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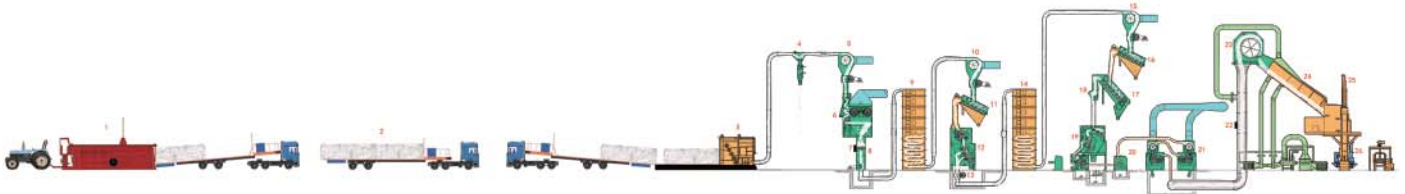
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Return to Dubai

Ray Butler

Managing Director, Cotlook Limited



The International Cotton Association's return to Dubai is different in one major respect from its last visit (in 2011). On this occasion, rather than merely a conference, 2014 sees Dubai host the ICA's Annual Dinner, Annual General Meeting and other official ICA gatherings. The occasion will also witness the handover of presidencies, from India's Mohit Shah to America's Jordan Lea. Jordan is to be applauded for accepting the leadership a year

sooner than anticipated, but as he notes in the responses given to questions from Cotton Outlook, he is not short on experience of leading major associations. He will nevertheless face the challenge of following a hugely successful term of office by his predecessor, who, with the Board and Secretariat's support, has introduced a number of laud-

able initiatives, which Mohit touches on in his brief review of his term of office.

The world cotton market has once again experienced price volatility during the past season, though, thankfully, nothing on the scale of 2011. Nevertheless, it has been sufficient to remind everyone engaged in raw cotton trading of the benefit to be gained from a sound, rule-based trading system, where resort to courts in resolving disputes can be avoided. One step further is to test mediation as a formal offering within the framework of the ICA, something that the ICA Board is currently considering.



Howard Davies, from Cotton Outlook's staff, gives an overview of the advantages that mediation could bring, in the right circumstances.

Bill Ballenden, from Louis Dreyfus Commodities, argues that the imperative is for the cotton trader to get closer to the consuming mill, to understand his customer's needs and to assist them in managing risk.

Many of the difficulties that occur in the pipeline can be ascribed to lack of transparency and understanding and it is clear from the writings of the Association's current officers that education remains at the heart of the ICA's activities. Transparency in the supply chain also has wider potential benefits, and is something that Mark Sumner believes should extend from the farmer to the retailer if cotton is to avoid some of the emotive issues that are sometimes raised by outside observers.

Within cotton, one of the outstanding developments in recent years has been the advance in seed breeding technologies, that have given rise to changes in the lint fibres mechanical properties, particularly in regard to staple length. Alice Robinson, from Cotton Outlook's editorial staff, sets out the reasoning behind our decision to switch from 1-3/32" to 1-1/8" cottons for the purpose of determining the Cotlook A Index with effect from the 2015/16 Index - which will be the second time since the Index's creation in 1966 that this parameter has been increased.

Finally, Kai Hughes, the ICA's redoubtable Managing Director, sketches an overview of



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the ICA's continuing initiatives and concludes by inviting membership participation in shaping the Association's future.

We trust that readers will find the contents of this publication to be of interest, and perhaps thought provoking. We also offer sincere thanks to all companies that have given their support in the form of advertising.



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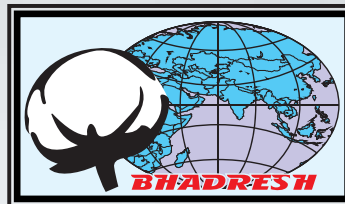
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Reflections on my year as President of the International Cotton Association

Mohit Shah, Director, Gill and Co.
President, ICA

Being the first Asian President of the ICA has been a privilege and I am profoundly grateful to the members and the ICA board for giving me the honour to serve.

When I accepted the role I made a promise to build on the excellent work done by my predecessors to forge ahead with the internationalisation of the association. In February, that promise became a reality when I visited Mumbai to sign and exchange a Memorandum of Understanding with the Cotton Association of India. It was an historic moment for both associations, signalling a commitment to work together and paving the way for a long and sustained relationship between two of the world's most historic and major cotton associations.



Enforcement of awards, effective engagement across the supply chain and reducing the number of defaults remained high on our agenda this year and we have made great inroads in each area.

Working groups

Enforcement working groups are now in place for Bangladesh, China, India, Indonesia, Pakistan, Thailand, Turkey and Vietnam. Thanks to their efforts, we are already seeing positive results. The aim of each group is to help parties enforce ICA awards by providing local knowledge, information and best practice

in specific countries. Their input is proving invaluable and I am confident that this 'joined up' approach will have a major impact on the industry over the coming years.

Our training and events were as popular as ever, providing an effective platform to deliver the safe trading message right across the supply chain. 'Complete Cotton' was another sell-out, we delivered agent training and contracting workshops in India and Pakistan, and 120 delegates took part in the 'China Cotton Trade Training' in Wuxi. I believe it is vital that the cotton community has access to this type of training. I am confident that it contributes greatly towards creating a safer trading environment and that is why we are planning more training in more locations over the coming months.

Our annual trade event this year is being held in Dubai, and the event is always a highlight in the cotton calendar.

Safe, open and transparent trading

The ICA was set up as an association of people epitomizing trust and integrity. Trading with any defaulter completely compromises our principles of contract sanctity and creates incomprehensible injustice. I am pleased to report that our members have voted in new changes to the ICA Bylaws & Rules that will prevent them from trading with firms on our 'advisory notice list'. If they do, they risk being expelled from the Association.

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The list, which has been renamed the 'ICA List of Unfulfilled Awards: Part 2', contains the names of firms that have a proven link with a defaulter. It is the job of our Business Intelligence Team to identify the links and expose the firms that are involved in dishonourable trading, allowing our members to make safer trading choices. Whilst the aim of this change is to stamp out dishonourable trading, we appreciate that some members may have existing contracts with firms that appear on the list or are trying to reach a settlement. This is understandable. All we ask is that they inform us and work with us by being open and transparent about such trades.

There should be no room or tolerance towards anyone who trades with a defaulter. This to me is paramount and it must always remain

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Jordan Lea – incoming President, International Cotton Association



Readers will be aware that a recent switch was made in the order of incoming President of the ICA, and that Jordan Lea accepted an invitation to step forward a year. Ray Butler, our managing director, subsequently took the liberty of asking Jordan a few questions. His responses, which betray a deep insight into the workings and the goals of the Association, are shown below:



Ray Butler: You've had only one year as part of the presidential triumvirate in the ICA. What do you foresee will be your main challenge in taking on the task earlier than planned?

Jordan Lea: I have been fortunate to have had the opportunity to lead other, somewhat similar associations to the ICA, such as the American

Cotton Shippers Association (ACSA), and I am current President of Cotton Council International (CCI). In those circumstances I was also careful to pay a lot of attention to the person doing the job in front of, or ahead of me. That has certainly been the case here with Jean-Marc Derossis, as I was obviously anticipating a different timeline. Nonetheless, many years on the board and heaps of exposure to Mohit Shah and to Ahmed Elbosaty, and to Antonio Esteve before him, have given me plenty of examples and knowledge of what being the President of the ICA requires. The main challenges in taking the task now will be getting to know new Board

members and Association members in the context as President as opposed to 'the next in line'. Time will be at a premium, so an extra effort will be required on my part, not to only fulfill my duties as President, but also to establish and nurture those relationships and I, like all Presidents before me, will need their support, their input and their leadership to ensure that we have a successful year ahead of us. As a presenter at the ICA's Complete Cotton course over the last few years I have had a great opportunity to spend time in Liverpool with ICA staff outside of the hectic days of the annual trade event, which I think will prove to be an asset when faced with challenges.

RB: The ICA has a number of initiatives in progress, ranging from reform of the arbitration system to consideration of offering mediation as an alternative. Which reform do you think is most important and do you have any other specific goals in 2015 about which you can speak now?

JL: As an active arbitrator, I would probably suggest that, to its credit, the ICA arbitration process has always been in a state of reform. In other words, it is constantly and consistently being improved. The Arb/Strat committee as it is known, which refers to the Arbitration and Strategy Committee, is one of the busiest and most active committees we have at the ICA. The recent addition of the Pool of Chairmen (POC) has been a positive step for the ICA, but as is the case with any new bold initiative such as the POC, the effort has to be adjusted here and there to be made exactly what the Asso-



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ciation requires. Mediation will certainly stay on the table for further discussion, but I think some primary goals of mine will be similar to others, including continued and consistent outreach to industry players and participants about the vital role the ICA plays in the future success of the cotton trade. There are still many participants in this industry that trade under ICA Bylaws and Rules yet they don't understand exactly what that means or the rules under which they trade. I hope to be able to continue the efforts of those before me to foster support and an increased understanding of why joining and participating in the ICA is so necessary and vital to all of us.

RB: There is a variety of opinion as regards mediation, especially in regard to 'pre-arbitration' mediation, which could be looked upon as merely another phrase for 'contract renegotiation'. Do you agree with this view? If not, how do you suggest the ICA's proposed mediation offering will avoid the renegotiation pitfall?

JL: I fully understand that there is a variety of opinions around mediation and while that should be expected, it is also a good thing. We want a membership that is fully engaged and paying attention. I do not agree at all that mediation is another term for renegotiation and I would like to explain why. As the arbitration process has matured, the enforceability of an ICA arbitration award, or the opportunity to enforce awards, has evolved also. More and more we see our membership taking awards to foreign court systems, cautiously optimistic that they will be able to actually enforce the award. In many instances one of the first questions asked by the court is, "Has there been an effort at mediation?", or "Is mediation a requirement of your arbitral process?". We have to remember that arbitration is an absolute last resort in a contract dispute and anything that could provide an amicable agreement between two parties to help them avoid arbitration is worth looking at. The definition of mediation is: "intervention in a dispute in order to resolve it". The known synonyms of mediation are as follows: 'arbitration, intervention, conciliation and reconciliation'. The word renegotiation does not appear, nor should it. There is no place for renegotiation in the cotton trade. The precedent of renegotiation cannot be established and I am comfortable that the Board of Directors of the ICA, as well as the membership, will never foster a process that promotes such a thing. Working with mills, merchants and co-ops, as well as others over the last 25 years, I have encountered many that were not knowledgeable about ICA rules or the ICA arbitration process. As a result they were party to an award and found themselves on the List of Unfulfilled Awards ('default list') and as a result the arbitration process was not a resolution but instead the last word. If we can find a way to settle disputes, where the aggrieved party is justly compensated and the corresponding industry participant is not forced underground and faced with circumnavigating the List of Unfulfilled Awards to trade cotton, I think we all will experience and enjoy a more successful, robust and safer trading environment, which is consistent with the ICA's mission. This has to be about being on the same team and while I can't imagine anyone expects mediation to be a pan-

acea, if it helps bring us together during trying times and situations, as opposed to pushing us into opposing corners, I certainly think it is worth exploring. The willingness to evolve and adapt is what has made the ICA the successful beacon of the industry it is today and examining this process is consistent with this Association's history of seeking solutions.

RB: Much progress has been made in developing relationships in China, and recent visits have broadened the Association's visibility in other Asian markets. In which countries would you like to see further efforts made to strengthen the ICA's position, and how would this fit into the ICA's plans in 2015?

JL: Every market is important regardless of its size. The recent success Mohit Shah and Kai Hughes have enjoyed is a great example. As a result of their visit to Korea and their meetings with Dr. Joon Kim and other members of The Spinners and Weavers Association of Korea (SWAK) we have a new member in the ICA as SWAK joined not long after their return. I happened to be in the same markets they were visiting during May of 2014 and the comments

were universally consistent and positive about their visit. While these markets might be smaller than China or Bangladesh, they are still vital markets and the participants there very much appreciated the time and attention of the ICA. While we will of course continue to work in markets where consumption is concentrated and is growing, we need to try, if the resources are available, to make our presence known in as many places as we possibly can. Thailand endured massive flooding and was as affected as any market by price volatility, as the change in the List of Unfulfilled Awards might suggest. Time would be well spent there. Is it premature to visit Myanmar? Possibly not. Japan is still an important cotton trading and consuming outpost. I think it may be time for the ICA to reach more diligently into South America as Brazil, Colombia and Peru are consistent cotton consumers that are all trading under ICA rules. Who knows, is it time for the US textile mill community to look at ICA rules? I think any or all of these could factor into our 2015 plans, but my guess would be look for more effort in SE Asia (Thailand, Vietnam, Indonesia, continued efforts in Taiwan) or South America.

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RB: The ICA membership is increasingly widespread, and diverse, which has of course been a policy goal for some years. However, engaging with the membership must surely become more difficult. In what ways do you as President intend to encourage such engagement?

JL: There is no substitute for being there. Social media has offered us new and different opportunities to communicate with many that used to seem out of reach, but every time the ICA flag is run up a flagpole in a foreign destination those we want to reach often show up. Yes, it requires time and effort and the ICA staff and its leadership team are faced with many responsibilities, but face to face meetings with our diverse and widespread membership is still the most successful effort we can make. The ICA has done a fantastic job at making Bylaws and Rules available in more and more languages each year. Enabling the same will reap generous rewards, as will efforts to make all of our electronic media available in many languages. I had the opportunity in June to spend the day with about 40 students at the ACSA cotton school in Memphis speaking to them about the ICA. The response was overwhelming, as almost every student was familiar with the ICA, but had questions about situations in their market or with an individual customer and how it might relate to the ICA. One West African student spoke good English, but found reading the rules challenging. I was able to take him to the website and show him the rules in French. I was able to do the same with the daughter of a Chinese mill owner from the Shandong province. While these were not necessarily members of the ICA, they are trading with our membership and it showed me that anything I can do as President or that we can do as an Association to make ourselves available to our membership will reap handsome awards.

RB: Some people hold the view that the ICA's Annual Dinner should alternate between Liverpool and an overseas location. Have you decided yet where you would like next year's Annual Dinner to be held and, if so, where?

JL: I have not yet decided where I would like to hold next year's trade event. Every option has its pluses and minuses. As

someone from the United States and with there being many of our largest members based here in the US, I am keeping that option open. The West Coast of the United States has some spots that would suit the ICA well, such as San Francisco. I love New York City and the potential host of a world contract, The InterContinental Exchange is based there. The event has never been in the US, we are the world's largest exporter and I would be very proud to bring it here to the US. That said, the event in Hong Kong hosted by Antonio Esteve was enormously successful and an event in Asia would be consistent with our efforts to broaden our visibility in Asian markets. Certain cities in Asia and cities like New York though are very expensive and it has to be about what is best for the ICA. When I joined the Association it was the Liverpool Cotton Association not the ICA and it was the 'Liverpool Dinner' not the 'Annual Trade Event'. Liverpool is a very important part of our identity and that should be respected. I have a strong connection to Liverpool and feel that our trade event should revisit Liverpool when the President and other ICA leadership sees

that it is in the best interest of the Association, whether that be every other year or possibly less often. Not to mention my 10 year old son is a huge fan of Liverpool football club and he has never been to Anfield. I look forward though to sharing with the membership a destination as soon as possible and am always open to ideas.

RB: Would you like to make any other comments for the benefit of readers, as regards your forthcoming year as President?

JL: It is, needless to say, an honor and privilege not only to be involved with the ICA, but also a member of its leadership team. I think everyone should look forward to an exciting year that will include many initiatives mentioned above, as well as continued efforts in delivering our 'Agent Training', another sold out 'Complete Cotton' course, increased improvements in engagement and communications and stringent efforts by the ICA to reduce the number of firms on the List of Unfilled Awards, as we work to increase enforceability and help the ICA membership resolve disputes both new and old.



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Mediation from a business perspective

Howard Davies, Cotton Outlook



Mediation has become a new buzz word as a way to facilitate dispute resolution. However, it has been around since before Solomon and is a form of alternative dispute resolution, used to settle disputes when two contracting parties are unable to settle a disagreement between them. In order to reach an amicable voluntary agreement the process of mediation is applied, and the role of the mediator is to assist with the dispute resolution.

Mediator

When two companies agree to use mediation, a neutral third party individual will work with the two parties in dispute in order to reach a 'meeting of minds' or 'compromise' and draft a settlement agreement which details the terms of the resolution. This independent third party is known as the mediator and is jointly selected by the parties in dispute to aid a settlement of the differences raised between them. The mutually selected mediator does not need to be a lawyer, but is often experienced in the field(s) in which the parties are claiming there is a dispute. In the case of the cotton business, the mediator will probably be a senior figure in the trade or possibly an arbitrator wearing a mediator's hat. The mediator will conduct a hearing or hearings and go back and forth between the parties with exchanges or proposals, in order to reach a resolution that will be written in an agreement. It will be recalled that



litigation is the process of appointing lawyers and proceeding to court in order to resolve a dispute. Arbitration utilises neutral third party arbitrators to settle disputes, while mediation does not use the courts or lawyers and is therefore a much quicker and more cost effective process.

Advantages of mediation

From a business perspective, there are a number of advantages to the mediation procedure, as the parties have a greater control over the final resolution. Inevitably, there will be an element of give and take before a consensus is reached. However, the remedy hinges on the fact that the parties really want to



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reach a settlement and put their trust in the mediation process to bring about an amicable solution. Ideally, mediation will be used at the early stages of a dispute, but can be invoked at any time. Therefore, mediation generally has a high success rate, as the parties are willing participants and not conducting proceedings in a frivolous or obstructive manner. A mediator can help the parties think through the consequences of not settling the problem amicably and the likely consequences of litigation further down the road. The settlement document will be a confidential document (much like an arbitration award, but unlike a legal case, which becomes precedent), with the details of agreement kept private between the parties. It will not be published, become a precedent or be accessible to competition (unless otherwise agreed by both parties). In helping the parties focus on the real issues, mediation can save time, even if it does in fact become the first step toward other legal remedies. Mediation is a voluntary, flexible, quick and cheaper form of resolution that is not bound by the laws of evidence, legal issues or procedures which may result in delays. A mediator will allow parties to approach the problem in a less confrontational and more informal manner, compared with litigation or arbitration, and to look behind the curtain at the relevant aspects of the dispute - legal representation is not necessary. The prospect of a quick settlement means that businesses will eventually devote less time and resources to the problem, with less impact on the normal day-to-day running of the company. Because the whole process is really non-adversarial there is not the same commercial animosity that is created by legal action; business can continue as usual, while a solution is being discussed.

The settlement agreement

A mediator does not impose a judgement, but will help the parties to arrive at a mutually acceptable compromise which they may choose to make legally binding or not. This private document will have time scales for implementation and it is thought that in many cases businesses receive monies owed much quicker than when directed through court proceedings. The costs of mediation are usually shared by the parties. This could be an agreed upfront fee, bearing in mind if the route of litigation had been taken by both parties it would have

resulted in costs for the claimant and respondent covering their respective legal teams and court costs. Similarly, arbitration costs could have been higher, with a three party panel of arbitrators and costly arbitration ICA stamp duty.

Will it work?

The secret of a successful mediation is co-operation between the parties that are party to the dispute. They must start with the intention of reaching an agreement. If the parties approach the problem in an intransigent or uncompromising manner, then mediation is not going to be the best route. If one party is unyielding with their interpretation of the facts under question, then mediation is not going to work and a different resolution avenue will have to be taken, such as through arbitration or the courts. Both parties must be open to shifting their stance and through the help of the mediator and negotiation, move to find some middle ground, during the mediation process.

Looking at disagreements in the cotton business, much emphasis has been placed on arbitration though the International Cotton Association Limited (provided a contract has incorporated their Bylaws and Rules). If parties have approached arbitration voluntarily, then mediation could be an alternative remedy. However, if one party intends to ignore the arbitration process and has had compulsory representation appointed for them, it is unlikely that mediation is the right path to take, and will stumble from the outset. That being said, with the agreement of both parties, the sort of contract issues that may be resolved could include different interpretations of contract terms, conditions, obligations or even the close out of a contract as the parties may acknowledge that a contract needs to be invoiced back, but just have different ideas of a breach date or market price, which may be agreed with the guidance of a third party mediator.

It must be emphasised that to achieve an agreeable result the parties have to be open to looking for a solution. It could be a minor or major dispute, with small or big values at stake, but a meeting under the direction of a mediator may just be the forum to clear the air and result in a mutually accepted settlement.

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The merchant's role in a region dominated by consumption

Bill Ballenden

Louis Dreyfus Commodities, Head of cotton for Europe, Black Sea and Asia

The merchant's role in a region dominated by consumption

If we look at the cotton world then the last few years have shown us that consumption overall has suffered a setback, driven of course by a surge in prices that encouraged many consumers to change their cotton/MMF blend away from cotton. However, that downward trend in consumption masks an interesting juxtaposition: that of the rise of consumption outside China. The 'hangover' of the China cotton policy continues to have an effect on the Asian spinning market.



Merchants had spent the previous several years increasingly focused on building businesses that had China playing a dominant role, at the expense of business development elsewhere. While China continues to be the world's powerhouse consumer, the fact of the matter is that Chinese consumption has been falling year-on-year while countries such as Pakistan, India, Bangladesh, Indonesia and Vietnam have been steadily increasing consumption. How does this affect a merchant's sales strategy after so many years of Chinese growth?

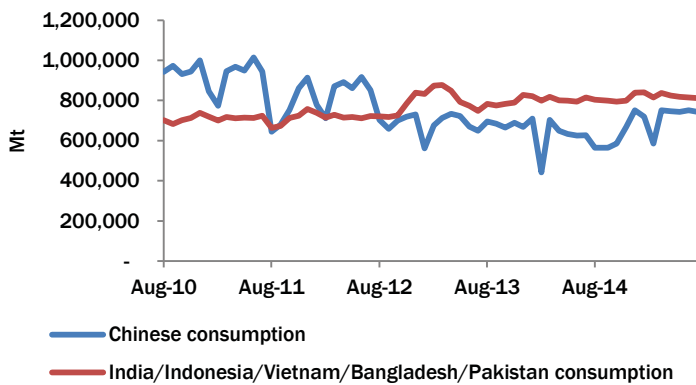
The answer may be an obvious one, but that does not make it easy.

Firstly, the merchant should understand their role in the consuming market. Along with

the growth of the internet has come the ability to shrink the world and allow consumers and producers to find each other, if they so wish. And yet, most consumers will prefer to buy their raw cotton through a merchant. The primary reason for this is trust. A good merchant will have spent years building a supply chain that is both efficient and reliable, and will treat sanctity of contract as an absolute foundation of good business practice. Merchants will also target mills that have the same sense of contract sanctity. Not all merchants have the same reputation in every destination and it is therefore important for the merchant to invest time and money in building trust in each and every one. Given that many merchants are selling outside of their home markets, this has traditionally involved extensive travel. However, more and more, merchants are opening offices either in or close to these consuming hubs in order to better understand the local idiosyncrasies. The future is a sales team who know the mills and visit the markets monthly rather than annually, or perhaps are based locally. Only then can a merchant say that they have really gone the extra mile to build trust in a local consuming market. Having that trust and understanding with the mill community is paramount in building the supply chain.

Each consuming market has its own character and requirements. It would not be fair to say that the reasons for success in China are also the perfect recipe for success in Vietnam or Bangladesh. It is therefore of utmost importance that the agent or marketers that

Chinese consumption compared to other main Asian countries' consumption



make the sales for the merchant are from the same locality or community as the customer. Terms and expectations differ enormously, for instance, between Southern India and Korea, or between Pakistan and Indonesia. If the merchant cannot talk to a mill in a manner that makes sense locally, they are not going to get the bid, let alone make the sale. The merchant must understand the needs of each mill in order to satisfy their requirements fully.

This leads into something for which the merchant community is often criticized, which is prompt communication and execution. If the merchant gets the local representation right, there should not be a communications breakdown. And if the merchant has built local trust, then it must be on the back of a history of reliable and professional execution. Sometimes making the actual sale is the easy part. The true test comes in the service and execution element. As the cotton world changes, service is something that has become the buzz word for the consumer. Service can come at a price. Buying the cheapest price may mean you get the cheapest service. Merchants must focus on the service element of their business today. Therein lies a lesson for all consuming markets to trade with suppliers they both know and trust, and with whom they can communicate efficiently. Once again, this trust and communication is more and more to be founded on regular visits, local knowledge and good representation. It is

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not good enough to turn up once a year from Europe or the US.

As these consuming markets grow, the merchant must adapt and gain intimate local knowledge, and get closer to the customer to understand their needs.

But the change does not stop there. As the merchant gets to know the customer (generally a mill) better, the conversation matures and becomes more than just a discussion over price and terms. The relationship starts to go deeper and the merchant is now being asked to help manage risk. This requires a degree of trust that goes beyond anything mentioned above. Risk can take on many forms; it can be that the mill does not want to risk finding suppliers that do not have a proven track record, that the mill wishes to manage inventory and finance, or it can simply be that the mill wants to know what the merchant believes price direction will be. If a mill should require this type of service, they must choose to trade with a merchant who is a proven and tested risk manager. To allow the relationship between mill and merchant to

take such a direction, each party must already have built a very deep trust - and must believe that this trust will stand the test of time. Sound a bit like the difference between dating and marriage? That is a fair analogy. When a merchant is asked to commit so much of their proprietary knowledge or financial acumen, the response will not be given lightly.

So the merchant has to get closer to the consuming market, but also be prepared to redefine their relationship with the customer, once that proximity bears fruit. All of this requires significant investment. Getting close to a customer does not happen overnight. The new growth markets might be huddled into a couple of distinct clusters, but they are still geographically far apart and culturally and linguistically different. However, in standing still we move backwards, so there is no choice but to make the leap forward and build businesses that better understand these markets, bring the merchant closer to the individual needs of their buyer, and build local teams and representation who can translate these needs into profitable business decisions for both parties.

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Guilt Free Shopping

Dr. Mark Sumner,

Sustainability; Retail & Fashion School of Design, University of Leeds



Over the past few years we have started to see a subtle but definite change in the way the apparel industry is managing itself. In particular there is a growing number of proactive, and some would describe responsible, retailers and clothing brands developing a new type of business strategy; strategies that are long term investments for the future which involve a great deal of collaboration with their competitors. The impetus for this significant investment and not to mention the unusually high level of collaboration between rival companies has been the recognition that these brands believe the industry should and must improve its sustainability credentials to ensure the long term viability of the industry.

But what is driving these brands, who are normally so competitive, to sit in the each other's offices to discuss the toxicological impacts of the dyeing process, deforestation issues associated with leather production, animal rights for angora rabbits and of course the long term sustainability of cotton cultivation? There are many answers to this question; collaboration is needed to create critical mass within the mass market, collaboration is needed to pool knowledge, collaboration is needed to leverage action within the supply chain. There are many other reasons why these brands are working together to progress the sustainability agenda, but the one fundamental motivation driving these brands is their customers. Let's be clear that the driver for greater sustainability is not a result of customers asking brands to be more sustainable, in fact, recent research has shown

it is more likely that consumers are totally ambivalent to the complexity of sustainable fashion.

What is more important to the consumer is enjoying their shopping experience. For many consumers, especially those in the developed nations and middle classes, shopping is not done out of necessity. In the majority of cases they are shopping for pleasure. In modern societies around the world fashion and shopping for clothes is a pastime, a way of enjoying the company of friends, an experience to savour. This is why stores and shopping malls around the world are becoming more and more like theatre, like theme parks for a thrilling shopping experience.

But how can a consumer enjoy their shopping experience if they are being told the clothes they are buying may contain harmful chemicals that cause skin irritation or worse, long term health issues, or the garment is made of wool from a sheep that was mutilated and beaten during shearing, or the cotton was picked by children who were forced out of school by their government. Information like this makes shoppers feel guilty, and drives them away from brands that may be associated with these problems. One major US brand received 200,000 twitter attacks from its own customers within days of the brand being allegedly associated with a supplier polluting rivers in China.

There are a number of long term factors driving brands to work so hard to deliver their sustainability strategies, but one of the fun-



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damental motivations is to deliver a guilt free shopping experience for customers. Companies know consumers will show loyalty to their brand if they can continually deliver that experience.

So what does this mean for the cotton industry; is the guilt free shopping experience a problem that the retailer community have to resolve and cotton growers, traders and processors can ignore? Does the responsibility lie only with the brands, so garment factories, dyehouses, fabric mills, spinners, ginners, fibre manufacturers and the cotton farmers can operate in isolation of consumer demand?

To answer these questions it might be interesting to consider what has happened in other fibre markets, where recent events have shaped the future directions of these markets and have started to alter the way in which the supply chain interacts with brands and ultimately the consumer.

Between 2005 and 2010 there was a concerted campaign by a number of NGOs and animal rights charities against the wool industry, regarding the issues of live transportation of sheep and the management of blowfly. As the campaign developed, its scope expanded and retailers and brands were attacked for their use of wool, attacks which involved media stories and demonstrations outside stores. At the time it was virtually impossible for the brands to know if the wool they were using was associated with these issues; there was a complete lack of transparency through the wool supply chain. For some brands the only way to protect their reputation, and provide their consumers with the guilt free shopping experience they wanted was to ban the use of wool.

In 2012, a number of brands were under pressure from campaigners who believed they had found a link between force feeding geese for foie gras production and the use of feather in outerwear and fillings for bedding.



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Part of their tactics was to use YouTube clips to show consumers what force feeding looked like and the impact it had on the animal's welfare. Although the supply of feather from foie gras production is a very small proportion of the overall feather market, the problem for the brands was they couldn't prove where they were getting their feathers from; there was a high degree of opaqueness in the supply chain. They just couldn't be certain if their products were associated with foie gras production.

More recently, quite horrific images showing how angora rabbits in a Chinese rabbit farm were being 'de-haired' were brought to the public's attention early this year. The images had an immediate negative impact on consumers' impressions of the angora industry. Again, the problem for brands was they didn't have the visibility through the supply chain to prove they were not using angora from this farm. So their only option was to ban the use of angora permanently from all their products. Only time will tell what impact this will have on the angora fibre market.

But what has this got to do with cotton and the multi-billion dollar businesses involved in growing and trading this white fibre?

It is well recognised that growing cotton in a responsible manner can mitigate many of the sustainability challenges facing the industry. Many of the social, environmental and ethical problems that have been associated with cotton (and other agricultural cash crops including coffee and tea), can be avoided through the use of well managed programmes, such as BCI to name just one, where farmers are supported and encouraged to use best practices for cotton cultivation. Interestingly a number of international traders are working closely with retailers, brands, NGOs and civil societies to facilitate and support such programmes to improve the long term sustainability of cotton.

However, there is still a considerable proportion of cotton production around the world that is considered by NGOs, the media and consumers to be unacceptable. Social issues are high on the list of challenges faced by cotton agriculture; problems such as child labour, bonded labour, gender inequality, lack of suitable health and safety provision, not to mention poor pay for farmers and their families. The environmental impacts of cotton cultivation often have local as well as global repercussions. The problems associated with water scarcity and the use of irrigation, the degradation of soil health and biodiversity and the indiscriminate use of pesticide still affect cotton cultivation in many parts of the world.

And because these areas of poor practice still exist we should expect in the near future the cotton industry to be attacked in the same way the wool, feather and angora industries have been attacked. But for cotton the story won't be about animals, for cotton the story will be about people, families and children, which for most consumers is a much more emotive subject. How will retailers and brands respond to these attacks?

The response will be determined by whether brands can prove to their consumers that the cotton they are using is 'better' cotton, that the cotton in their products is grown in a way that mini-



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mises environmental impacts, and has come from farms and projects where the farmers and their families are empowered and the cotton trade is supporting and strengthening the local communities. The only way that brands can do this is to work with supply chains that are transparent.

Transparency is defined as something that is easy to see through, understand and recognise. Brands need transparent supply chains so they have the ability to see and understand where their cotton comes from, so they can recognise cotton that has been grown in a 'better' way and avoid cotton that is associated with bad practices. By working with transparent supply chains, brands can provide consumers with the

reassurance they need to be able to enjoy their shopping experience.

Much good work has been done by clothing brands and retailers, and in particular by their suppliers in tackling some of the biggest issues the industry is facing. Alliances across the industry and through the supply chain have resulted in great progress with many excellent examples of best practice, with the cotton industry leading the way in many aspects of sustainability. However, the problem is how to demonstrate that to the outside world, the media, the NGOs and the consumer. In the complex apparel business, where global supply chains operate across many borders and where fashion is becoming blurringly fast, how can

brands provide the guilt free shopping experience that the consumer wants? Transparency is part of the solution, but to achieve the level of transparency required needs a shift in thinking throughout the supply chain. Only when the benefits of transparency have been embraced by the whole chain, from the brand to the supplier, to the trader and to the farmer, can the transformation happen. And maybe as a result of this transformation, consumers of the future will enjoy the experience of exploring these transparent supply chains to see where their cotton has come from?

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World Cotton Market

Ray Butler

Managing Director, Cotlook Limited



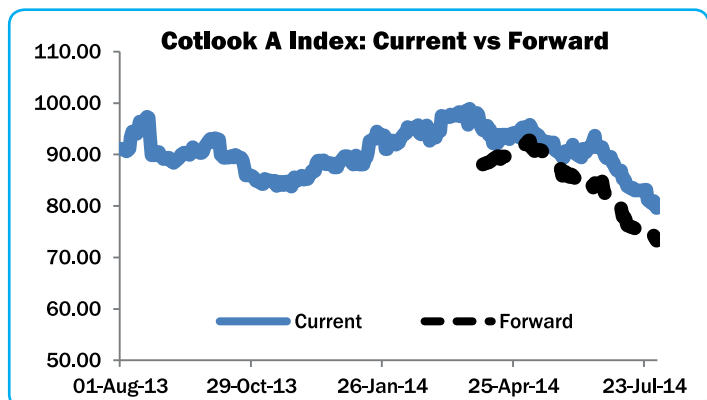
A year ago, it was evident that cotton prices had stayed remarkably firm, given that the effect of China's various policy decisions had been to absorb the global surpluses that might otherwise have weighed on international prices, and that a new regime was in prospect for the 2014/15 season.

That new regime is now upon us. Whilst at the time of writing, not all details were known, China's government has made clear that it will no longer establish a floor price as it switches to a system of target price and direct subsidies to producers. Meanwhile, despite lowering the auction base price for state reserve cotton, price expectations in the internal market have declined much further, influenced partly by downward movement in international values. In late July, therefore, China's government was still controlling something in excess of 11 million tonnes of accumulated reserves and by the end of the month, the estimated total stock in China (government, commercial and industrial stocks) was estimated to be more than 12.3 million tonnes, or 72 percent more than the amount of mill consumption in the 2013/14 season.

The aim of the policy change would seem to be to allow the internal market to function in 2014/15, with farmers afforded price protection through subsidies

and the state playing no direct role in removing market surpluses during the harvest period (though state trading enterprises may well be encouraged to do the job instead). Among China's other principal macro levers, control of import quota allocations remains in place and there is no certainty (apart from China's annual WTO commitment) as to what volumes will be permitted during the course of the season ahead. Cotton Outlook has taken the view, so far at least, that China's cotton imports will dip sharply for a second successive season.

Hence, unlike the past three seasons, during which additions to global stocks were located principally in China, as a result of Beijing's policy, the outlook in 2014/15 would seem to be for stocks to increase principally in the rest of the world. The effect on the price outlook has already been self-evident. As 2013/14 progressed, it rapidly became clear that the forthcoming change of season would bring with it a significant, downward adjustment in world prices. The differential between the Cotlook 2013/14 and 2014/15 A Indices, when the latter



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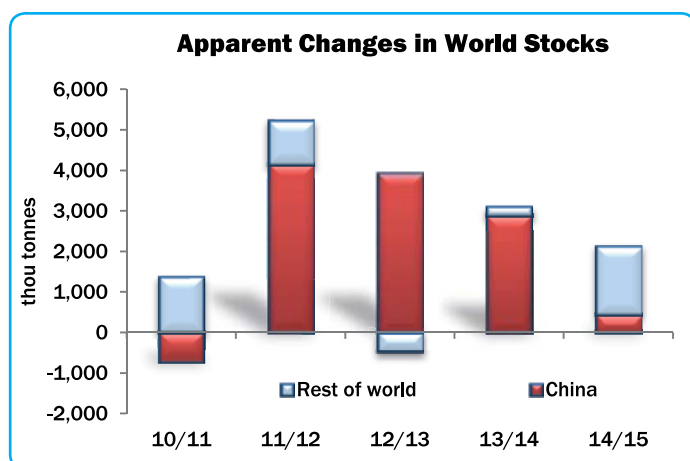
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was first calculated in early April this year, was 6.65 US cents per lb. Anyone wanting to buy cotton that would arrive in the mill at final destination after the late summer, therefore, was generally unwilling to pay prices related to 2013/14 crop values. The differential reached a peak of 9.55 cents during mid-June, after which prices, both nearby and forward, began to fall.

That decline was predicated on changing views as to crop prospects, particularly those in the United States. Texas, the US's largest producing state, is reliant on the receipt of rainfall. Persisting drought had led to large-scale abandonment of cotton after planting, as crops perished, in the preceding couple of years. In 2014, however, rainfall has been abundant, and though more is probably needed before the crop is fully made, some producers in the region anticipate bumper yields. The USDA, which predicted during the late spring a US crop of slightly over 3.15 million tonnes, revised that figure in August to over 3.8 million tonnes.



A not dissimilar scenario has unfolded in India. This year's Southwest Monsoon, on which much of the country's agriculture is dependent, proved slow in arriving and only covered the country in its entirety in early July. The prospect of a sharply reduced Indian output quickly diminished; indeed, some observers contend that the area planted to cotton in some regions will have increased, since the optimum planting period for certain other crops had passed by the time abundant rainfall arrived. At the time of writing, private crop forecasts were generally increasing, some of them to record levels.

An abundant global supply signals a continuation of downward pressure on prices, unless, that is, cotton consumption recovers more strongly than of late, something which is not

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yet readily discernible but which some estimates (such as those by the USDA and the International Cotton Advisory Committee) believe will result from cotton's increased competitiveness with the man-made fibres - specifically, polyester.

In China, polyester staple prices in mid-August were typically some six percent lower than a year earlier. The China Cotton Index was about 11 percent lower but forward prices on the Zhengzhou cotton futures market and the China National Cotton Exchange showed substantial, progressive discounts through into next year's delivery months, suggesting that cotton lint supplies will continue to cheapen as the months progress.

Lower market prices could of course place cotton as a less attractive choice of crop for farmers in the next round of planting. This development is already evident in Southern Hemisphere producing countries, notably Australia, whose farmers are scaling back their planting intentions for later this year. These crops, however, will not be available until the second half of 2015, and the impact of the reductions on price nearby is therefore muted.

A more urgent consideration for the market is the probable lateness of the current crops in the United States and India (and, also, in Xinjiang), which points to there perhaps being a tight supply of high grades prior to the bulk availability for shipment of the Northern Hemisphere new crops, late in the fourth quarter and in early 2015. Those who have been in a position to market their new crop supplies early, therefore, might have gained a short-term advantage over those whose crops have been delayed.



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Cotlook's Production Estimates

as at September 4, 2014

	2011/2012 Crop			2012/2013 Crop			2013/2014 Crop			2014/2015 Crop		
	Estimated			Estimated			Estimated			Estimated		
	Hectares thousands	Tonnes	Yield (kg/ha)	Hectares thousands	Tonnes	Yield (kg/ha)	Hectares thousands	Tonnes	Yield (kg/ha)	Hectares thousands	Tonnes	Yield (kg/ha)
Argentina	325	150	462	550	280	509	550	280	509	480	250	521
Australia	66	132	2,000	590	898	1,522	420	885	2,108	275	525	1,909
Azerbaijan	70	35	496	32	14	438	23	15	652	23	15	652
Benin	300	125	417	150	60	400	250	120	480	250	125	500
Brazil	1,077	1,600	1,486	1,400	1,960	1,400	1,120	1,700	1,518	990	1,500	1,515
Burkina Faso	440	150	341	375	140	373	550	270	491	575	275	478
Cameroon	138	46	333	143	55	385	220	100	455	220	110	500
Chad	203	50	246	105	20	190	230	35	152	250	40	160
China	5,877	8,050	1,370	5,135	6,700	1,305	4,708	7,020	1,491	4,041	6,360	1,574
Colombia	43	27	641	39	32	824	44	30	682	45	35	778
Côte d'Ivoire	170	52	308	214	75	350	350	165	471	375	175	467
Egypt	246	226	919	157	131	832	122	98	800	158	126	801
Greece	345	290	841	230	170	739	234	300	1,282	280	295	1,054
India	9,414	5,355	569	10,910	5,865	538	11,727	6,715	573	12,250	6,630	541
Iran	119	65	547	90	70	778	110	70	636	105	65	619
Israel	11	19	1,682	4	7	1,748	6	11	1,833	6	12	1,905
Kazakhstan	195	120	615	133	60	451	140	74	524	129	70	543
Kyrgyzstan	35	31	885	26	22	863	27	23	839	27	21	766
Malawi	70	29	407	84	16	190	95	17	179	100	22	220
Mali	313	105	336	240	95	398	500	200	400	530	210	396
Mexico	111	141	1,269	116	157	1,357	130	201	1,546	177	260	1,469
Nigeria	395	98	248	250	103	412	290	38	131	300	50	167
Pakistan	3,007	1,921	639	3,115	1,915	615	2,975	2,065	694	2,950	2,150	729
Paraguay	60	21	350	25	12	480	15	6	400	15	6	400
Peru	74	56	757	33	25	750	45	35	778	45	37	822
South Africa	10	10	971	17	18	1,050	11	10	917	14	11	786
Spain	64	42	660	64	45	709	60	51	842	74	74	1,000
Sudan	52	23	442	41	11	277	55	10	182	55	10	182
Syria	193	250	1,295	172	160	930	120	120	1,000	79	60	758
Tajikistan	255	130	510	160	88	547	190	100	526	175	92	526
Tanzania	400	67	168	348	55	158	380	70	184	370	65	176
Togo	90	23	256	47	14	295	130	30	231	130	40	308
Turkey	625	675	1,080	380	450	1,184	450	480	1,067	570	650	1,140
Turkmenistan	535	290	542	550	362	658	550	340	618	545	330	606
Uganda	96	12	125	80	27	338	52	20	383	65	30	462
USA	4,245	4,182	985	4,330	3,942	910	3,100	2,811	907	4,183	3,811	911
Uzbekistan	1,450	1,206	831	1,350	908	673	1,286	885	688	1,286	880	685
Zambia	300	40	133	250	57	229	290	48	164	290	50	172
Zimbabwe	380	92	242	450	110	244	300	70	233	415	95	229
Others							919	282		949	312	
World Total	32,848	26,208	798	33,383	25,408	761	32,774	25,798	787	33,796	25,873	766
World excl China	26,971	18,158	673	28,249	18,708	662	28,066	18,778	669	29,755	19,513	656
N Hemisphere	29,699	23,917	805	29,337	21,887	746	29,256	22,575	772	30,515	23,203	760
S Hemisphere	3,149	2,291	727	4,047	3,521	870	3,519	3,223	916	3,281	2,670	814
African Fr. Zne	1,722	576	335	1,330	480	361	2,293	939	410	2,393	996	416
Central Asia	2,470	1,776	719	2,219	1,440	649	2,193	1,422	648	2,162	1,393	644

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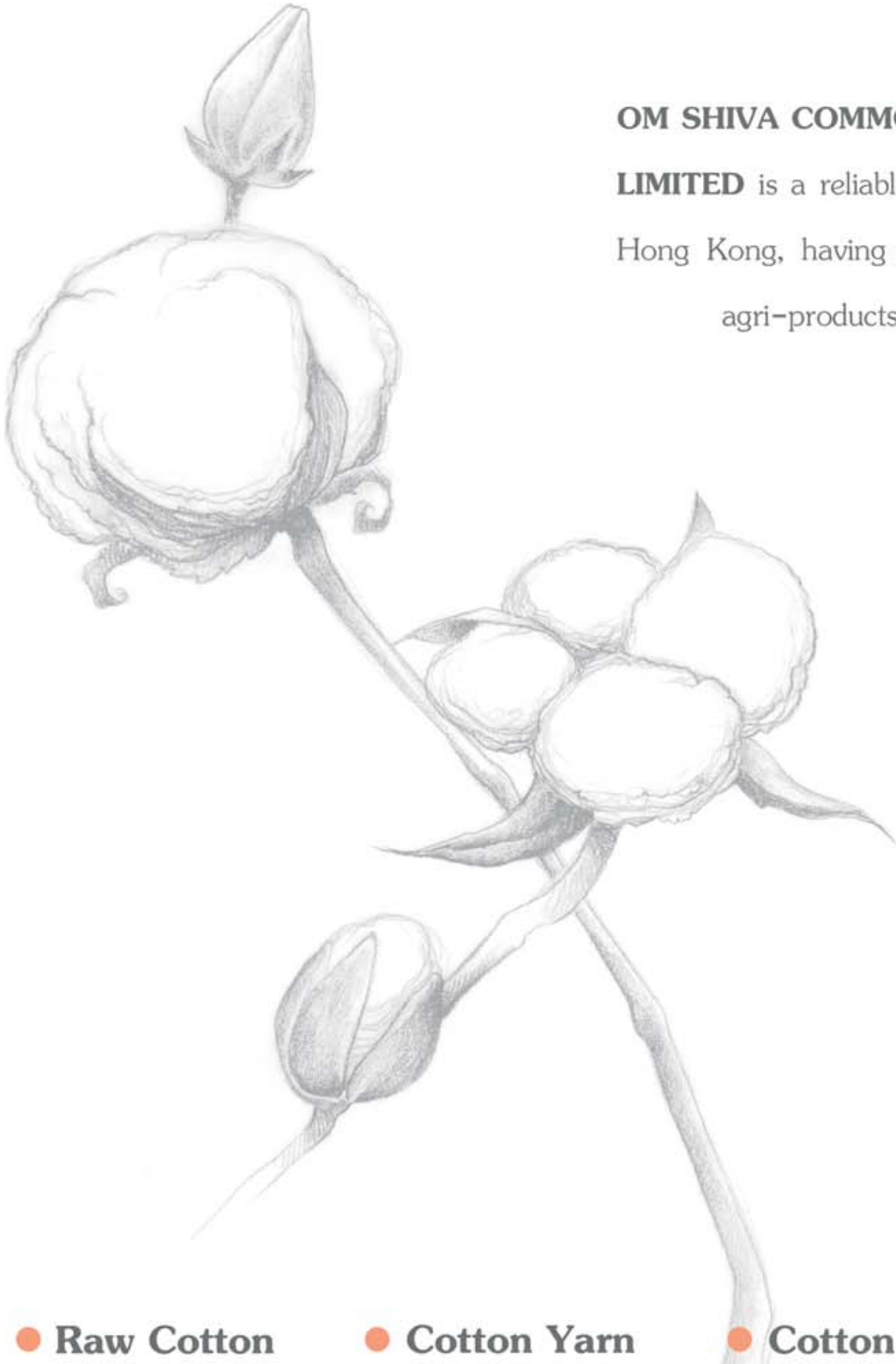
Cotlook's Consumption Estimates

as at September 4, 2014

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	'Thousands of tonnes									
Argentina	160	165	180	155	160	155	130	130	140	140
Bangladesh	430	450	525	675	820	790	600	760	800	830
Brazil	950	950	1,000	925	975	850	875	900	850	830
Burma	47	48	48	43	43	47	47	48	55	60
China	9,500	10,600	10,500	9,300	10,500	10,100	8,500	8,050	7,200	7,800
Colombia	95	95	100	85	85	82	75	72	75	80
Czech Rep.	35	34	30	20	12	9	8	6	6	6
Egypt	153	148	209	91	129	87	85	79	91	90
Germany	62	61	48	42	37	37	34	29	26	26
Greece	80	65	55	45	35	25	15	20	20	20
Hong Kong	60	51	40	22	20	15	12	14	18	18
India	3,689	3,945	4,097	3,893	4,300	4,500	4,301	4,814	4,879	5,074
Indonesia	425	540	675	575	625	575	540	600	620	630
Iran	125	130	130	110	125	125	130	125	120	120
Italy	145	120	110	72	40	40	40	35	35	35
Japan	143	130	128	90	67	65	63	60	66	63
Malaysia	35	33	30	22	50	45	25	30	35	35
Mexico	418	426	441	408	419	403	400	390	390	408
Morocco	30	29	35	30	35	35	35	33	34	33
Nigeria	78	75	62	37	20	20	20	20	20	20
Pakistan	2,584	2,650	2,567	2,465	2,508	2,100	2,300	2,420	2,425	2,555
Peru	90	90	95	90	88	93	95	95	90	95
Portugal	55	50	41	38	35	28	30	30	30	30
Russia	290	280	240	180	155	120	105	85	75	65
South Africa	47	46	47	38	24	22	19	20	23	24
South Korea	242	238	230	210	220	225	230	270	270	280
Syria	184	200	180	135	180	180	180	130	100	80
Taiwan	245	230	220	170	200	175	185	195	210	210
Thailand	400	430	410	350	400	380	270	300	300	300
Turkey	1,525	1,550	1,325	1,050	1,300	1,100	1,200	1,375	1,400	1,430
Turkmenistan	70	85	85	60	85	102	110	133	145	155
USA	1,278	1,074	998	771	773	849	718	762	784	806
Uzbekistan	179	207	210	210	290	185	220	260	280	300
Vietnam	165	200	240	270	310	330	330	475	575	600
Others	847	780	688	573	504	497	491	499	498	497
World Total	24,862	26,205	26,019	23,250	25,567	24,391	22,419	23,264	22,684	23,744
Asia	19,573	21,182	21,127	19,218	21,424	20,516	18,671	19,481	18,923	19,955
Indian Sub Cont	6,782	7,125	7,271	7,105	7,677	7,454	7,265	8,059	8,176	8,536
ASEAN	1,103	1,281	1,431	1,281	1,450	1,399	1,233	1,476	1,608	1,648
Americas	3,141	2,939	2,934	2,550	2,611	2,543	2,393	2,442	2,414	2,444
NAFTA	1,736	1,530	1,450	1,184	1,197	1,257	1,121	1,154	1,175	1,215
Africa	456	436	474	299	318	278	288	291	309	313
EU27	642	526	430	316	233	208	177	170	167	166



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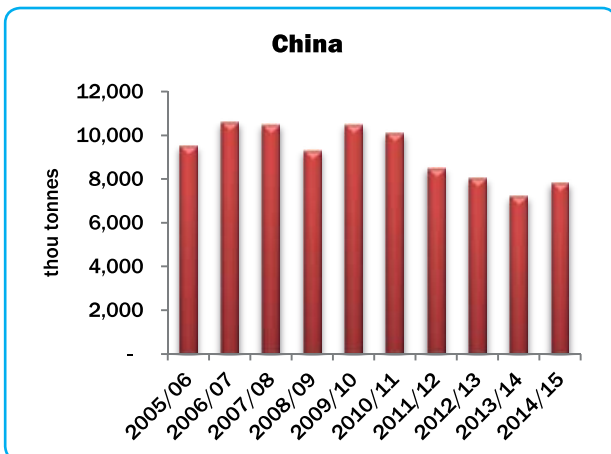
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Changes in cotton consumption in major markets – a 10 year history

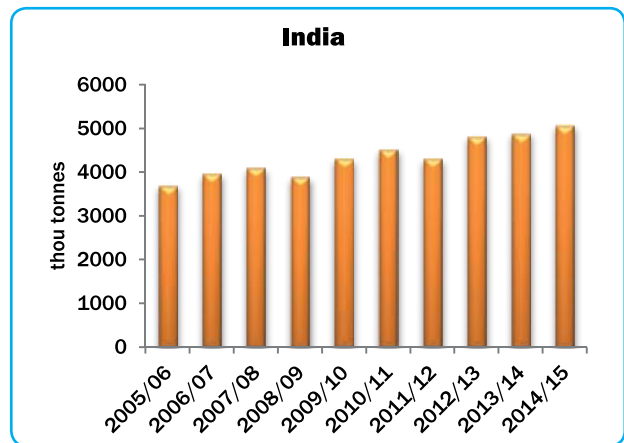


World cotton consumption in the 2014/15 season is expected to rise to almost 23.75 million tonnes, according to Cotton Outlook's forecasts, and thus reach the highest level since 2010/11. At this level, it would still be less than the amount used 10 years ago and far below the record 26 million tonnes plus recorded in both the 2006/07 and 2007/08 season. Global textiles fibre consumption, including filament, is placed by PCI fibres at 80 million tonnes.

China, the world's largest cotton consumer, has experienced a roller-coaster ride in terms of cotton consumption over the past ten years. Having at in some years in the last decade witnessed a total in excess of ten million tonnes, the annual figure has since dropped sharply. Our projection for 2014/15 assumes some recovery, as domestic cotton prices recoup some of their lost competitiveness, but the total, based on our figure, will nonetheless be 18 percent below the amount used in 2005/06.



India, the world's second largest cotton user, has, by contrast, registered steady growth in most seasons apart from those in which global economic factors held sway. Actual consumption numbers, as in China, are lacking in transparency, but our assumption is that 2014/15 will see continued growth in the amount consumed by mills. Its use is projected to be some 38 percent more than a decade ago.



Despite a setback during the year of record world cotton prices, Bangladesh has virtually doubled the amount of cotton used during the ten-year period in question, and since most of it is imported, the significance this market has gained in the world cotton supply and demand equation has likewise risen strongly.

Indonesia is now using roughly almost half as much again as in the middle of the first decade of this century, though recent seasons have seen the total fall short of the record amount used in the season prior to the global financial crisis.

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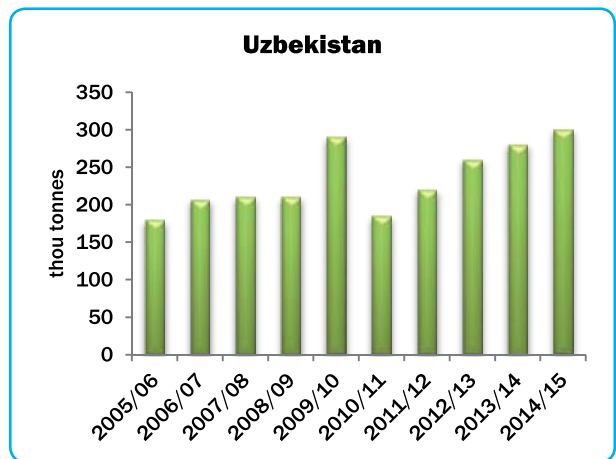
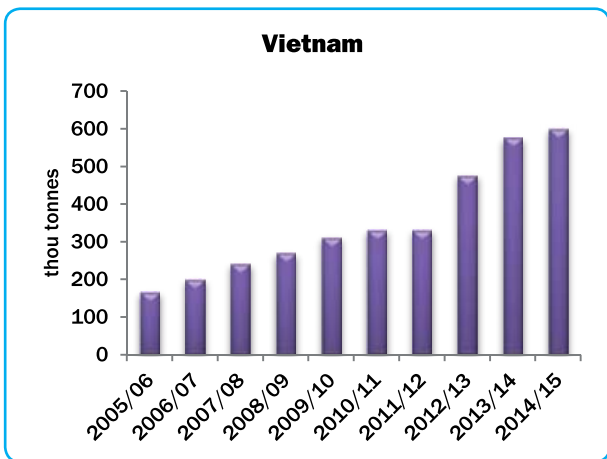
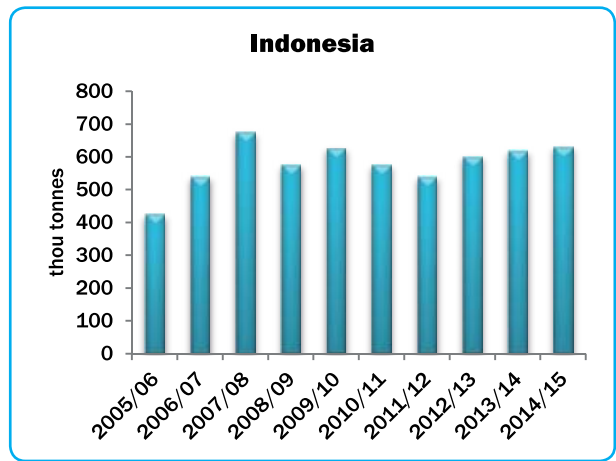
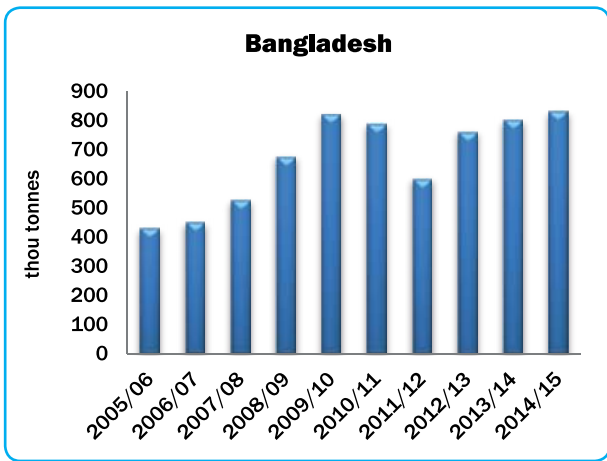


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Vietnam is the undoubted success story of recent years in terms of the amount of cotton used, and since as in Bangladesh, little is grown domestically, its position as a leading world import market has increased commensurately. In 2014/15, consumption is forecast to reach 600,000 tonnes, more than two-and-a-half times as much as was being used back in 2004/05.

Uzbekistan has also registered steady growth since the setback that occurred as world cotton prices soared to their record level. The expectation is that some 300,000 tonnes will be used in 2014/15, representing more than a third of domestic cotton production. The official aim is for this proportion to grow strongly in the coming years as more inward investment is attracted into the local industry, thus reducing the amount of cotton available for export sale.





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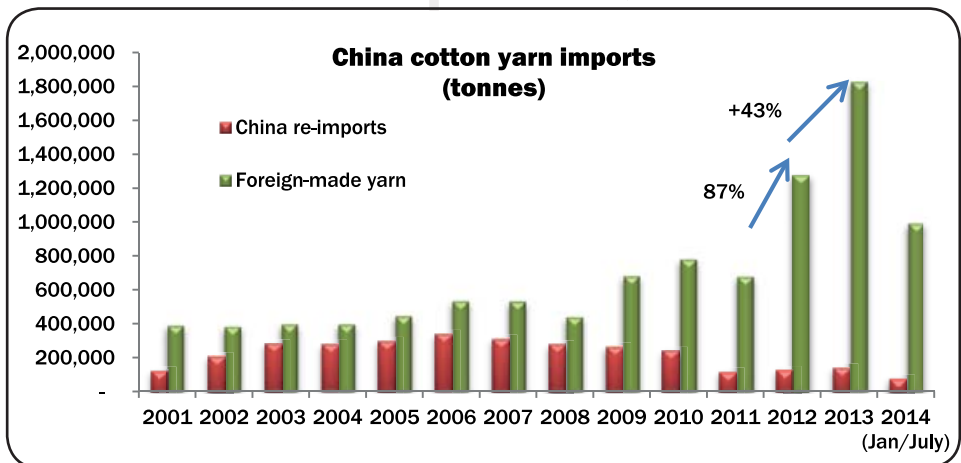
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China: dependent on cotton yarn imports?

By Cotton Outlook's editorial staff



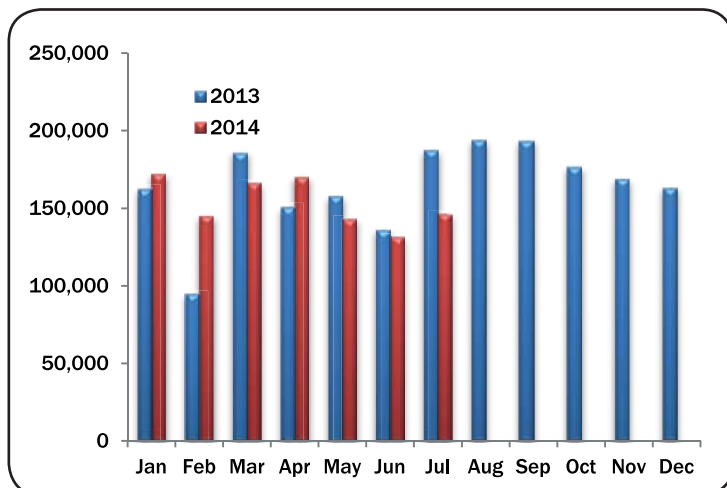
China's cotton yarn imports have more than doubled since the turn of the century, to the benefit of yarn spinners in a number of countries, notably in Asia but also further afield (the United States, for instance, supplied more than 46,000 tonnes in 2013, versus less than 600 tonnes in 2000).



Cotton yarn imports grew initially as China's market opened up on entry into the WTO but the most significant stimulus was derived from the loss of competitiveness of China's cotton spinning mills, and their restricted access to imports of raw cotton, following the cotton

price hike in 2011 and introduction of the state reserve procurement policy for cotton that followed thereafter. Cotton yarn imports grew by a massive 87 percent in 2012, and by a further 43 percent in 2013. By the end of July this year, the cumulative import pace was only modestly

behind that of a year ago, though evidence would indicate a prospective shortfall will be evident over the 2014 calendar as a whole; since May, monthly volumes have been lower on the year.



Pakistan has long been a customary supplier of coarser count yarn to the Chinese textile industry. Indeed, until recently, it was the principal source of supply every year. Like many other origins, imports from Pakistan have recorded increases in recent years, with the result that, in 2013, volume reached close to 590,000 tonnes.



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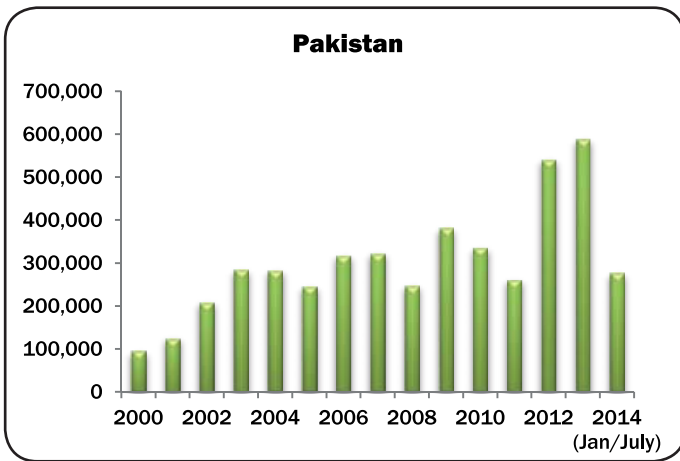


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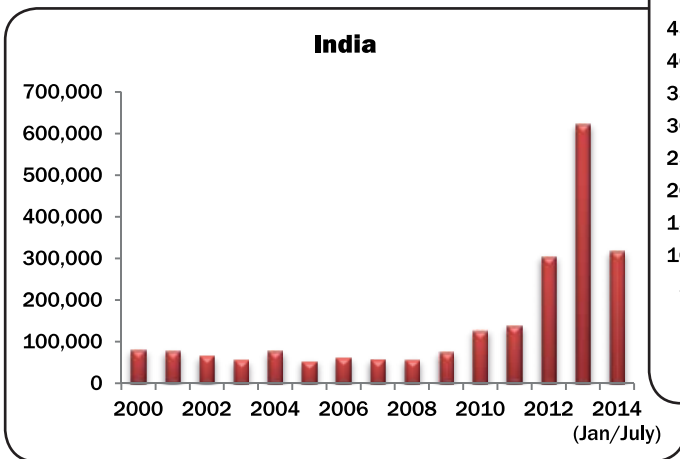
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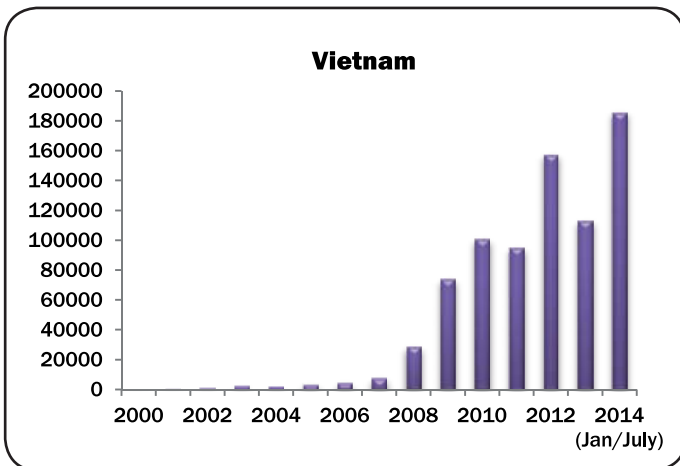
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In that year, however, its position as the leading source of supply was lost to India, which has competed effectively in the coarser count yarn range and seen its volume more than double, from around 300,000 tonnes in 2012 to over 620,000 in 2013. India has retained the position as leading supplier during the first seven months of this year.

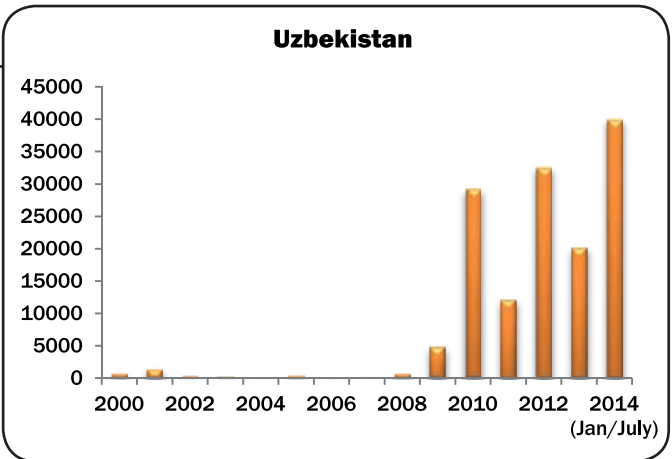


Remarkable growth has meanwhile been recorded in imports sourced from Vietnam, and, to a somewhat lesser extent, Uzbekistan. The former country has been a recipient of substantial Chinese outward investment, as mills



seek access both to world market prices for their raw material and to cheaper labour and energy costs. From virtually a standing start in the middle of the last decade, therefore, imports from Vietnam grew to almost 160,000 tonnes in 2012, and following a dip in 2013 have so far this year outstripped all previous figures, rising to over 180,000 tonnes.

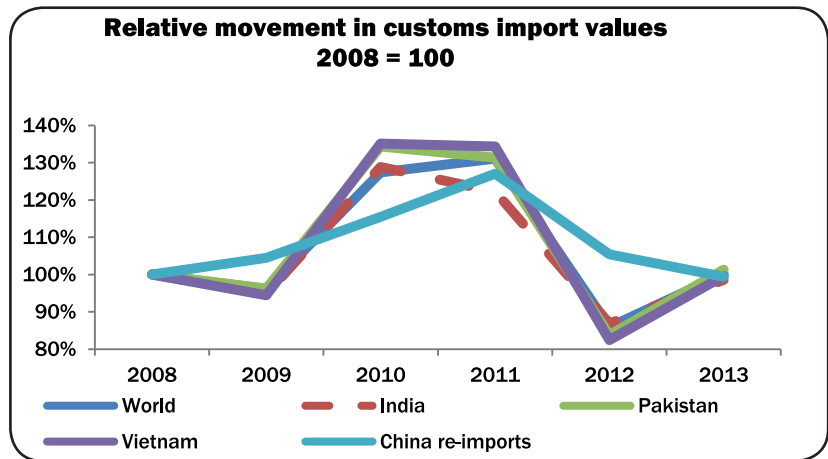
A similar pattern, though lesser in actual magnitude, is evident in the statistics for Uzbekistan. China's imports from that source have grown from virtually nil in the middle of the last decade to 40,000 tonnes or so during the January/July 2014 period. Uzbekistan, for several years now, has been promoting investment in its domestic textiles industry, in an effort to raise the value-added return from its cotton production, and consume more of the fibre locally.



Data for other supplying countries - such as Indonesia, Thailand, Malaysia - would show a similar development over the period in question, thus emphasising that China's economic development and policy choices have brought widespread benefit to spinners in other countries.

The question now is whether China's change of direction as regards its support for cotton production will impede or enhance the scale of cotton yarn imports. Such imports are unrestricted by quota and are subject to varying degrees of import duty that are low in comparison with those applicable to the raw material. It remains to be seen how effective the policy change will be in restoring Chinese mill competitiveness, given that it is not merely the raw material cost alone that has detracted from it. On the one hand, if China should indeed

tighten (as widely anticipated) the limit on raw cotton imports in the 2014/15 season, the rationale in favour of choosing cotton yarn imports could stand to be strengthened. Some would argue, on the other hand, that the prospective return to a functioning, internal commercial cotton market will tip the cost balance toward Chinese mills. The risk for mills elsewhere, therefore, is that their expanded capacities may be less well utilised if China's appetite for yarn imports shrinks. Recently, Zhengzhou cotton futures forward months have been trading at close to 14,200 yuan per tonne or less - well below the price at which the government has sought to dispose of some of its reserves during the 2013/14 season, and about



in line with international values (the Cotlook A Index, adjusted to Chinese delivered-mill terms, including sliding-scale import duty). Whichever course is taken, a new phase in China's market development would seem to be around the corner.

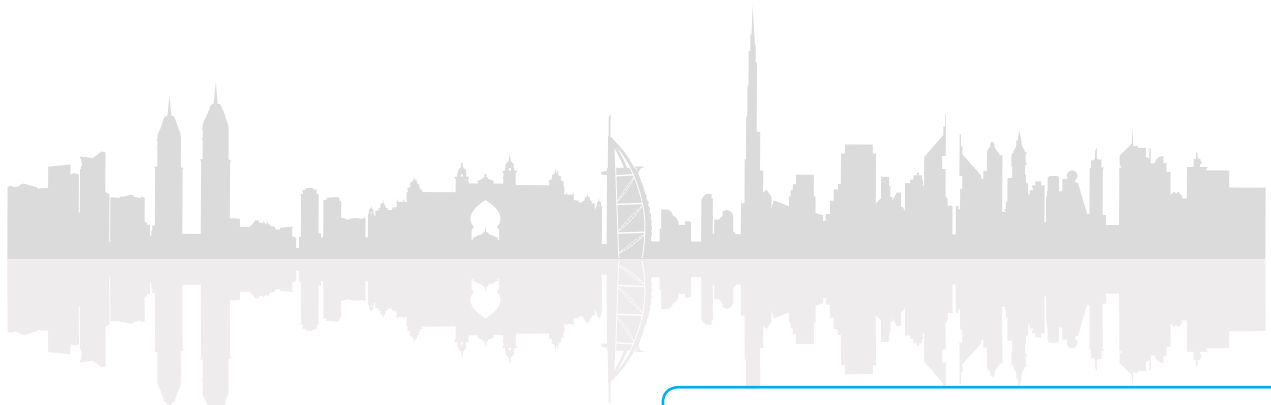
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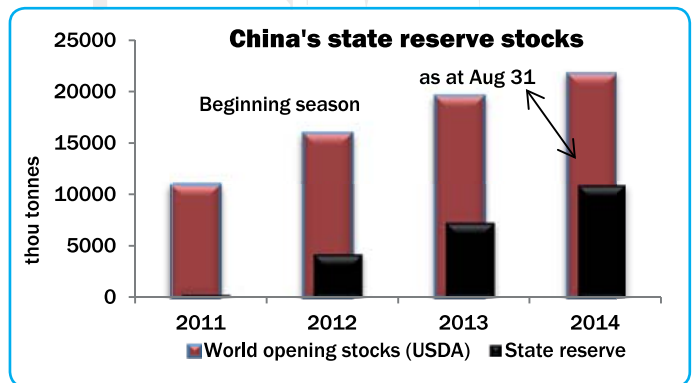
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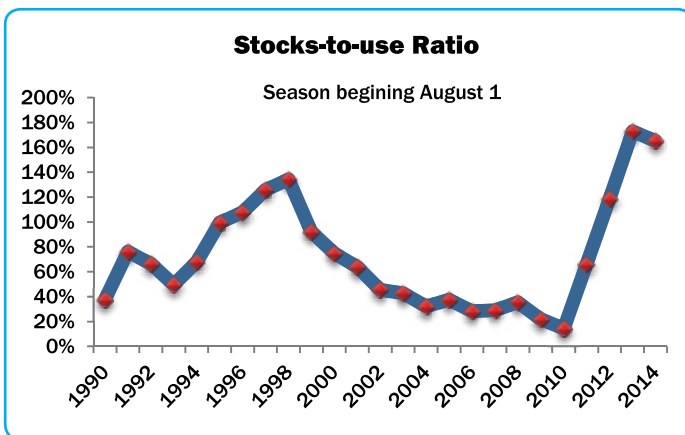
China: Holding the world residual supply



In 2010 (as at July 31, the end of the international statistical season), China's end-season stocks of raw cotton were equivalent to around 14 percent of annual consumption. During the following three seasons, during which the state reserve procurement plan was in operation, China's stocks rose dramatically - Cotton Outlook's estimate at the end of the 2013/14 season is slightly less than a year earlier but still around 10.925 million tonnes, or no less than 1.65 percent times the prevailing estimated rate of domestic



consumption. Cotton consumption is estimated to have shrunk during the four-year period from around 10 million tonnes per annum, to around 7.2 million (according to figures released in August this year by *Beijing Cotton Outlook*).



The accumulated state reserve stock on July 31, 2014 was equivalent to no less than 50 percent of the new season's opening stock (as measured by USDA data). If commercial and industrial stocks are added to the estimated state reserve stock, the proportion of the world stock held in China was no less than 56 percent.





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Increase in staple lengths

Alice Robinson

Market Analyst, Cotton Outlook



The Cotlook A Index began life almost 50 years ago, representing the average level of offering prices for the most competitive and widely traded cotton. In its infancy the Index was a measurement of shippers' offers to mills of 1-1/16" lint, but this was changed at the beginning of the 1981/82 season to 1-3/32", to reflect the prevalence of that staple on the international cotton market (grade was also

changed from SM to Middling, so as to capture the widest possible spectrum of growths in the Index calculation). More recently, given the further gain in the amount of 1-1/8" cotton traded in the international market, and the Index's purpose of being representative of the bulk of the cotton traded, it was announced that the staple length to be taken into consideration for the

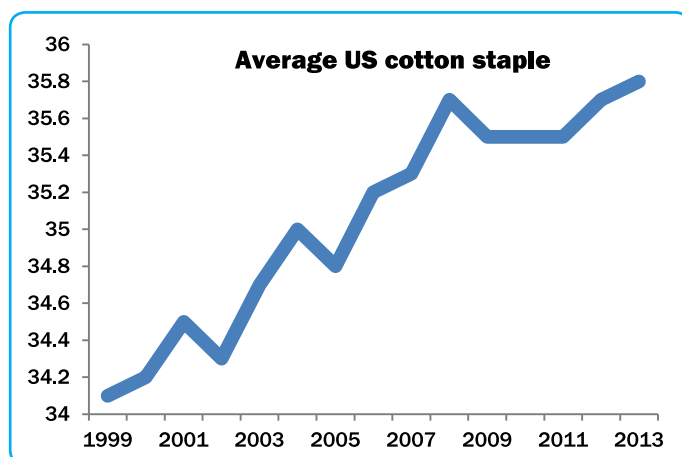
2015/16 Index will be adjusted to 1-1/8".



In contrast to some other fibre quality parameters, for which environment can be an important factor, staple length is determined primarily by genetics. The type of cottonseed planted, and inherent qualities therein, are crucial when attempting to produce a crop of longer staple lint. Thus, the primary method for improving staple length is varietal improvement in seed type. This can be achieved through various methods, including selective breeding and improved seed technology. Several of the world's largest producers - including most of those whose cottons are taken into consideration in compiling the A Index - have increased their share of the 1-1/8" staple market in the past few decades.

There are currently 19 origins from which cotton is eligible for the Index but a number of these are not exported in any volume at present. Those that are include US, Indian, Uzbek, Brazilian, West African and Greek.

In the **United States**, the world's largest exporter of raw cotton, staple length has been increasing steadily for some time. In 2013/14, 63 percent of the crop was 36 staple or longer, and the average, beltwide staple length was 35.8. The US's reputation as a net exporter is supported by that origin's rigorous industry standards (for instance, low contamination and consistency when packing and transporting bales), which has stood it in good stead with spinners. However, a factor which cannot be overlooked today is the high frequency of 1-1/8" staple cotton in the US crop, which makes it

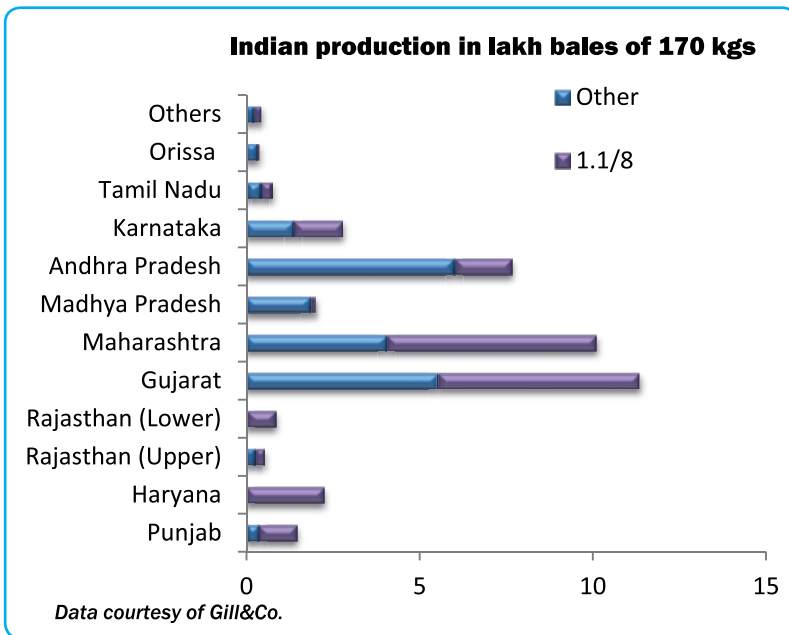




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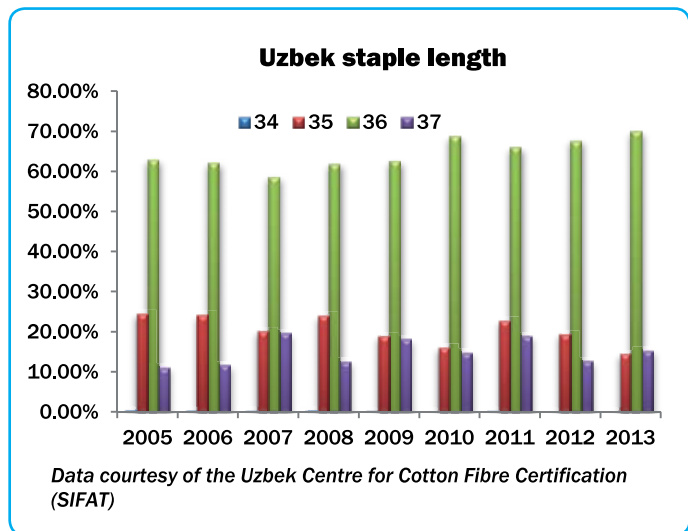
especially desirable for spinners wanting cotton for the production of the medium and medium higher counts of cotton yarn. The accompanying chart demonstrates the consistent improvement in US staple length since the turn of the century.

The crop in India has also improved in terms of staple length. The main drivers are cited by industry members as the introduction of new hybrid or genetically modified (GM) seeds and good farming practices (achieved mainly through investment and education in the sector). Type J-34, for example, which had been classified by the government as 24.5 to 25.5 mm staple length as recently as two seasons ago, was in 2014 classified as being between 27.5 and 32 mm. This type, as well as many others, has been boosted by the large-scale introduction of GM seeds, which now account for the vast majority of the Indian crop. The emphasis placed on 1-1/8" varieties in the Minimum Support Price levels for 2014/15 is indicative of the shift, and even electronic markets have reflected the prevalence of longer staple lint in the Indian marketplace, with the country's two major futures trading platforms, ACE and MCX, running contracts based on 28.5 and 29.0 mm, respectively.

In 2013/14, over half of India's bumper crop was 1-1/8" cotton, and as the volume of India's production has increased, so has the output of 1-1/8" lint. As the world's second largest exporter, India does significantly influence the volume of 1-1/8" cotton available in the international marketplace.

In Uzbekistan, the general volume of production has declined slightly, owing to the transfer of land less suited to cotton production to other agricultural products. At the same time, however, varietal improvements and investments in ginning have increased the proportion of the crop which is 1-1/8" staple. In 2006/07, Bukhara 8, a longer staple upland variety, was considered an 'experimental' seed type, and was planted on only around 50,000 hectares (ha). In 2013/14, the area planted to that variety had grown to almost 120,000 ha, and similar expansion is observed for several seed types now used as standard in the Uzbek crop. In 2013/14, the proportion of

Uzbekistan's crop which was classed as 36 mm was 70 percent, compared with 63 percent in 2005/06. The pace of this improvement may not be as dramatic as in some other origins, but it still represents a steady transition which has seen the Uzbek crop come to be considered as a premium staple fibre on the international stage. Significantly, a new range of genetically-engineered seed types that will offer even better technical parameters, including staple, is under development.



Cotton seed varietal developments have brought about general improvement in fibre parameters in Brazil, including staple length. In 2008/09, almost 23 percent of the crop was 1-3/32", 31 percent was 1-1/8" and almost 40 percent was longer, according to HVI classing data. Two seasons later, the comparable percentages were 22.3 percent, 35.8 percent



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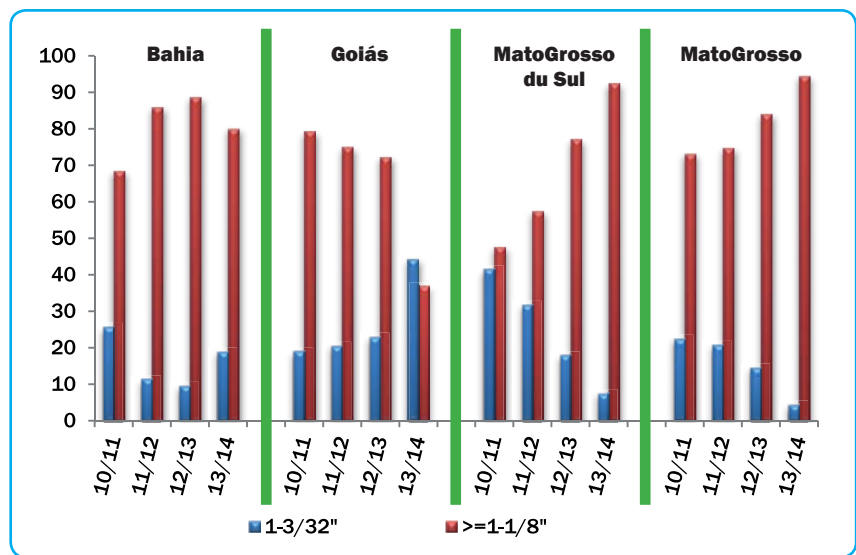
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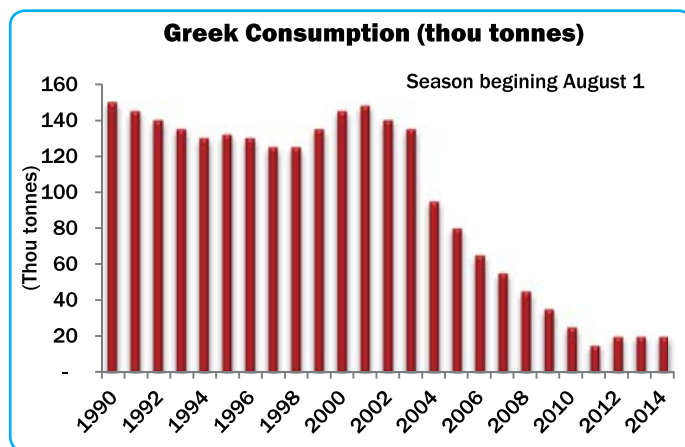
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and 37 percent. Data for subsequent years show that cotton above 1-1/8" staple has increased from 73 percent in 2010/11 to over 94 percent in 2013/14 in Mato Grosso, from less than 48 to over 92 percent in Mato Grosso do Sul and from 68 to 80 percent in Bahia. In 2013/14, the proportion of 1-1/8" and longer fell sharply in Goiás, to less than 40 percent, with a corresponding rise in the 1-3/32" category; in the three previous years, the proportion of 1-1/8" in the state was above 70 percent.



The African Franc Zone has long been a producer of 1-1/8" lint, and Chad and Cameroon in particular have increased the proportion of their output of 1-1/8" and 1-5/32" in recent years. The introduction of types such as Pleb and A51 has contributed to the general improvement of staple length, owing primarily to the genetic advantages of those seeds.

In Greece, almost all of the cotton produced now is 1-1/8" staple, but this change has only been apparent in the past ten years or so. The adoption of new seed varieties, including genetically modified seeds which are resistant to pests and herbicides, has been the root of staple improvement. This has coincided with the decline of the domestic textiles sector, which has been winding down since the early 2000s. Consumption has fallen dramatically. In consequence, the importance of export markets has risen, and the cotton produced has therefore increasingly, been geared to meeting overseas markets quality requirements.



Given the steady shift to 1-1/8" cotton in these and other growths which are eligible for the A Index, the timing seems right for a switch to be made to this parameter, so as to maintain the Index's position as a reliable barometer of world market values.





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The future of the International Cotton Association

Kai Hughes
Managing Director, ICA



What will 2015 bring? In this business, it is very difficult to predict. From the volatility of 2010 and 2011, to a recent period of stability, the market is starting to move downwards, sparking fears that we will see another increase in contract defaults and possibly arbitrations.

The high number of arbitrations last time around proved a huge challenge for us here at the ICA, but we are confident that the improvements we have made and the new initiatives we have planned will make our arbitration process fit for purpose.



Investing in arbitration

Without doubt, the introduction of our pool of chairmen to oversee arbitrations is improving the consistency and quality of ICA awards, as well as speeding up the process. And on the subject of speed, we are currently trialling new software to enable arbitrators to have secure, online access to their case files. A new 'extranet' is also in the pipeline, providing arbitrators with an online resource of legal and enforcement information, advice, guidance notes and updates. In addition, arbitrators will be expected to keep up to date and improve their knowledge through a programme of continual professional development (CPD).

An increase in the number of ICA awards being challenged in English Courts has reinforced

our plans to introduce a mutual insurance policy for members to help cover legal costs. Initial feedback indicates that there is interest, especially from smaller firms and arbitrators. Further consultation is needed and we will be working on this over the coming months.

Strengthening the ICA community

Our President, Mohit Shah, has made it clear that effective engagement and communication are high on our agenda. This is vital if we are to grow and strengthen the ICA community, and we are looking at ways to improve - starting with a new website that will be more interactive and allow users easier access to information.

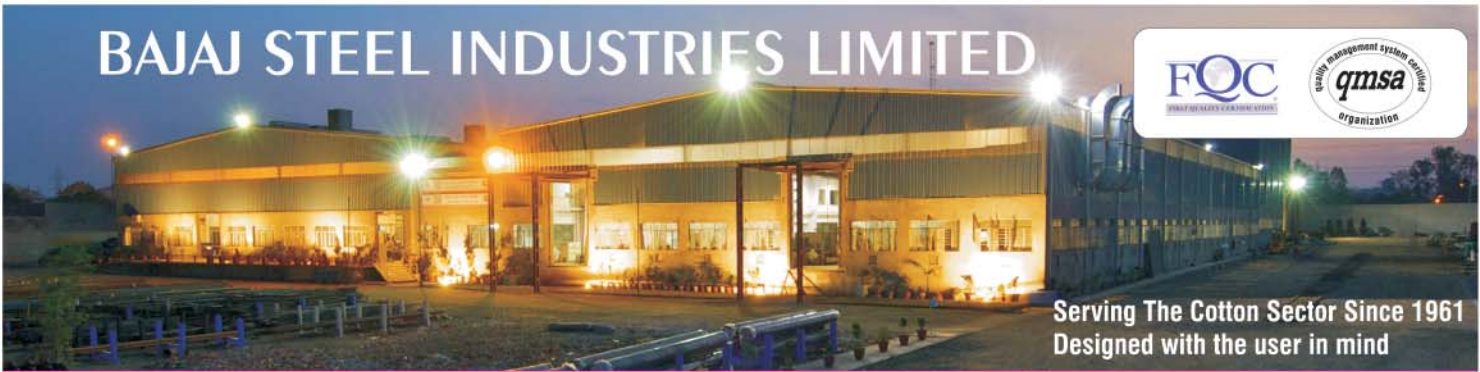
Our training and workshops have proved effective in engaging the cotton community and we aim to increase the number of courses we run, with some leading to a recognised qualification, accredited by a UK university. We also want to make better use of technology via webinars and videos to reach a wider global audience.

Another initiative we are working on is an 'ambassador scheme', where selected ICA members will pro-actively promote ICA membership in their locality through training, workshops and visits.

Reaching an amicable solution

One of the biggest initiatives we will be working on this coming year is 'mediation'. It is becoming increasingly evident that more and

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more firms would welcome mediation as a way of reaching an amicable solution to an outstanding dispute - in fact, some firms find it culturally more acceptable to go through a process of mediation before resorting to arbitration. We believe that the introduction of a mediation process will not only reduce the list of unfulfilled awards, but also go a long way to prevent disputes escalating to the point of arbitration in the first place. The ICA directors have given their approval to the concept and work is already under way to develop the process and train a number of mediators to international standards via the Centre for Effective Dispute Resolution (CEDR).

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thoughts, suggestions and input - after all, the ICA belongs to you and we want you to be able to play a part in shaping its future.



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ICA welcomes new members

ICA membership is open to bona fide participants in the cotton trade, whether buyers or sellers, and ancillary industries from downstream textiles to service suppliers. Those who have joined the ICA during the past twelve months (from September 3, 2013 to September 2, 2014) are listed below:

Organisation	Country	Category
Abou Madawy Co for Cotton Trading Import & Export	Egypt	Principal Firm (Merchants)
Arenco Limited	Bangladesh	Agent
Bhanero Textile Mills Ltd	Pakistan	Principal Firm (Producers & Mills)
Biosustain Tanzania Ltd	Tanzania	Principal Firm (Producers & Mills)
Blessed Textiles Ltd	Pakistan	Related Company
Changyi Lijing Textile Co Ltd	China	Principal Firm (Producers & Mills)
Changzhou Hangyuan Cotton-Hemp Co Ltd	China	Principal Firm (Merchants)
China SDIC International Trade Co Ltd	China	Principal Firm (Merchants)
Cucala Consultoria	Brazil	Affiliate Industry Firm
Cynox Co Ltd	Hong Kong	Agent
Delcot Enterprises Ltd	Bangladesh	Agent
Ecom Agroindustrial Asia Pte Ltd - Dhaka Liaison Office	Bangladesh	Related Company
Ellicot Spinning Mills Ltd	Pakistan	Related Company
ETG Parrogate FZC	UAE	Principal Firm (Producers & Mills)
Faisal Spinning Mills Ltd	Pakistan	Related Company
Hunan MM (Cotton & Bast-Fibre) Corporation Ltd	China	Principal Firm (Merchants)
International Cotton Agency (ICAL) Limited	United Kingdom	Agent
Jiangsu Guotai H&B Co Ltd	China	Principal Firm (Merchants)
JMD Estates Ltd	United Kingdom	Affiliate Industry Firm
LDC Tarim Urunleri Ticaret Limited Sirketi	Turkey	Related Company
Mahmood Textile Mills Ltd	Pakistan	Principal Firm (Producers & Mills)
Mahmud Denims Ltd	Bangladesh	Principal Firm (Producers & Mills)
Mohana Cotton Ginning (P) Ltd	India	Principal Firm (Producers & Mills)
Nagina Cotton Mills Ltd	Pakistan	Principal Firm (Producers & Mills)
Pahartali Textile & Hosiery Mills	Bangladesh	Principal Firm (Producers & Mills)
Reinhart Australia Pty Ltd QLD	Australia	Related Company
Sapphire Fibres Limited	Pakistan	Principal Firm (Producers & Mills)
Shandong Guoguan Textile Co Ltd	China	Principal Firm (Producers & Mills)
Shanghai Textile Raw Materials Corporation	China	Principal Firm (Merchants)
Shanghai Xinlang International Trading Co Ltd	China	Related Company
Sindh Agro Industries	Pakistan	Principal Firm (Producers & Mills)
SKY EGYPT For Import & Export	Egypt	Principal Firm (Merchants)
Square Textiles Limited	Bangladesh	Principal Firm (Producers & Mills)
Suining Hongfeng Textile Co Ltd	China	Principal Firm (Producers & Mills)
Supriya Spinning Mills (P) Ltd	India	Principal Firm (Producers & Mills)
The Cotton Corporation of India Ltd	India	Principal Firm (Producers & Mills)
The Cotton Trade India Co	India	Agent
Xinjiang Esquel Textile Co Ltd	China	Principal Firm (Producers & Mills)
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