of colour selection and seed breaking, so as to efficiently eliminate unripe yellow seeds, dented seeds and broken or cracked seeds. Impurities in the cracks of broken seeds were removed by air separation and gravity separation first, then the seeds were mixed with iron powder which made its way into the cracks. Then the broken seed may be extracted by strong magnets and discarded. This innovation successfully achieved a stable germination rate of 87-96 percent, which is 7-16 percent higher than in other major cotton-producing countries.

Precision seeding technology

To solve the problems associated with the use of air-suction precision seeders in other countries, such as high-power use, high one-off and maintenance costs, it was important to develop low-cost, easy to maintain, more stable multi-functional cotton precision seeding equipment that will be suitable for the special planting mode of Xinjiang cotton (involving dwarf plants, dense planting systems, early emergence and early maturity). The precise positioning of cotton seeds in the soil and the balanced application of fertiliser and farm chemicals to the soil must also be considered.

The key technologies are as follows:

(1) The design of single-seed precision burrowing planters suitable for different seed varieties, shapes and sizes and different soil types and regional characteristics; (2) full-size plant spacing control technology; (3) the synchronous technology of seed sowing and fertiliser and other chemical applications; (4) mechanisms to reduce the dislocation of mulching films on seedlings.

Beidou navigation cotton sowing technology

Automatic navigation technology is based on satellite navigation and positioning. The basic working principle of automatic navigation involves the navigation display terminal (airborne field computer) with a pre-set navigation line; the real-time position and direction of the tractor can be communicated via the wheel angle sensor, the GNSS receiver and inertial navigation system; and then the deviation distance and course between the tractor and the preset navigation line are calculated. The tractor is steered by the navigation controller to correct the direction of the tractor wheel in real time. The automatic driving navigation system carries out continuous actions to 'measure and control' the operation of the tractor, which keeps the tractor's path very close to the preset working path.

As autonomous navigation technology matures and improves, its use will help to optimise the utilisation rate of land and agricultural materials, reducing overlaps and omissions to make the best use of farmland. It will also allow a faster work rate and night operations, which will effectively extend working hours and improve efficiency. Reducing the need for traditional driving technology will lower the intensiveness of drivers' labour, and make field work more comfortable. The use of preset systems will also improve the effectiveness of operations and the growing environment for the crop, while the integration of agricultural machinery and agronomy will allow farmers to operate at a level that would be difficult to achieve by manual driving. In summary, improving the intelligent control level of agricultural machinery will give full play to the application



advantages of high-precision satellite navigation and positioning.

The new Beidou automatic seeding machine is used to achieve accurate, unmanned operations, improve the efficiency and quality of spring ploughing and sowing, and of course reducing costs.

In recent years, Xinjiang has taken the route of scientific cotton planting and has cultivated new agricultural machinery cooperatives. Intelligent agricultural equipment such as plant protection drones and unmanned tractors based on Beidou designs have been introduced, which can constantly improve the functionality of mechanized farming methods, transforming the whole process from ploughing, sowing and fertilising to harvesting and cotton processing. Some processes have also been intelligently automated, which will ultimately improve agricultural efficiency, increase farmers' incomes, promote the green development of cotton and boost rural revitalisation.

Supporting agronomic technology suitable for precision sowing of cotton

With the use of precision sowing cotton field technology, it is possible to achieve a seedling rate of 86.1 to 92.2 percent, over 12 percent higher than the similar measure in the United States.

The invention of a water-saving irrigation method in southern Xinjiang utilizes a process of dry-sowing and wet-out seedling. It not only makes sure that soil moisture levels in cotton fields will meet the required level for seedling emergence, but it also has a more prominent water-saving effect because this technology does not carry out conventional winter irrigation or spring irrigation before sowing. Such technology has several advantages including reduced costs, higher yields and income, and damage reduction.

Late earthing technology, also known as 'side earthing' technology, makes conditions easier for seedlings, especially when soils harden in the sunshine after rain, which typically results in a low emergence rate, and weak and irregular seedlings. The use of such technology may lead to an average seedling rate of 88.5 percent, some 25.3 percent more than normal method.



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Harvesting

Advancements in harvesting technology include:

- (1) Preparatory operations to support machine-harvesting, which can improve net harvesting rates and reduce contamination.
- (2) Monitoring of defoliation and ripening to improve the maturity and uniformity of machine-picked cotton
- (3) Controls on machine-picking time to ensure the quality and stability of cotton
- (4) Cost-effective domestically produced cotton pickers, which reduce costs of harvesting
- (5) New cotton-processing equipment and technology to minimize damage to cotton when picked by machine.

Xinjiang's cotton output is among the largest in the world. How to improve the quality of the fibre while still ensuring high output

Dwarf plants, dense planting, and early emergence and maturity management technology is the basis on which to ensure consistency in Xinjiang cotton's fiber quality.

Technology to support this 'dwarf plants, dense planting, early emergence and early maturity' system is key to maintaining the quality of fine fibres, as are film mulching, the selection of suitable varieties, comprehensive disease and insect control, drip irrigation and fertiliser schemes. It also relies on large amounts of elemental fertilisers, micro-fertiliser input, base fertilisers and the correct topdressing ratio. Finally, natural disaster prevention and control measures are necessary to maintain fibre quality.

Enhanced trading for the global cotton community



**international
cotton
association**



**Bill Kingdon,
Managing Director,
International Cotton Association**

On behalf of all members of the International Cotton Association (ICA), we are delighted to be back in China at the China International Cotton Conference in Guilin. ICA's Alex Hsu (ICA President 2021-22 – Formosa Cotton) is representing us at this year's event, accompanied by Dr Robert Jiang (ICA China Business Development Manager). The ICA is committed to collaborating with partners from all elements of the cotton value chain. China's role is almost unique as one of the leading cotton-growing nations and a major textile producer. We welcome this opportunity for in-person collaboration with all our friends in China for the first time since 2019.

The ICA is primarily responsible for maintaining the international framework for trading raw cotton. This framework is contained in the ICA Bylaws & Rules (BL&R), which are constantly under review to ensure that they keep pace with the trade. All our members are committed to a sustainable value chain based on the sanctity of contract. Our members are major firms from more than 50 cotton-producing and cotton-consuming countries. Our mission is to protect the legitimate interests of all those who trade cotton internationally, be they buyers or sellers. In addition to growers, buyers and international shippers, our members also represent the important functions of controlling, logistics, agents, insurance and

consultants. We are working with retailers and brands to improve relationships and understanding with that element of the complex cotton value chain.

The international trading framework gives clarity and confidence to those who are familiar with its terms and understand it. For this reason, the ICA has translated the BL&R into eight languages, including Chinese, to help those who use them to better understand the ethos and the details. The international cotton trading framework is underpinned by some key principles – for example, in the context of the ICA Bylaws & Rules a cotton contract may not be cancelled. Once agreed it will be executed or modified by the agreement of both parties. In the event that either party cannot execute the contract, it is to be invoiced back at the current market rate, unless otherwise specified in the contract. The BL&R contain important details about weighing and sampling. They also specify the remedies to contractual parties in the event that the quality of the cotton delivered is significantly lower than the contracted quality. This is covered in the ICA value differences circular and includes provision for 'multipliers' to be applied to penalties where the colour or grade is significantly lower. The purpose of the ICA value difference is to encourage the contractual parties to resolve their disputes smoothly and amicably should they ever occur.

Next, the ICA administers a dispute resolution service for the international cotton trade, in situations where parties cannot agree an appropriate remedy to their disagreement. The arbitration system also has important principles that apply to it. For example, our objective is to apply objective and unbiased outcomes based on a 'no fault' principle. This means that the arbitrators are trying to return both parties to the position that they would have been in, had the contract been fully executed, to the extent that this is possible. If the dispute is about contract execution or price, this may mean that one party is directed to compensate the other according to the current market price. This will be contained in the arbitration award.

ICA arbitration awards are based on the internationally respected system of English law. Awards are recognised internationally, under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (UNCITRAL) commitment to observe the awards of any international

arbitral body made – also known as the New York Convention (1958). All the important cotton-trading nations, be they growers, consumers, ginnerers or traders, are signatories to the New York Convention. Arbitrators are drawn from a panel of international cotton experts who have experience in the cotton trade and have passed arbitration exams and completed a period of 'on the job' training. Access to cotton arbitration is free to ICA members registered for at least 12 months of eligible membership, and costs GBP £15,000 for non-members or ICA members registered for less than 12 months. The fees and costs of the arbitration are payable by the parties.

In the event that an arbitration award is made, and the company does not settle the award, then they might be added to the ICA List of Unfulfilled Awards (LOUA 1) – this is sometimes called the ICA default list. Companies who are closely related to a 'defaulter' might also, after objective investigation and exchange of information, be added to the ICA LOUA 2. ICA member

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companies commit to refrain from trading with, or providing any services to, companies listed on either of these lists.

The ICA Bylaws & Rules are under constant scrutiny, to reflect the most up to date developments in the cotton trade. For instance, following a comprehensive review of the cotton controlling procedure by the ICA's Controllers Working Group, the weighing, sampling and surveying procedure has been substantially revised. For the inspection of mixed pack bales, internal water damage and foreign matter, the procedure has been optimised to allow the inspection to run effectively and efficiently – as shown in Rules 227 and 228. We encourage all those involved in the cotton trade to be conversant with the ICA Bylaws & Rules, and good trading practices. Those who seek to further their knowledge and expertise may sit the Arbitrator's Exam Basic and Advance Levels. Revision materials are available to facilitate the understanding of the key topics in trade and arbitration. We believe this will benefit both the individuals and the firms they work for in their pursuit of continuing professional development. New initiatives currently being pursued by the ICA include an active working group promoting Women in Cotton throughout the international cotton value chain. The purpose of this group is to increase engagement and the impact of women within the industry by giving them a stronger voice, sharing and learning from each other's

experiences and helping networking amongst women in the global cotton community. We would love to increase engagement from China with this dynamic group and encourage any men or women in the industry to join the Women in Cotton LinkedIn Group and visit the ICA website for more information.

We have signed and exchanged memorandums of understanding (MoUs) with China Cotton Association and China National Cotton Exchange to formally acknowledge the alliance and cooperation between organisations. We have also established partnerships with Better Cotton, US Cotton Trust Protocol, Aid for Trade/Cotton Made in Africa and the International Textile Manufacturers' Federation (ITMF) and are striving to further develop relationships with key sustainability organisations.

The ICA has also recently introduced working groups to examine our membership structure and fees, a retailer working group to improve understanding and links with retailers and brands, and finally a late action working group is reviewing the trading framework and its relationship to protections to both parties with respect to the contracted shipment period.

All these activities complement the routine activities of the ICA. Each year we provide training for cotton professionals at the ICA Complete Cotton course in Liverpool – a unique opportunity for individuals from the cotton community, or those new to the



ICA Trade Event

Zhangjiajang – an opportunity for Robert Jiang, Alex Hsu, Kevin Xue (ICA Ambassador) and Du Feng to further connect with the China cotton community. The trip will also provide an opportunity to meet with ICA Associate Director Yang Baofu and our other ICA China Ambassadors: David Li, Hongxiu Huang, Jianhua Lu, Kevin Xue, Peter Wakefield and Zhiyan Pan. The connection the ICA has with these individuals

industry, to learn about the raw cotton trade from some of the world’s leading professionals. We also deliver outreach and training courses, usually held in cotton consuming countries.

This June, we look forward to delivering outreach and training in Qingdao and

plays a significant role in our relationship with China and we are very grateful for their support. We also look forward to further cooperation with the China Cotton Association and the China National Cotton Exchange. Together with Yang Baofu, ICA Ambassadors and industry presenters, we endeavour to continuously provide workshops, forums and training to the industry in China. We welcome your participation.



Ahmed Elbosaty (ICA President 2012-2013) signs MoU with China National Cotton Exchange (CNCE)’s Yang Baofu in 2013

With over 600 ICA members, we are consistently welcoming new members to the ICA which is a positive sign for safe trading in the cotton community.

We are delighted to be hosting our next Trade Event & Gala Dinner in Singapore on 11-12 October 2023. We expect over 600 international cotton professionals to attend and we hope to welcome many delegates from China.



Singapore, the destination for the ICA Trade Event & Gala Dinner



*improve cotton,
improve lives*

Sustainable Cotton

Our vision is to promote good practices in how cotton is grown, sourced and used. We're innovating and collaborating across every part of the supply chain, with a focus both on people and the planet.

