

# Cotton Outlook



Special Feature

October 2016



# 175 YEARS



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# ICA in Liverpool

**Alice Robinson,**  
Cotton Outlook

As someone who has been a member of Cotton Outlook's Liverpool editorial team for only a few years, it is humbling to realise that the company I have joined can trace its roots back to the early nineteen twenties, and produces a price Index that has been in existence this year for no less than half a century. Even more impressive is the celebration of the ICA's 175<sup>th</sup> Anniversary, an organisation with which our company has shared strong links over many decades (and with which I feel a personal affinity, given that I attended Secondary School in a building which was donated to the city of Liverpool by the Association's first President, George Holt). It is by any measure a considerable achievement for the organisation, its members and the city itself.



The history of Liverpool and cotton is intertwined, as we attempt to demonstrate in the articles written by our Managing Director, Ray Butler (*Your Association – a historical perspective* and *50 Years of the Cotlook A Index*). We have also obtained contributions from a number of past Presidents of the Association, giving recollections, some humorous, some serious, of their time in office.

However, the Association continues to be forward-looking, and we are delighted, therefore, that current ICA President, Jean-Marc Derrosis, and Vice-President, Jürg Reinhart, have written both about what has been achieved in recent times and what the immediate future may hold. One of the initiatives taken by the ICA's Board of Directors is to launch the International Cotton Association Mutual, an independent company that aims to make enforcement of ICA arbitration awards a less daunting task, about which the ICAM's company secretary, John Gibson, gives a clear explanation.

The city of Liverpool has a certain vibrancy that was lacking at times in the not too distant past, in contrast to its history, when the title '*second city of empire*' was earned by dint of the city's trading endeavours. The new vibrancy deserves some space to show where Liverpool aims to be in future,

and we welcome, therefore, a contribution to the publication from *Liverpool Vision*, the city's economic development company.

We also dwell a little on our own history, particularly the celebration of fifty years of the Cotlook A Index.

The ICA Liverpool 2016 trade event includes a slot in the timetable when we will welcome all who have registered to join Cotton Outlook in a brief, modest celebration as we look forward to the next fifty years!

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# Your Association – a historical perspective

The International Cotton Association – formerly the Liverpool Cotton Association – can trace its roots back to 1841, on the founding of the **Liverpool Cotton Brokers' Association**, and therefore pre-dates the inauguration of most other cotton trade associations and their like. The Association's often prestigious history has been described in a book published by the ICA but it seemed appropriate, on the occasion of the organisation's 175<sup>th</sup> Anniversary, to produce a brief reference list of dates that might help the reader put in context the Association's achievement in enduring and adapting through a period of history that has witnessed momentous events, including the decline of the UK as a manufacturing centre, on the fortunes of which the Liverpool Cotton Association's success was based.

## 175 years of the ICA - a historical perspective

Selling cotton afloat - to arrive, Liverpool. Sold in New York, samples dispatched by packet steamer to Liverpool and sold 'to arrive'. Liverpool arbitration created on differences in samples, which offered a 'fair deal'. The first 'futures' contract.

1840	-	Original 'arrivals' contract formed. The first futures contract
1841	-	<b>Liverpool Cotton Brokers' Association formed</b>
1848	-	Chicago begins 'to arrive' trading in grains
1863	-	"The Constitution, Laws and Usages" of the Liverpool Cotton Brokers' Association drawn up - the first trading rules
1866	-	First transatlantic cable. John Rew first to employ simultaneous trading of an actual purchase (in New York) and a speculative sale (Liverpool)
1870	-	New York Cotton Exchange
1872	-	Committee for the Cotton Trade, Bremen and Bremen Cotton Practices (forerunner of the Bremer Baumwollbörse)
1874	-	Memphis Cotton Exchange
1878	-	London Corn Trade Association (forerunner of GAFTA)
1881	-	Liverpool Cotton Exchange
1882	-	<b>Liverpool Cotton Association formed, merging the Liverpool Cotton Brokers' Association and The Liverpool Cotton Exchange</b>
1882	-	Forerunner of Japan Cotton Spinners' Association
1883	-	Association Cotoniére d'Alexandrie
1890	-	Syndicat du Commerce des Cotons (forerunner of Association Française Cottonnière)
1891	-	Izmir Cotton Exchange
1903	-	Cotton Centre Barcelona. (forerunner of Centro Algodonero Nacional (CAN))
1921	-	East India Cotton Association (now Cotton Association of India)
1924	-	American Cotton Shippers' Association
1926	-	Cámara Algodonera Argentina
1932	-	ALCOTEXA - the Egyptian exporters' association
1933	-	Karachi Cotton Association
1935	-	Association of Interesentów Trade Cotton in Gdynia. (forerunner of Gdynia Cotton Association)
1954	-	Supima
1976	-	Formation of the Committee for International Cooperation between Cotton Associations (CICCA)
1980	-	Conalgodón - the Colombian Confederation of Cotton
1991	-	Australian Cotton Shippers' Association
1999	-	Associação Brasileira dos Produtores de Algodão - ABRAPA
2000	-	Bangladesh Cotton Association
2000	-	Associação Nacional dos Exportadores de Algodão (ANEA) - the Brazilian exporter's association
2002	-	African Cotton Association
2003	-	China Cotton Association
2004	-	<b>Liverpool Cotton Association becomes International Cotton Association</b>
2011	-	ICA Bremen launched
2016	-	ICAM (International Cotton Association Mutual) set up
2016	-	<b>175th Anniversary of the International Cotton Association</b>

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# Liverpool: ‘the New York of Europe’

Various explanations exist as to the derivation of the name ‘Liverpool’. One that is favoured is that it came from a local dialect word for a ‘muddy pool’. A royal charter was granted in the early 13<sup>th</sup> century (the city marked this by celebrating its eight hundredth anniversary in 2008) but expansion was to wait a few centuries, until the commencement of the ‘triangular trade’ (which involved slavery).

Liverpool became a major city, having been granted city status in 1880. In the late nineteenth century the phrases were coined “the second city of Empire” and “the New York of Europe”.

Liverpool was the port of embarkation for millions of people to the New World during the 19<sup>th</sup> and early 20<sup>th</sup> centuries. In 1851 alone, around five times as many people left Liverpool for North America than from Le Havre, the second largest exit port.

Cotton, to supply the textile mills of Lancashire, figured prominently in a wide list of commodities passing through Liverpool, to the extent that the city became the leading world cotton market. Connections by waterway to other parts of the industrial north of England expanded throughout the second half of the eighteenth century and the city witnessed the first commercial rail journey (Stephenson’s Rocket).

Trade also expanded with other parts of the then British Empire, including India and the Far East, leading to an expansion of the city’s docks. By the early 20<sup>th</sup> Century, Liverpool’s cargo handling exceeded that of New York.

The wealth generated as a result of Liverpool’s trading activities is evident in today’s city: St. George’s Hall, which had become the regular venue for the LCA Annual Dinner and to which the ICA will return for its ‘trade event’ dinner this year, was constructed in 1854. Lime Street Station, where many visitors arrive and depart, was first opened in 1836, a year before the running of Aintree’s first Grand National horse race. The world’s first, fully electrified overhead railway was opened in 1893. The Cotton Exchange Building, now vacated by the Association, was constructed in 1905/06.

The UK’s raw cotton imports peaked in the early 20<sup>th</sup> century and as you walk about the city of Liverpool and witness the outstanding architecture, some of it of World Heritage status, the thought should be borne in mind that it demonstrates the success of the city’s trade, including that in cotton. Today, of course, the UK economy is quite different to a century or so ago but trade is still a vital part of Liverpool’s lifeblood and those of us connected with the cotton business that are still located here on Merseyside remain proud of the city’s cotton heritage. The ICA is a vital part of that heritage and it is only fitting, therefore, that the ‘Annual Dinner’ (which past President, David Stern, was instrumental in creating) should return to Liverpool in this year of celebration.

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## 175 years on, the ICA shares its view from the top

# Past, present.....

**Jean-Marc Derossis,**

ICA Outgoing President and Head of Physical Cotton, ECTP

It has been a great privilege for me to be President during such a special year - the ICA's 175th anniversary.

The ICA's history is bound by some of the world's most momentous events. The Industrial Revolution, the growth of the railways, the transatlantic cable, the American Civil War and two world wars. All have played their part in shaping today's ICA.

And almost two centuries on, one constant thread remains. The ability of its members to work together, to react to new challenges, to adapt, survive, and ultimately prosper.

During my tenure, the ICA in its entirety has concentrated its efforts in a number of areas to ensure that it remains relevant, respected, outgoing and efficiently run. I am very happy with what we have achieved.

By the time you read these lines, we will have (hopefully) introduced a new governance structure within the ICA Board. The new structure will make better use of the huge amount of expertise amongst our Board members and streamline the decision-making process. We are also introducing a new Disciplinary Committee to replace the Preliminary Investigation Committee. Together with a more efficient process and new guidelines, the new committee aims to address the issue of members trading with defaulters.

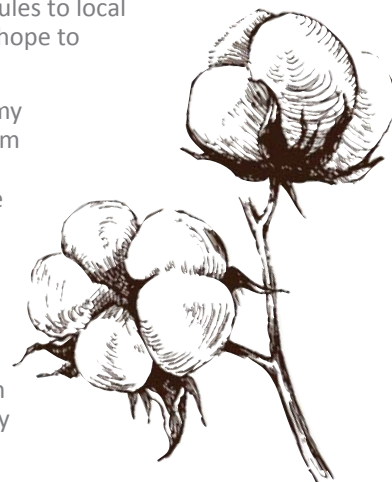
At the request of a number of members, we are embarking upon a review of our arbitration appeal process to tackle the issue of 'frivolous' appeals as a way to delay parties appearing on the ICA List of Unfulfilled Awards. Discussions surrounding value differences are also progressing. This is an area of contention between producers, merchants and spinners. Our aim is to adapt the differences to the realities of an increasingly stringent textile industry quality-wise, whilst not unduly penalising shippers for the inherent quality variations in what is, after all, a natural fibre.

Earlier this year, following a successful joint Board meeting between ICA and ICA Bremen, it was unanimously agreed to extend our partnership with Bremen Baumwollboerse for a further five years. Since its inception, just five years ago, ICA Bremen has established itself as the gold standard in the cotton world for quality testing and laboratory certification. We clearly saw this for ourselves during our visit to its facility in Germany. We are very proud of what has been achieved. It has raised global cotton testing standards and, alongside USDA, is one of two classing authorities on the new World Cotton Contract.

A big part of our work has been engaging with local users of our Bylaws and Rules, helping to dispel the myths, increase understanding and promote safer trading. We visited a number of key markets this year including Pakistan, India, Bangladesh, the USA, Brazil and Argentina, where we met with key stakeholders. In some areas we ran workshops to better explain the rules to local industry participants. My sincere thanks go to all those involved. We hope to keep up the momentum.

These global relationships are vital to our work. My thanks go to my predecessors, who set these relationships on the right footing and I am extremely happy to report that the Camera Algodonera of Argentina and Spain's Centro Algodonero Nacional have both agreed to become ICA members.

As we get ready to celebrate our 175th anniversary, I know that the ICA is well-equipped to ride the challenges ahead. It is financially strong, run day-to-day by a dedicated secretariat and directed by a very committed Board, one that has spared no time or effort to keep our mission intact and the momentum going. The ICA is stronger than ever and it is a credit to all those involved, past and present. I wish my successor, Mr Jürg Reinhart, every success in continuing the mission.



# 175 years on, the ICA shares its view from the top .....and future

**Jürg Reinhart,**  
ICA Incoming President and Chairman, REINHART

**After a long period of range-bound cotton prices we are starting to see more price volatility in the market. That is why it is crucial that safe trading and contract sanctity continue to be our main focus.**

The long list of names appearing on the ICA's List of Unfulfilled Awards, known in the trade as the 'default list', has shrunk slightly of late, but it still remains a challenge. Our goal is to prevent members and non-members from intentionally circumventing the list and disrespecting the principles of contract sanctity. This activity must not be tolerated. It undermines the ethos of safe trading and the standing of the ICA. With input and agreement from our members, we want to establish procedures that will prevent this practice.

We aim to introduce a two-step approach. For first time offenders i.e. members caught trading with defaulters, without having informed us of any active contract or settlement agreement, step one will involve a monetary fine and a period of suspension from the ICA. For a second offence it will be expulsion. Along with my co-directors on the ICA Board, I believe this approach will be more effective. It will also improve our existing investigation process, making it logical, clear and timely.

Another challenge will be to ensure that our Bylaws cannot be misused by any participant for their own interest. Such unfair attempts of exploitation should be preventable by the Bylaws themselves. Homework has and is being done to tackle this, but further effort is needed. Going forward we will be reviewing and developing both the Rules and Bylaws to keep them in line with changing legal requirements and industry standards.

Continuing in our efforts to engage with associations and industry participants to better understand, apply and live by the principles of our Rules and Bylaws is also on our agenda. We must strengthen our relationships up and down the entire global value chain to evaluate common approaches and develop ideas and tools to promote cotton. We cannot do this alone. We need the support of our members and we must convince those that support safe trading to join us. To contribute and to benefit from being a member. To be proud of our association and to actively support and promote it further.

As I get ready to take on the role of ICA President, my thanks go to those that came before me, especially to Jean-Marc and my co-directors. I am proud to be a member of the ICA and honoured to be voted in as its President. I will do my very best for my fellow members as we continue towards safe trading.



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# How can you protect yourself against the cost of defaults? A new product from ICA Mutual may be the answer

**John Gibson,**  
Company Secretary, ICA Mutual



The volatility in cotton prices between 2011/12 (and even 2013 on a smaller scale) made all traders wish for some relief. At the time 25 US cents per tonne would have been a very cheap price to pay to gain some protection from losses caused by companies defaulting on awards. As we get further and further away from the volatility, memories fade about how truly awful that period was for many.

The enforcement of awards has become a major focus over the past couple of years and we are very aware how time consuming and expensive this can be. We also know that successful enforcement can be very dependent on the quality of the lawyers you engage and these lawyers will cost money to hire.

One default at a time may not be a catastrophe - depending on the size of the default, of course. But what if there are two, three or a run of defaults on your contracts? This happened to many of the ICA's members and we realised they needed more protection.

## **Filling a gap in the market with bespoke cover**

After carrying out research - talking to ICA members, industry professionals, lawyers and insurance providers - we found that there was a big gap in the market. In fact, we were hard pressed to find bespoke cover for legal expenses, at an affordable price. That is why we have created our own.

Developed and run by people who have experience in the cotton trade and in enforcing arbitration awards, ICA Mutual (International Cotton Association Mutual Ltd) is an independent discretionary mutual. With low set up costs and affordable premium levels, it is an effective and cheap way to provide this sort of protection.

Now up and running, ICA Mutual is available to assist in funding the enforcement of ICA arbitration awards and provide legal expenses protection for ICA arbitrators if sued in overseas courts. In the longer term, as the mutual fund grows, that protection could be extended to provide contract default insurance to pay out on unfulfilled awards.

Having the assurance of knowing there are legal funds that will help you enforce your awards and lessen the potential drain on your reserves is a huge relief. It is a great product for ICA members and if you are not a member, but you trade cotton and are involved in arbitrations, you should seriously consider joining.

One of the major benefits of being part of the mutual is that it is run by people who know the trade and understand the industry risks much better than a standard commercial insurer.

## **Access to a team of lawyers with in-depth knowledge**

The mutual also gives you access to a team of lawyers, who have in-depth knowledge of enforcing awards in specific and difficult worldwide jurisdictions. You can work with experienced, efficient and successful lawyers who have enforced ICA awards or you can use your own lawyers and in-house team if you prefer. The cover is flexible, which is another bonus.

We also believe that ICA Mutual may act as a deterrent to potential defaulters. If they know you are covered, they know you will be funded and have the added protection of expert advice from our enforcement lawyers.

So here is the big question, how much will it cost? The cost is actually based on the amount of cotton you trade – just 1 US cent point per pound. It works on the logic that the more you trade, the more contracts you have and the more chances there are for something to go wrong.

The cost is charged annually using the midpoint of your tonnage band multiplied by 25 US cents per tonne e.g.

0 – 20,000 tonnes	= US\$2,500
20 – 50,000 tonnes	= US\$8,750
50 – 200,000 tonnes	= US\$31,250
Over 200,000 tonnes	= US\$50,000

To put this into context, based on an ‘average’ our lawyers have said that firms wishing to enforce awards should be prepared to budget in excess of US\$40,000 per award. Being a member of the Mutual would offer to reduce this cost substantially, so the cost of cover could easily pay for itself time and again.

The beauty of the mutual is it does not have any shareholders, it is run for the benefit of its members. It operates in a transparent way, unlike commercial insurance, and offers members an opportunity to have a say in the way it operates, the products it offers and to share in its financial fortunes.

To find out more about ICA Mutual and apply visit: [www.icam-ltd.org](http://www.icam-ltd.org)

## Who runs ICA Mutual?

ICA Mutual is an independent discretionary mutual, developed and run by people who have experience in the cotton trade and in enforcing arbitration awards

Chairman	Ray Butler (Cotton Outlook)
Directors	David Adcroft (ex-Louis Dreyfus Company) Stephen Burrows (Brabners LLP, Liverpool) Martin Fone (ex-Charles Taylor plc, London) Mark Qualter (Royal Bank of Scotland) Peter Wakefield (Wakefield Inspection Services)
CEO	Kai Hughes (ICA)
Company Secretary	John Gibson (ICA)



Ray Butler



David Adcroft



Stephen Burrows



Martin Fone



Mark Qualter



Peter Wakefield



Kai Hughes



John Gibson

# Discover Liverpool: rich history, bright future

From world-class architecture, magnificent museums and music legends revolutionizing popular culture, Liverpool is a city with culture and creativity in its DNA. Through spectacular festivals, dramatic sporting attractions and unique art it continues to be a gateway for UK culture, attracting millions of visitors every year.

People come for the hospitality, too: we were recently voted the friendliest city by readers of Conde Nast's Traveller magazine. Our hospitality knows no bounds – we welcome 50 foot giants, football fans drawn to Anfield and Goodison, artists from around the world in the UK's largest Biennial and race enthusiasts to the thrill of the Grand National.

Culture, of course, is our strong suit. Our Capital of Culture year merely confirmed what every visitor to the city knows: we've got more than our fair share of old masters, vibrant theatres and cutting-edge galleries. The Tate Liverpool is home to the national collection of modern art in the north, while National Museums Liverpool comprises seven wonder-filled collections.

Half a century after The Beatles exploded on to the world stage, Liverpool is still making all the right noises. You'll discover a music scene unrivalled in the UK: blockbuster gigs at the Echo Arena, pitch-perfect classical performances at the Philharmonic Hall, The Beatles-inspired Mathew Street scene or the understated cool of Camp and Furnace, Kazimier and Cream.

Liverpool is famous for its love of shopping; our unique sense of style has attracted hip fashion brands, cool independent boutiques and swanky cafés and restaurants to the lifestyle hubs of Liverpool ONE, Metquarter and Bold Street.

After a hard day's shopping, the lights come on and we're ready to entertain, with cuisine from every corner of the world, bars and pubs that buzz with life and entertainment. Liverpool's cultural scene is thriving all year round with a wonderful mix of theatres; The Everyman and Playhouse, Empire and Royal Court raise the roof with home-grown and national productions.

Liverpool has a sporting reputation to rival any city in the world. Sport – along with music – is the beating heart of this city. The success of our football teams has made the name 'Liverpool' famous around the world. It is also home the world's greatest horse race and some of the best golf courses in Britain.

Architecturally, few cities match Liverpool for sheer wow factor – whether it's taking in the panorama of our world-famous waterfront from the deck of a Mersey Ferry, or scaling the heights of Britain's largest cathedral and surveying the perfect geometry of the Georgian streets below. Liverpool is a UNESCO World Heritage Site, placing the city alongside historical treasures such as the Taj Mahal, Pyramids and the Great Wall of China.

Image courtesy of:  
Marketing Liverpool / Ant Clausen Photography





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Liverpool has not only made a unique contribution to world commerce and culture – it has one of the world’s great waterfronts. The magnificent Three Graces and Albert Dock, a former 19th century dock now converted to one of Britain’s top heritage attractions, are the jewels in the crown.

Liverpool sits among the few destinations – including Sydney, Shanghai and New York – with arrival points in the heart of the city. As the birthplace of the passenger cruise line Liverpool is, once again, an increasingly in-demand port of call for the world’s sleekest cruise liners.

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David M Stern – 1967-1968

# The Formation of the Liverpool Annual Dinner

**David Stern,**

LCA President, 1967/68 and 1981/82

During my 50 years in the cotton business, I was honoured to be invited to be President of the Liverpool Cotton Association twice, in 1968 and 1982. Both were entirely different in character as the 1960s one was more or less occupied only with the domestic market, whereas by 1982 the focus was very much on the international trade.

My first presidency followed soon after Harold Wilson's devaluation of sterling, which created many problems for UK-based commodity companies. In those days, there was a large amount of trade in different commodities with the Commonwealth countries. Trade was in their local currency, and the Bank of England had given assurance that these were totally linked to sterling. However, they did not follow our devaluation and as there was no forward exchange trading large losses were incurred.

As President, I found myself on a committee drawn from other commodity trade associations with the task of trying to obtain some compensation from the government for the losses incurred. Our dealings with the UK Chancellor of the Exchequer and the Bank of England were fascinating and for several months I had meetings in London every week. Eventually, we obtained an agreement that the companies would receive an interest-free loan for five years on their certified losses, and as interest rates had by then risen to over 15% per annum, this helped a lot!

After I had finished my presidency I made world-wide visits with John Anderson and Peter Raynes, Secretary of the LCA, promoting the Liverpool Rules and Arbitration System. We had a certain amount of success in getting overseas members and it also led to my visiting China during my second presidency, in 1982. A fascinating time to be in Peking, as it was then, and although not immediately successful, once we had translated the Rules into Chinese we achieved our aim.

Prior to 1968, it had always been the tradition for the President to have a Farewell Dinner to entertain his fellow directors and guests but at his own expense. My vice-President Brian Carrick and I felt this should change and that it should be possible for members to pay and attend if they wished. I did have to pay for my Dinner in 1968 at the Adelphi, but after that it was 'Open for All' provided they paid, and I think one can claim this to have been the start of the 'Liverpool Annual Dinner'.

One has many memories, some happy, some not, but it took me, usually accompanied by my wife, Penny, to many wonderful places in the world. Indeed, the cotton trade had the reputation for allowing competitors to talk together and become friends. I still have a few old friends alive around the world – long may that continue!

For me it was a sad day when we dropped the word 'Liverpool' from our name but all best wishes to the ICA and no doubt great celebrations for 175 years.

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## Delights of the Adelphi

**Philip Stern,**

LCA President, 1977/78 and 1993/94

At the time of my first presidency in 1977 the Liverpool Cotton Association was still adjusting to the disappearance of the Lancashire textile trade. The number of cotton trading companies in Liverpool had shrunk, but the committee members and the arbitrators were all Liverpool based traders. Our first overseas based President was to be 26 years in the future. However, the process

of internationalisation had already started and one of the President's duties was to attend several international trade conferences.

At that time we all felt part of a global cotton family. Competitors became personal friends in a way which perhaps is less common today. Although my recollection of most of the business issues has faded I still have pleasant



P J M Stern - 1977-1978

memories of those international gatherings. As a young President I was fortunate to have the help and guidance of Peter Raynes, the secretary of The Association. He was a very efficient and far-sighted secretary who played a major role in making The Association a global authority, as well as being a delightful companion.

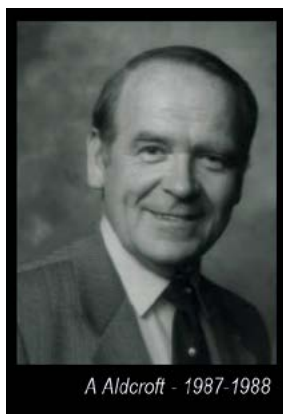
My contemporaries will still remember three Frenchmen, Georges Blanchard, Yann Caillard, and Andre Menez, who became known to us as The Three Musketees. They were all hard working and very able cotton men but on these occasions talking about cotton was of secondary importance to them. Their principle aim was to renew old friendships and to make new ones among international cotton men - there were few lady traders in those days. They considered the evening to have been a failure if any of them went to bed before 1am!

I was honoured to be made President again in 1993 when internationalisation had progressed further. The annual dinner was held at the Adelphi Hotel, which had in its heyday been a fine and grand hotel. By 1993 it had

changed hands and was catering more to the mass market. The eccentricity of the service had become legendary in the cotton trade. We had a Spanish business friend who was a serious bon viveur so I was surprised when he told us that he would like to bring his wife to the dinner. He explained that for many years he had returned home from the Adelphi and told his wife stories of the service, which she had flatly refused to believe, so he insisted to her that she must come and experience it for herself. She was not disappointed!

I have concentrated above on my more lighthearted memories but I must pay tribute to my former colleagues on the Board and on the various committees, as well as to the devoted staff of the Association, who helped me so much during the two terms which I was honoured to serve as President.

I congratulate The Association on 175 years of distinguished service to the cotton community and hope that it will continue to serve future generations of traders.



## Introducing HVI

**Arthur Aldcroft,**  
LCA President, 1987/88

When I started to look backwards to write a short note on my year in office I noticed that I had actually, during my career, worked with thirteen Past Presidents of the Liverpool Cotton Association.

I consider I was very fortunate to work and learn from such an illustrious group of cotton men. When I was asked to seek election as Vice President in December 1986 and subsequently as President in December 1987 I was, in equal measure both proud and humbled by such an honour.

During the 1970s and 1980s I had served on most of the Association's committees and in particular John Garner had asked me to chair a committee on the growing need for machine testing. We undertook a lengthy study over several years which included attending the ITMF cotton testing committee meetings held just prior to the Bremen conference.

There were many prejudices to overcome and the costs of purchasing the HVI line was a considerable obstacle. As an Association of members you have always to be mindful that you are spending other people's money.

Along came a "White Knight" in the form of our dear friend Frank Wakefield who agreed to donate a full HVI line to the Association.

During my year in office I was supported by the Board of Directors and by two Director-Generals, John Wilson-Smith and John Read, who were both very good administrators and made the task less onerous. They were backed up by the General Manager Bill Newton who was a good friend and adviser.

Travel was also a highlight during 1988 and visits to Peru, US, France and Poland stand out in my memory.

In those days we had a close link with the UK government through the Department of Trade and Industry and

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# Past Presidents' Recollections

the head of section was Michael Dunn, who had a close connection to Merseyside, as he had been seconded to assist Michael Heseltine in the resurrection of Merseyside after the Toxteth Riots.

He was a delightful man and his attention to detail whilst we attended the ICAC conference in Peru was excellent.

My wife Maureen and I also remember the generous hospitality of the ACSA team at a reception at the US ambassador's residence in Lima.

Our regular representative to the ICAC committee in Washington was a very good man, Brian Harding, who was on secondment to the British Embassy in Washington from the Department of Agriculture in the UK. In addition to the more mundane issues of the cotton world, Brian, during his tenure in Washington, when faced with possible trade barriers being erected against UK exports to the US, contacted all of the State Governors and reminded them that this might well impact the supply of Scotch whisky. I understand that the differences between the two countries were quickly settled in an amicable way, hopefully over a dram or two.

I could not end without mentioning the ACSA annual conference held in Dallas, Texas and the closing dinner

which was held at South Fork ranch (the home of the TV series "Dallas") - we had the night of our lives.

Along with the special celebration of the Association's 175th year we are also celebrating the "Golden Anniversary" of the "Cotlook A Index"

I remember well the launch of Cotton Outlook when John Garner took the old publication "The Cotton and General Economic Review" and turned it into the most respected worldwide publication it is today.

Back in 1966 John and his team would visit the local offices of the merchants and buyers collating information for publication. This led to the huge task undertaken by today's staff of collating information from all corners of the world.

What was started by the two Johns (Garner and Anderson) was carried forward by Ray Butler and Michael Edwards who are to be commended for all their hard work. One should not forget all the wonderful Outlook staff, some of who started in the market at a similar time to me but are now enjoying a well-earned retirement (we grew up together).

My best wishes to you all for your continuing success.



## Adapting to Change

**Nick Earlam,**

LCA President, 1994/95 and 2002/03

The first time I was President was a great learning experience for me. We were a young company and I was a young President at just 37 years old. It culminated in the Annual Dinner at St George's Hall where Jeffrey Archer and Neville Bain of Coats were my guest speakers. I can still remember Lord Archer's speech, which led to a standing ovation - the first and only time I can ever remember a standing ovation at the ICA Dinner. It was a year where cotton prices rose considerably but where there were relatively few defaults, and Central Asia was a huge participant in business at that time. I remember thinking that the wheels of change moved slowly but surely, and now when I look back on it, how right it was that all issues were properly thought through and subject to so much scrutiny before it was put to the membership. It prepared me well for my second term which was totally different.

In my second term change was happening very fast and for the ICA to stay relevant it also had to change. The accession of China to the WTO led to the decimation of industries in Europe, America and Africa, and

made China, India and Pakistan the major players. These countries operated by different canons and resented the fact that the rules of the international cotton trade were controlled from Liverpool, where there was no industry at all, just an excellent legal system. Our forefathers all recognised when change was needed and that is why the ICA has endured since 1842. In my second term change was inevitable, so we agreed first and second Vice Presidents in the persons of Andrew Macdonald and Fritz Grobien, and between us we agreed a three year plan which we put to the Board and ultimately the membership. This resulted in the change of name to the International Cotton Association, the formation of Tribunals so that there was always a Chairman appointed by the ICA, the appointment of International Presidents, transparency in the arbitration process and training of arbitrators, all of which are firmly in place and working today. I owe a debt of gratitude to Andrew and Fritz for their support and also to Bob Williams the DG of the Association at the time in what was one of the most challenging years I have ever faced but ultimately one of the most rewarding.

## Snooker v Table Tennis



R J Carter - 1997-1998

The year was 1998 and the importance of China in the world raw cotton market was only just beginning to be felt. In those days China was a regular, but not always consistent, importer and indeed exporter of raw cotton. US companies felt that this was 'their' market but volumes were not huge. The reality was that most international cotton merchants were only just beginning to focus on the explosive potential of China.

I made a visit to Shanghai for the Liverpool (now International) Cotton Association as President to try to establish closer ties with the Chinese cotton authorities and promote our Trading Rules. We met with the head of China Cotton, and had very cordial discussions about the market. No-one really knew how much stock the Chinese held as it was principally domestic production

**Bob Carter,**  
LCA President, 1997/98

and shrouded in secrecy. Before lunch we were invited to play a game of snooker which our MD, Trevor Craven and I won easily. After lunch they challenged us to table tennis and we were comprehensively thrashed – well I suppose they are the masters of this sport!

I casually asked our host how much stock he had in warehouse and he thought a little and said frankly he was not sure but around 4 million bales. This was a staggering number at the time although insignificant today and I felt very few others in the market had any concept of this level of stock. It was early days in the rise of China as the world power they were to become and it was a privilege to be one of the first to establish such a trusted friendship with their officers.

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## Red Braces to Bemused Faces

**Paul Kinney,**  
LCA President, 1999/00

I was privileged to stand as the President of the then Liverpool Cotton Association (LCA) in 1999/2000 - the eve of the millennium.

International trade stood at approximately 26 million bales, and with a stocks-to-use ratio of 53%, we were in a rather flat market. At the beginning of 'my year', NY futures were hovering around 45.00 cents/lb.

China was self-sufficient in cotton at that time but it was clear that consumption was starting to increase quite rapidly and was one of the reasons the futures price moved towards 60.00 cents/lb by the end of my year in office.

The LCA continued to be criticised about being too biased towards international merchants, which was given as a major reason why it struggled to attract members from the consumption side of the business i.e. mills. Avoiding arbitration was something that should have



P Kinney - 1999-2000

suited all parties and one of the items on my agenda as President was the introduction of mediation. Contract sanctity was, and always has been, key to the success of our industry so we were not introducing anything new in that regard, but maybe more of a new way to address issues before they grew out of all proportion.

The LCA Managing Director, Bob Williams, and I worked on an agenda to visit India and Bangladesh, together with Bob Carter (who took every advantage to promote his company, Central Cotton Company - presentation slides containing CCC appeared occasionally!!!). The two countries, we believed, were those where the introduction of mediation would be of most benefit at that time. Our aim also was to address in some depth the Rules and Bylaws of the LCA, since it was the lack of understanding of these by the mills which led to the comment of the rules being biased towards the sellers.

In Bangladesh, we addressed about 80, mainly mill buyers, and were on the receiving end of, at times, quite aggressive questioning about the LCA protecting them and not simply issuing Awards and placing mills on a default list without the opportunity for them to defend themselves - as I said a lack of knowledge of the rules.

In India the audience was more mixed, split probably 60/40 in favour of local sellers versus mills, but an impressive number of almost 180 attendees. We were faced with the same questions about protection. Interestingly, the first real issues raised by leading mills were around the subject of contamination, noting the increasing concern of retailers in this regard. What could the LCA do to assist in this area? Wow - not what we expected but plenty of debate in the aisles post meeting!

I would like to think that the visits that took place did something to address the concerns expressed. We knew it was going to be a struggle but it is encouraging to see how highly mediation in particular is held in the business today.

Another item on my agenda for the year was China, in view of the lack of a single Chinese member of the LCA in any area. We knew of the political reasons for this but decided that a visit was necessary to introduce the LCA, the reason for its being, and the rules under which we hoped to see China trade going forward, especially with the likelihood of increasing imports in this growing market.

A delegation from the LCA of Ray Butler (Vice President), Bob Williams, Robert Jiang and I met with the State cotton companies in Beijing and then visited the main cotton bodies in the western province of Xinjiang, the first visit to this part of China by the LCA. Whilst well received, it was clear that any direction in cotton would be from Beijing and not independently from Xinjiang but the occasion gave Xinjiang companies the opportunity

to try to drink us under the table! Probably the funniest moment of my year was having a game of ten pin bowling back at our hotel after a 'heavy' dinner and seeing Bob forget to let go of the ball and ending up spread eagled on his face across two lanes but with his red braces unaffected!

ACSA, held in San Francisco, and ICAC, in Cairns, were other events I attended. At the latter, I fondly recall sitting at dinner in the rain forest with 6 inches of water around my feet, a power cut and an evacuation of the dinner, with most of the guests singing Waltzing Matilda on the way back to the reality of the coaches.

The LCA dinner was held in the wonderful surroundings of St George's Hall. I chose my guest speaker very easily - Mr Somsak Patpanichchot, the owner of Metro Spinning in Thailand and a gentleman who supported me (and Ralli/Cargill of course) with business on every single visit of mine to Bangkok since my first in 1982. How many mills would present you with their stock sheet and 'need to buy' figures for you to tell them what to buy now? I knew his English language capabilities would lead to a difficult to understand speech (I recall seeing many bemused faces among the 670 dinner attendees from my elevated position on the stage) but he was my choice and I stand by my decision. His speech, for those who are still not sure, was all about contamination and the increasing demands on the total eradication of this from cotton deliveries by the trade - something that probably still exists today as a goal rather than the current status.

There were no major world events, in or out of cotton, with the exception of the world waiting for the millennium and all the issues, technical and others that it was expected to bring. I left my position as LCA President in December 2000 with the excitement (or, as it turned out, anti-climax) of that to come!

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## Every President has their Day



**Ray Butler,**

LCA President, 2000/01, ICA President, 2010/11

I was both surprised and flattered to be asked to serve as President of the Liverpool Cotton Association in 2001 and I must admit that it was a hugely enjoyable experience. The last vestiges of the traditional mystique of being President of a trade association in the UK, with its attendant formalities (for instance, members would stand when the President entered the room) were still visible. I joined Cotton Outlook in 1975 and in those days, a trip to the sixth floor of the Cotton Exchange (where the LCA had its offices) required a quick check of one's tie, a polish of the shoes, and a reminder to oneself to be punctual! 2001 preceded the manufacturing boom in China and going there was still opening new territory for

the LCA, as my immediate predecessor as President, Paul Kinney, explains in his recollections.

2011, when I served as President of the ICA, was very different, not just in the perception of the President's role but also in the market. Not only had China become the predominant influence on world trade patterns but the experience of the unprecedented price spike was raw. I had to say to the directors of BTMA on a visit to Bangladesh, for instance, that as President my role in any dispute was to act impartially, that I could not resolve their individual differences with shippers, something that went down like a lead balloon! However, visiting the

US, China and Zimbabwe were highlights (as regards the last-mentioned, I doubt I would have had occasion to visit otherwise).

The role of the President has undoubtedly (and intentionally) changed with the advent of greater internationalisation – inevitable, I suppose. Even so, there is nothing quite that prepares one for the job of standing before a group of sometimes hostile but usually knowledgeable industry participants at some location around the world and having to state the ICA's case, that as the keeper of international trading rules, we depend on all of those engaged in trading cotton across international boundaries to understand their commitments and abide by contracts that they enter into freely.

The highlight of my 2001 presidency has to be my trip to Brazil, with my vice-President, Derek Tanner and Bob

Williams, the then Director General of the ICA, Andrew Macdonald acting as a (reluctant) interpreter, and flying in a small plane in the centre-west, as dusk fell, to be told we had ten minutes to land at some remote, unlit airstrip.... or else (I still don't know)? The Brazilian hospitality was something I will always treasure. The other abiding memory I have is developing relationships further in China, which has long given me satisfaction.

Every president has his day and is then 'immediate past president', then 'ex-president', then 'ex-ex', and so on, until the point is reached at which it really pales to insignificance, though the memories remain strong. Presidents today and to come must lead the Association forward and I have hope that, notwithstanding, the probability that some of the 'tradition' will continue to fade, they will hold dear the values of the Association.

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## Dedicated Secretariat

**Derek Tanner,**  
LCA President, 2001/02



Being third generation of the Tanner family involved in the raw cotton trade in Liverpool – including controlling, transport, warehousing, classing, broking and trading - I was honoured to be elected as President of our Association.

Each Presidential year is indeed different and 'good trading practices' was a leading topic to be taken forward in my year.

Apart from the time and dedication required for the office there were also many memorable occasions, for

example, chairing local and international meetings with colleagues and visiting a number of countries, including Egypt - at the ICAC meeting in Cairo we took very bumpy camel rides against the backdrop of the illuminated pyramids. Another is addressing the guests at the ICA dinner in the grandeur of the famous St George's Hall.

The reality is that no President can achieve goals to benefit our global trade in raw cotton without the dedication of the ICA staff and colleagues in the trade with whom I was fortunate to form long time friendships.



## From LCA to ICA



**Andrew Macdonald,**  
ICA President, 2003/04

When I was invited to be the guest of honour by Bob Carter, as the then President of the LCA, many moons ago, he accused me, in his introduction, of being a turncoat, a cotton trader turned cotton spinner, certainly a grave act of treachery. Later, when Ray Butler invited me to stand for election as the very first "Second Vice President", he thereby further compounded the dastardly deed, but then three years later when I was elected President, the first ever international President (non-UK resident), and a cotton spinner to boot, well clearly all was forgiven, and the realization that spinners formed part of the great cotton tradition, which had been led for so many years by the LCA. Taking this moment of weak-

ness, together with my wonderful vice president Fritz Grobien, we started convincing members that the time had come to change the name of our Association from the Liverpool Cotton Association to the International Cotton Association Ltd.

I think today we all agree; this has opened many doors, giving world-wide exposure to our aims and objectives of tradition and safe trading. Additionally, over the years this has given us the introduction of many superb international Presidents, who have led our International Association from strength to strength. May this continue and allow us to embrace cotton spinners as our partners – not the enemy.

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## A Step Forward

**Fritz Grobein,**  
ICA President, 2004/05



In 2002/03, when I became an officer of the LCA, the Association stood at a crossroads; it had to decide which was the best way to move forward. It was apparent that the international cotton trade was in need of one strong regulatory authority to unify the global trade rules in a more and more complex trade environment. The LCA, as an English entity and the leader in this field, had the most international acceptance because the rules were based on English law and the English Arbitration Act. In order to gain international credibility, however, a more internationally focused structure was important. All this had to be documented in a name change. Understandably this was the most difficult hurdle to overcome. In my speech at the ICA dinner in 2005 – the first after the name change - I said, "I feel very honoured to stand in front of you as the first President of the ICA, which has been built on the solid foundations of the Liverpool Cotton Association. There is a saying that people who do not

know where they are coming from do not know where they are going to. This definitely does not apply to the ICA. Change is vital if we want to preserve the past and manage the future." Together, since then, we have taken the global cotton trade another step forward.





## The Dean's Wife



**Peter Wakefield,**  
ICA President, 2005/06

Writing a few words about the ICA during my year as President - easier said than done after ten years! However, it is so good to see that the core values of the Association are unchanged. Not just in the past decade, but over no less than 175 years, which is something about which all members should be proud.

The ICA, first and foremost, is an arbitral body that exists to promote good trading practices. The Rules and Bylaws regulate and manage trade in raw cotton; I believe that very few of our sister commodities have an association that that so truly looks after their members' interests. 10 years ago we did look to strengthen some of those Rules, by removing some of the ambiguity in the methodology of the arbitration system. Revising and improving the Rules is a never-ending process, to keep the arbitration process in tune with Law, reflect innovations in trade and be 'up-to-date', all to support our trade. The new organisation, the ICA Mutual (ICAM) is the latest venture in this direction.

All of those who have held the position of President remain honoured to have been selected by their peers to fulfil that role. The role, once undertaken, never really leaves you and even though it is a decade past since

being in that position, I, like other past Presidents, have the interests of the Association at heart. Times may have changed, systems may have changed, yet the Association remains vibrant.

On a less serious note, and as I think of this year's Dinner, back in St. George's Hall, I remember to this day the moment I was told that the Hall would not be available in my year. My heart sank. Remember, this was in the days before the event moved outside of Liverpool. What was I to do, where could we hold a dinner for so many? This was a worry for a long time. Then, when sitting here in this magnificent St. George's Hall at a preceding event, I had a thought, what about Liverpool Cathedral! I turned to the lady sitting next to me and asked her opinion: would it ever be considered, or even allowed? To my surprise, her reply was, "let me ask my husband, he is the Dean of the Cathedral".....the rest is history. God helped me that day.

In closing, I would like to offer my congratulations to the Association, to the President, the Officers, Directors, Members and the Secretariat. 175 years of a job well done. Roll on the next 175 years.

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## Different Venue, Same Customs



*W L Darneille - 2006-2007*

During my tenure as ICA president in 2007, there were few major market disruptions and little controversy. Our biggest challenge for the ICA dinner that year was that St. George's hall was under renovation, so we had to find another venue that could handle the crowd. The DG made arrangements with the Anglican Cathedral in Liverpool to host the event. The cathedral's people were very cooperative, and the dinner went extremely well. It was the first time spouses had been allowed to join the main

**Wallace Darneille,**  
ICA President, 2006/07

dinner, and we had some other surprises in store, such as music following the speeches.

One of the most charming vignettes of the evening was the interaction between Dame Lorna Muirhead, Lord Lieutenant of Merseyside, and Sarah Jones, the wife of the bishop of the diocese. I was seated between these two ladies at the head table. As dinner was being served, Sarah Jones noticed the waiters pouring wine.

"Oh my goodness!" she exclaimed, "Are they *drinking* in the cathedral?"

I answered, "Yes, Madam, but we have cleared that all with the staff. This is, after all, an Anglican cathedral where wine is served regularly."

"Oh, yes, quite", she replied, though with a somewhat suspicious look.

The dinner was served, and everything was going fine. As is our custom, each table began preparing for the speeches by appointing a captain, defining the time-keeping, and exchanging money as they bet on the length of the after dinner speeches. Sarah Jones looked at me aghast and said, "Oh my goodness! Are they *gambling* in the cathedral?"

Of course, one mustn't lie to the bishop's wife, so I replied, "Yes, Madam, this is a long-held tradition of betting on the length of the after-dinner speeches."

The bishop's wife was shocked, and she turned to Dame Lorna and me and exclaimed, "Goodness gracious! **Drinking** in the cathedral! **Gambling** in the cathedral! **Whatever** will be next!"

At that point, Dame Lorna reached across me and took Sarah's hand gently and smiled, saying, "My dear, perhaps we best not inquire!"

It was a wonderful moment, and the bishop's wife gave a hearty chuckle and relaxed for the rest of a wonderful evening.

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## Memories of the ICE Shark

**Andrew Hursthouse,**  
ICA President, 2007/08



2008 was quite a year for those in the cotton industry and for me as President of the Association.

The shark bit hard on one outstanding cotton company, led to significant changes in the landscape of the industry and reinforced how important sanctity of contract is to all participants. Further, when in due course prices went to over USD 2/lb, the notion that the ICA plays a vital role was reinforced.



I remember trying to convey three specific notions at that time. That the goal of the ICA should be zero arbitrations; that should they have to happen, both the fact and the perception of impartiality and effectiveness in

the arbitration process was important; and the introduction of that term regarding legitimate interests.

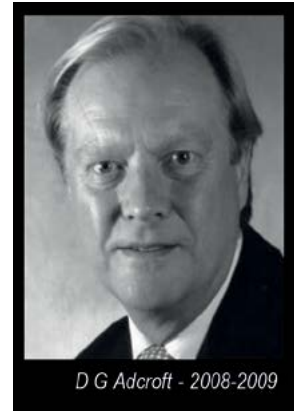
The latter was helpful I think for how it defined eligibility and equality. It did not matter which section of the industry was at the table - if it met that standard, the Association should be seeking to protect their interests. From that can also come a focus on removing any anomalies and loopholes that might allow for apparently unjust outcomes.

It therefore provided a standard around which to consider the rules and actions of those involved in the process. I know that I wanted to make the rules somewhat more mindful of faults in the actions of the parties involved and that this, along with idea of a sole arbitrator process, was difficult to realize. I understand that the goal of no arbitrations is something that still stands as a key reference for further designs and changes.

My congratulations to those that have fulfilled the role of President before and after. What I like now about the Association is a quality of communication in how the message of sanctity of contract is matched by the enthusiasm and projection of the Presidents and the professionalism of the Executive team at the ICA. Having moved to other industries and seen other markets it is a credit to those that stay committed to working in the industry and for its best interests.

Very best wishes to the International Cotton Association at the time of this celebration of its age and encouragement to feel 175 years young!

# Progress in Challenging Times



**David Adcroft,**  
ICA President, 2008/09

As some of you may be aware, the inauguration of the ICA presidency used to begin and finish in December. In my case I was inaugurated in December 2008, some months after the collapse of Lehman Bros., the mass nationalisation of banks, central bank interest rate cuts, the beginning of a worldwide recession and for the cotton market an almost 60.00 c/lb drop from the high of December 2008 futures.

The world was in turmoil after the sub-prime debacle, and the cotton world was on its head, reeling from a market that earlier in the year had not reflected fundamentals. The collateral damage to the cotton merchant community eventually took its toll during my Presidency, with the sad demise of Weil Bros. and Stern Ltd, a company that had existed on both sides of the Atlantic separately and eventually jointly for over 150 years. This led to my First Vice President having to decline taking over the reins after myself, and throwing my Second Vice President in at the deep end rather more quickly than anticipated.

This however did not deter myself and the very recently appointed Managing Director, Kai Hughes, from beginning the broadening of the Association into a truly global organisation. The first step was to hold in March 2009 the Association's first ever Board of Directors meeting outside of Liverpool, in Geneva, Switzerland. This was coupled with an open forum, which was then followed by open forums in China, Tanzania, Brazil and the UK.

The Association also readied itself for what was to become a year of an unprecedented number of defaults, resulting in hundreds of arbitrations at the Association.

So how was it to be President during such a year? Quite simply put: challenging and rewarding at the same time. I was lucky enough to have a boss, a company and a wife and family that supported my role 110 percent, and a superb secretariat at the Association, led by the Managing Director.

Speaking of Kai, I must admit that one of the more memorable occasions during my presidency was not really cotton-related, more golf. The Association holds an annual golf competition, a game I had never played before, but decided to have a go anyway. Very kindly, Kai offered to partner me over the 18 holes, giving me advice on how to hold the irons, stand and swing correctly. Well we were doing alright until we got to the ninth, I was teeing off, struck the ball hard, but it didn't go down the fairway! I launched it at a 90 degree angle straight into my partner's right shin bone. It isn't often you see a former Royal Navy Officer 'hit the deck' so quickly, but this time I did, and within seconds he had a lump as big as a baseball on his shin. Needless to say we didn't continue, but I did get a nice soft plush monkey as the booby prize. I haven't attempted to play golf ever since.

Sorry Kai!



*C D White - 2009-2010*

## Singapore Highlight

**Cliff White,**  
ICA President, 2009/10

Besides the annual dinner event the highlight of my year as President was undoubtedly "Singapore 2010".

We had nearly 500 people attend the event at the Fullerton Hotel and it marked a key moment in the Association's history, when the industry gathered in Asia under the ICA banner. The aim was to provide a unique opportunity for the cotton community in Asia to come together and it was a major success that set the tone for

further international events. It was an amazing event and truly unforgettable.

The one thing I missed out on when I was President was the AGM handover with top hat and tails! I always used to look at those top hats and think about what an investment it would have been for the Association to own those hats and indeed wonder how many heads they would have been on.

## Presentations and Arbitrations



**Antonio Esteve,**  
ICA President, 2011/12

My presidency at the ICA, in 2012, came immediately after the wildest ride in the history of the cotton market. In 2010/11 cotton prices went from 70 cts/lb to over \$2,00/lb and then back to 70 cts/lb. As was to be expected, this extreme volatility generated the most challenging period ever for the ICA's principle of contract sanctity. Over the course of two years close to 500 contracts came up for arbitrations, half of these during my tenure, and as president, my duty of designating chairmen for tribunals was almost a daily task.

The agenda as well was intense, as I participated on behalf of the Association in trips to Vietnam, Thailand, Bangladesh, India and events such as ICAC, China Cotton Conference, Uzbekistan Cotton Conference, ITMF, ACSA USA, ACSA Australia, US Cotton Summit and ANEA. Whew, glad that year was over!!! And it ended on a high note indeed, as I had the honor and the privilege of

presiding over the first ever ICA Cotton Dinner outside of Liverpool, in Hong Kong. The dinner, with approximately 1,100 participants, was a huge success, and was held at the Convention Center in the same room where Britain transferred Hong Kong back to China.

I guess the funniest, if not most awkward thing that happened to me during my presidency, was referring to Ray Butler, my predecessor, as Ray Cook during my acceptance speech!? Funny how the mind works in high pressure situations! I suppose a butler and a cook have a close working relationship, and that's where it came from, but I couldn't immediately figure out who was Ray Cook until my brother reminded me that my first golf putter had been a Ray Cook putter ... oh, that's what it was!!! Once again, my public apologies to Ray, Butler this time, for the mishap! A memorable year and I am honored to have served the ICA.

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## Sleepless Nights

**Ahmed Elbosaty,**  
ICA President, 2012/13



Caught between two revolutions in my home country Egypt, I had sleepless nights full of doubts that I would be able to survive to complete my year as ICA President and hand over the badge to my good friend Mohit Shah. I am glad that we were able to make major steps towards achieving the goals of the ICA by exerting maximum pressure for award enforcement in difficult jurisdictions and further enhance/promote the ICA's value around the world. It was a collective work of ICA staff, Board, and officers. Most importantly, we were able to always capitalize on the wisdom of our predecessors who were always available for guidance and support. Finally, the dinner at the magnificent St. George's Hall in the Hometown of the ICA was nothing less but perfect!



# History and Modernity



**Mohit Shah,**  
ICA President, 2013/14

Being asked to write on the momentous occasion of the International Cotton Association's 175 year celebration of its formation is indeed a great honour and at the same time it is difficult to convey my personal feelings in words.

I have had the unique privilege of being the ICA's first Asian President. To be given the opportunity to lead this great Association and serve its members and the cotton community is a joy and satisfaction that I will fondly cherish through my life.

Every President goes through the challenges of leading the Association during his tenure and I would like to narrate one such incident during my term.

On one trip I took, the ICA delegation was meeting a room full of mill buyers. During the course of the meeting, a prominent buyer, who strangely happened to be a customer of my company of many years standing, suddenly decided to question the rules of the ICA and why his company should become a member, bitterly complaining of the Association as a 'merchants' club'. There was complete silence in the room and a great sense of awkwardness among everyone present. A befitting reply was indeed needed and I very politely turned to him and said:

"Your remarks have been well heard and considered & I have a solution for you. The next time we enter into a contract there will be no ICA rules and no arbitration agreement. This is what you have said and you will have it."

The meeting was concluded. The same evening, during the dinner banquet hosted for us, I met the same gentleman who walked up to me and said:

"Please send me the membership form, as my company would like to become an ICA member."

We had a friendly handshake and enjoyable evening. This incident and its final outcome will be always etched in my memory.

When I take a step back and think, I cannot come up with the name of another association with a legacy and history such as the ICA, which has survived through so many ups & downs and been part of many historic events of the world.

The founding principle of the ICA was to create Rules & Bylaws for the orderly trade of cotton and uphold principles of contract sanctity, and 175 years later this vision

remains intact, with the majority of cotton traded today based on ICA rules. It is truly amazing how the ICA has managed to preserve and grow these principles globally and without any doubt I experienced and lived through those moments when I was President.

My strong belief of the ICA being the premier global cotton association is foremost. Today, the ICA is stronger than ever, robust and vibrant, taking steps in many directions like training, mediation, lab certification programmes and many other important initiatives. This has only been possible with the vision of each serving President, the Board, various committees and the secretariat, who work tirelessly to grow and preserve the Association and the values that are well enshrined in one and all members.

As I said in the beginning, it is difficult to put into words such an occasion; I have a lot to say but would prefer to be brief!

I sincerely take this opportunity to wish the ICA many congratulations on such a grand occasion, a rare milestone, and convey my very best wishes for the future. I look forward to the magnificent celebrations which will unfold in the historic city of Liverpool, the birthplace of the ICA, in October 2016.

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# Shuffling Presidents



Jordan Lea,  
ICA President, 2014/15

I have always had tremendous respect for the history and the reputation of the ICA as well as the role it plays for the world cotton industry, so the opportunity to serve as President was very much an honor but also intimidating. A career change made it necessary to shuffle the order of the First and Second Vice President so I found myself moving into the job more quickly than previously anticipated. I would confess I was looking forward to watching the would-be President very closely as First Vice; when that opportunity was lost my anxiety escalated substantially. This proved to be unwarranted as Past Presidents, the Staff and the Board were all very much there with me every step of the way.

The Managing Director wasted no time as we were in Bangladesh and India within days of the Annual Dinner and facing a somewhat hostile audience as the industry was still reeling from the price volatility of 2011/12 so Kai's steady hand was very helpful. From there things literally never slowed down turning the year into a blur,

until that bittersweet evening where the President hands off the torch to his successor. It is only as President that I came to fully understand and appreciate the passion and the zeal that the membership has for its own Association. So many give so much time to the Board, the committees, to the arbitration process and more. The ICA runs like clockwork but it is no mistake or coincidence; it does so because of the tireless dedication and energy of the staff in Liverpool and the unyielding efforts of a very devoted group of members.

It was indeed more of an honor to serve than I ever anticipated and also a pleasure; it is only unfortunate that by the time I had caught my breath, gotten my legs underneath me and figured out which way was up it was time to hand the medal to Jean-Marc Derossis, a very skilled, seasoned and capable President. In my next life I can only hope to be so lucky as to have the opportunity to be a part of something like the ICA again.



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# 50 Years of the Cotlook A Index



**Ray Butler,**  
Cotlook Limited

50 years ago, our illustrious former editor, the late John Garner, had the inspiration to devise a measure of world cotton prices as a means of indicating the prevailing, typical cotton value. His intention was to hold up a mirror to the cotton world, nothing more than that, and firmly asserted that Cotton Outlook's task was to ensure the mirror is not distorted. We then could not be blamed if people saw more in the reflection than the image projected!

The Index has been used in many ways, since those days, some of which would doubtless have earned John's disapprobation. Indeed, such was his depth of personal concern about what use might be made of the Index, and the implied responsibility placed on his shoulders, that it led to his untimely retirement from the business, on health grounds, in the mid-eighties. He left behind a team, however, that was imbued with his sense of correctness, impartiality and accountability. Hence, notwithstanding the many testing times that have since occurred in the world cotton market, the Cotton Outlook team can be justifiably proud that the Index has been, and remains, in high regard.



Our celebration of 50 years pales by comparison to the ICA's 175<sup>th</sup> Anniversary but it is nonetheless an achievement that we believe to be worthy of note. We are truly grateful to those in the industry, at all levels, that have appeared to be in agreement by sending us their congratulations (these are recorded at [www.cotlook.com](http://www.cotlook.com)).

It goes without saying that our work in compiling the Index depends to a large extent upon trust on the part of those organisations that share with us their information and thoughts. I should say that the group is inclusive; we welcome hearing from anyone engaged in selling or buying raw cotton and would be happy to share market views. To all of our friends, therefore, we say a mighty 'Thank You' for putting your trust in us to respect confidentiality and hope that you will join our small celebration during this year's ICA event in Liverpool.

## Changes through the years

The A Index, initially known as 'The Liverpool A Index' was first established in January 1966 as a weekly value for SM 1-1/16" cotton. Its creator decided that an alternative, independent price measure would assist the cotton market in understanding the development of prices. It was originally based on CIF Liverpool prices (the UK was then still a considerable importer of raw cotton, though its spinning sector was in decline). The Index was constructed from the cheapest six quotations from a basket of twelve. The concept, validated over time, was that by taking an average of the cheaper offers, the Index would reflect the value of the cottons being most widely traded at any time.

In 1972, the Index was calculated on a daily basis, instead of weekly.

The CIF Liverpool basis was changed (in 1974) to CIF Northern Europe, to reflect a much wider range of offers to an industry that was then using over one million tonnes per year. In 1981, the quality parameter was amended to Middling 1-3/32" and the average was changed to the cheapest five from ten constituents. Subsequently, the basket of eligible constituents was allowed to grow, without limit.

In 1988, a 'Dual Index System' was adopted, whereby a 'Forward Index' for the following season is introduced as early as practicable in each calendar year, which displaces the 'Current Index' on August 1.

The momentum given to the shift eastward in manufacturing industry by China's entry to the WTO in 2001 dramatically reduced European cotton consumption and, in consequence, the Index basis was shifted to CFR main Far Eastern ports in 2004.

A further change to take effect from the 2015/16 season concerned the increase in staple length from 1-3/32" to 1-1/8", a move which is reflective of the general increase in the staple length required by today's global spinning sector and is representative of the generality of cottons traded across international borders.



# Timeline

- 1966 - Liverpool A Index, in US cents (27.60 cents per lb) and UK pence, CIF Liverpool, first calculated as a weekly value from the cheapest 6 of 12 growths
- 1967 - A Index published in *Cotton and General Economic Review* (the forerunner to Cotton Outlook)
- 1973 - A Index changed to cheapest 5 from 10. B Index introduced and the collective term 'Cotton Outlook Indices' adopted
- 1973 - First world oil crisis, including OPEC oil embargo. A Index denoted as 'nominal' from November 1973 through to following July, rising from 36.00 to 63.30 cents (monthly averages)
- 1974 - A Index changed from CIF Liverpool to CIF Europe
- 1975 - A Index monthly average rises to a nominal level of 88.80 cents in January
- 1976 - Peak A Index value of 89.15 in July not surpassed thereafter until February 1980
- 1978 - Deng Xiaoping starts economic reforms called "Socialism with Chinese characteristics" in the People's Republic of China
- 1978-84 - China's collectivised agriculture replaced by 'household responsibility system'
- 1980 - A Index briefly exceeds one US dollar per lb
- 1981 - A Index quality basis changed from SM 1-1/16" to Middling 1-3/32"
- 1985 - US stocks-to-use ratio rises to 111.64 percent. (Versus world ratio of 63.2 percent). US abandons role as 'world residual supplier' in 1985 Farm Act and offers to compete 'at any level of world price'
- 1985 - Gorbachev refers to 'Perestroika', culminating in private ownership of services, manufacturing and foreign trade in May 1988
- 1987 - The name 'Cotlook A Index' adopted
- 1988 - Dual Index' system introduced
- 1989 - India introduces Textiles Upgradation Fund
- 1991 - Gorbachev resigns. Break-up of USSR and creation of Commonwealth of Independent States. Independence declared sequentially by the cotton producing states of Kyrgyzstan, Uzbekistan, Tajikistan, Azerbaijan, Turkmenistan and Kazakhstan. Season's average A Index falls from 82.90 cents in 1990/91 to 63.04 in 1991/92 and then to 57.69 in 1992/93
- 1995 - A Index rises to 119.40 US cents per lb and withdrawn before the end of the 1994/95 season
- 1995 - India displaces the USA as the world's second largest raw cotton consumer
- 2001 - China joins the WTO
- 2004 - A Index changed from CIF N. Europe to CFR Far East. North European value renamed as A (NE)
- 2005 - GATT MFA expired. China's rapid export growth leads to separate, temporary US and EU restraints
- 2007 - India's average cotton yield reaches more than double the level recorded at the turn of the century
- 2008 - Commodity markets boom, resulting in a speculative 'bubble'. Futures market turmoil, merchant community struggles in face of high margin calls. Deepening world financial crisis and associated fall in cotton demand.
- 2008 - A (NE) Index discontinued
- 2010 - A Index surpasses one US dollar for only the third time in its 45-year history and the 2009/10 value is withdrawn before the season's end
- 2011 - Persistent demand propels A Index to an unprecedented peak of 243.65 US cents per lb. 2010/11 Index withdrawn in early June. Subsequent demand collapse leaves prices in free fall
- 2012 - Applications for Arbitration to the International Cotton Association reach a peak number of 247
- 2012 - China introduces a 'temporary state procurement plan' to support market prices and defend farmers' incomes. As a result, the state accumulates lint stocks (including imported cotton) by the end of the season of an estimated 4.26 million tonnes
- 2013-14 - China's government holdings rose to 7.3 million tonnes in 2013 and 11.2 million in 2014
- 2013 - The differential between the Cotlook A Index and the higher China Cotton Index (delivered mill China, including once percent import tariff) widened to the equivalent (at its peak in November 2013) of 47 cents per lb
- 2014 - China abandoned state reserve procurements and moved to a Target Price System in Xinjiang, allowing the 'market to set prices'. Imports restricted, leading to a change in focus of international cotton sellers and stagnant world prices
- 2014 - India overtakes China as the world largest cotton producing country
- 2015 - A Index quality basis changed from Middling 1-3/32" to Middling 1-1/8"
- 2016 - Fifty years of the Cotlook A Index

# Deflating the A Index

*This year's fiftieth anniversary of the establishment of the Cotlook A Index allows us to look back at the behaviour of world cotton prices over half a century, a period of major change in the structure of the world cotton market, and in the dynamics of the global economy. The pattern of production, consumption and international trade in raw cotton has shifted constantly during the period, but the price of cotton has remained a perennial concern for both producers and consumers of the fibre.*

*Since its inception in 1966, the fluctuations in the A Index have at times been dramatic. During the past few years, it has reached a high of 243.65 cents per lb, and touched a low of 50.15, extremes that were recorded within a period of just two years. At the time of writing, the Index is situated modestly above its long-term average.*

*All these numbers, however, represent nominal values that take no account of inflation. How can we measure changes in the 'real' value of cotton? Is there a straightforward means of 'deflating' the Index that has meaning for the various actors in our global market? Dr. Stephan Pfaffenzeller, from the University of Liverpool Management School, discusses these issues in the accompanying article.*

## Cotton: real and relative prices

Dr. Stephan Pfaffenzeller  
University of Liverpool Management School

Commodity prices are not commonly seen as an exciting topic. Discussions of detailed topics such as real value adjustments to cotton prices are particularly dull – or so they seem, until one stops to think what depends on them and how different they can look, depending on one's vantage point. The prices of primary commodities have traditionally played a strange role in economics. They are rarely at the forefront of attention where other questions seem consistently more pressing and more exciting. Unemployment, stock market movements and even financial derivatives command attention readily. Commodity prices, in general, and agricultural raw material prices in particular, linger at the fringes of economic analysis most of the time. Most of the time, except when they don't, and on those occasions, their price behaviour is invariably seen as threatening, regardless of the direction in which prices are moving. Rising prices have been seen as harbingers of doom by Thomas Malthus and the Club of Rome; falling commodity prices have been interpreted likewise by Prebisch and Singer.

The importance of dramatic price movements is readily appreciated for oil or food prices. Its pivotal nature is less readily apparent for cotton – this relative obscurity should not lead one to doubt its objective importance though. Cotton obviously plays a key role in textile industries, and these are commonly among the first sectors to initiate a developing country's industrialisation process.

Cotton prices thus matter in different ways from a developing country perspective: as input prices to an early stage industrial activity and as a determinant of export revenue for commodity dependent exporters of raw cotton. It is against this background that the precise definition of the real price concept used becomes important.

Prebisch and Singer in particular based their analysis on a particular interpretation of the real value concept: they concentrated on the purchasing power of developing country commodity exports in terms of manufacturing goods imports to developing countries. Other real price measures aim at tracking constant purchasing power with respect to a domestic reference variable.

In discussing any real price measure, the nominal component of the measure is commonly known and readily defined. Issues surrounding the definition of the nominal variable are normally linked to recording a suitably representative price rather than tracking its real value in terms of purchasing power.

The denominator of the real price variable, by contrast, depends substantially on the assumptions made about the economic context in which the real term adjustment is placed. While a nation-specific price index, like the consumer price index or the retail price index, can provide an appropriate measure of real purchasing power within a given economy at the consumer level, the appropriate choice of adjustment measure is more complex across industrial sectors or at the international level. Yet, international real term measures are in demand for commodity prices.



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One commodity price deflator that has been much used in the literature is the United Nations Manufacturing Unit Value Index (MUV) which is based on the value of leading developed countries' manufacturing exports to developing countries. If a trend for this real price measure is estimated over the 1900-2013 interval for which data are available from the Grilli and Yang data set, a point estimate of -0.007 is obtained for the average rate of change of the real price series in natural logarithms, and this average decline – computed for a highly volatile price series - is not statistically significant. This result then, casts some doubt on the usefulness of a long term trend measure for the time series under discussion. A more substantively relevant question in the present discussion is the adequacy of the real price measure adopted.

The use of the MUV index as a deflator of commodity prices builds on assumed, stylized facts characterising the structure of the world economy. It makes sense to use an index like the MUV to measure the purchasing power of commodity export earnings, if it is assumed that developing countries specialise in commodity exports while industrialised developed countries specialise in the production and export of manufactured goods. For some time, this assumption seemed appropriate. It no longer does.

Manufacturing sector exports are increasingly located in developing countries and emerging markets, while some established and emerging manufacturing powers retain an internationally important presence in the export of raw materials. China, India, the United States, Pakistan and Brazil are the world's largest cotton producers, with the United States, India, Australia, Uzbekistan and Brazil the largest exporters.

Some developing countries have established export specialisations closely related to raw material inputs. Bangladesh, for example has specialised in manufacturing exports which are dominated by textile processing. From 1988 onwards, it has been a net importer of textile yarns and fabrics which are closely related to cotton as a raw material. Under such circumstances, commodity prices can be an indicator of production cost rather than export earnings for a developing country in such a position.

Such concerns complicate the identification of an internationally representative deflator, and may call into question its *a priori* viability. A number of alternative deflators can be considered in its place, even though none of them is guaranteed to define a universally relevant real price measure. To capture a number of relative price movements likely to be relevant to developing and emerging market economies, cotton prices are assessed relative to the following deflator series:

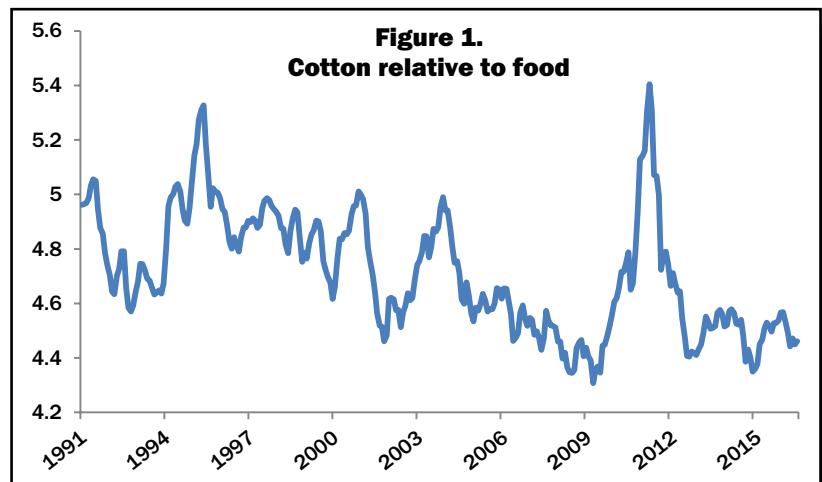
- Food prices
- Crude oil prices
- Industrial input prices

All three deflator indices are supplied as part of the IMF commodity price data on a monthly basis and indexed to their 2005 base year. Monthly data for the Cotlook A Index can likewise be indexed to their 2005 annual average to form part of a real term index series. Real price index series can then be computed as the natural logarithm of the cotton price index divided by the deflator index series.

The real price series representing the cotton price relative to the IMF food price index is illustrated in Figure 1. The real price series is classed as stationary in an augmented Dickey Fuller test, allowing for trend and constant. A deterministic trend estimate indicates an average rate of real price decline of 0.1% over the sample period as a whole. Clearly, the series also shows large deviations from the long run trend as well as an apparent slowdown towards the end of the sample period.

This relative price measure can be of interest to cotton exporting developing countries from a food security perspective in so far as it gives a measure of international purchasing power in this sector. It is readily apparent from Figure 1, for example, that the early twenty first century commodity price boom has not been an era of consistently high cotton prices relative to the food price index in historical perspective. Even where cotton prices remain at historically high levels though, the implied relaxation of the balance of payments constraint marks no more than a necessary but not sufficient condition for an improved domestic food supply, with internal market access as a further potential problem. Further discussion of this topic is well beyond the scope and focus of the present article though, while the alternative deflator measures introduced above are a closely linked area of interest.

The real price measure defined with respect to the IMF's crude oil price index gives a different picture though. A real price definition based on a key fuel commodity is of relevance to economies at any





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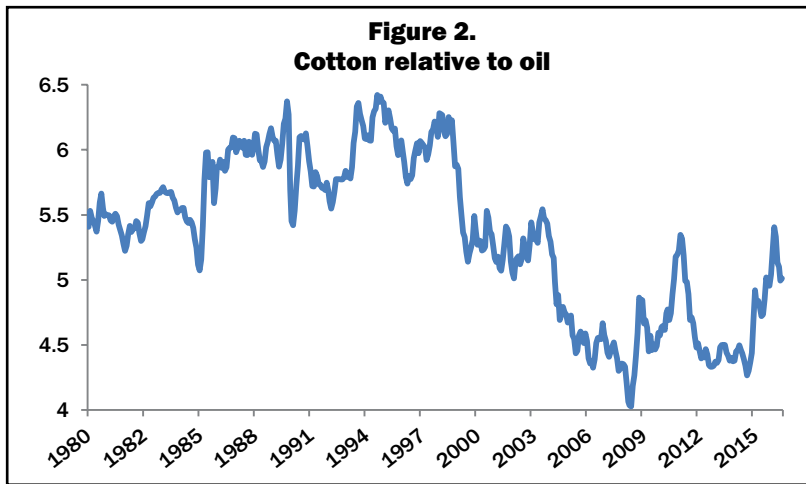
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level of development. Whether a high real price, by this definition, is experienced as a relaxation of the external constraint clearly depends on the relative export and import positions of either commodity. The situation is even more ambiguous where both cotton and fuel are important imports. Thus, while the use of a fuel-based deflator can be seen as a generally useful measure for economies dependent on non-fuel

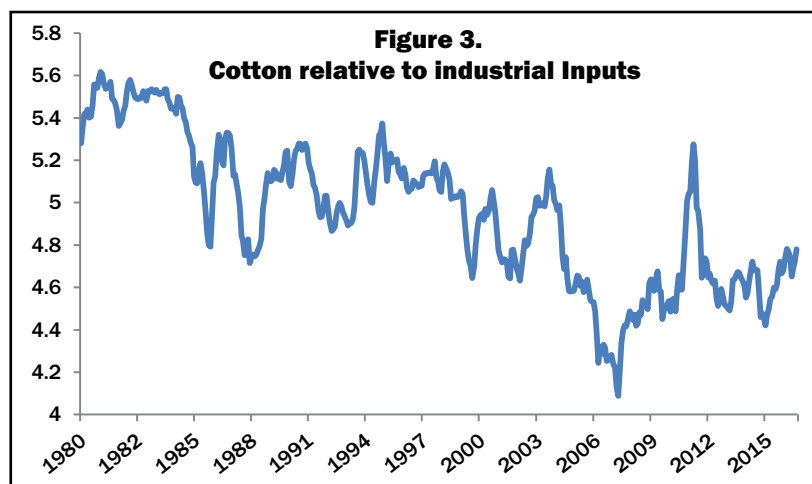
commodity exports, little can be inferred on this basis for emerging markets and developing economies in general. There is also little to be learned from intertemporal price movements. Figure 2 shows that, during the early years in the sample, cotton prices were high relative to oil prices and compared to the later sample period. There is no sign of a clear trend though, and this impression is confirmed by more formal statistical testing: the ADF test does not reject the unit root null hypothesis for the series in levels, and there is no evidence of a significant stochastic trend. A general characterisation could describe this price series as volatile in the short term with some persistence at historically high or low levels at different points in time.

A final real price measure deflates the value of the Cotlook A Index by the IMF industrial inputs index, which is based on a selection of commodities including raw materials and metals prices. The intertemporal trajectory of this index is shown in Figure 3, where the real price series again appears volatile, with a moderate downwards trend for most of the sample period. Particularly low values are reached during the early 21 century commodity price boom in the years prior to 2008. Thereafter, the price of cotton relative to industrial inputs recovers somewhat.

The unit root null hypothesis is rejected when a constant and trend are allowed for under the alternative hypothesis and the deterministic trend estimate indicates an average real price decline of 0.2% per month. It is worth noting though that there are large and protracted deviations from this trend.

The differences observed in the real price measures discussed reflect a general characteristic of primary commodity markets: contrary to assumptions which were commonly made during the post-war years, commodity prices are not generally characterised by uniform movements and this is reflected in the observation that the time series characteristics of different relative commodity price measures differ substantially. Real price measures are ultimately based on some notion of a relative price deemed representative of an exchange relationship of general interest. It is not clear that such a general measure can be consistently defined in the present case.

The importance of a given real price measure depends substantively on the national perspective taken, as well as on the relative economic position and specialisation of the observer. Generally applicable real price measures may well become increasingly confined to defining a benchmark which serves as a reference point for contextually-situated, relative price concepts. Such a development would not amount to a general rejection of globally representative real price measures, but it can set the scene for a more contextually differentiated approach.



**C**otton - one of the strategic segments of Turkmenistan economy. Turkmenistan is one of ten top producers of cotton in the world, approximately each year Turkmenistan produces about 1.1 million tons of cotton. The Great Silk Road exported more than 70.000 tons in 2014 and 57 000 tons in 2015 of cotton for the companies such as: Olam International, Ecom Trading, ICT Cotton Limited, Chalik Cotton, Cargill, Louis Dreyfus Group.

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**Liverpool has always been a shrewd city in which to invest. It's what made us. And we're still at the heart of a thriving North West economy, the second largest in the UK outside London.**

Our financial services sector employs over 35,000 people, with many leading names such as Coutts, Barclays Wealth and Investec choosing to do business here. Our £12bn wealth management industry is the largest outside London.

Shipping put us on the map – and we're still the largest Freeport Zone in the UK: the busiest port for trade with the Americas (and the UK's third largest – and still growing). But we've adapted too, and now, you're as likely to see Liverpool-produced goods leaving the city as imports coming in.

Take our round-the-clock production line at Jaguar/Land Rover, producing the world's most in-demand car, the Evoque. Or our world-class biomedical products, fighting many of the world's most serious diseases: our life sciences and biomanufacturing sector is a member of the 'European Super League' of biotech cities, attracting world class companies such as Novartis, Unilever and Eli Lilly.

Befitting a city that's always looked forward, our creative and digital sector is powering the city's next generation of entrepreneurs and technicians – creating award winning computer games, 3D animation and digital imagery for global brands and the entertainment industry.

And we can do all this because we have a workforce that's skilled, passionate and adaptable. The city has a young population with 15.2% of residents in the 15-24 age group, and our universities have real strength in computer science, engineering and life sciences – with a graduate retention of 44%. As we know, Liverpool is a very hard city to leave.

Liverpool is a great place to do business.

To find out more: [investliverpool.com](http://investliverpool.com)





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