Cotton Outlook

July 2020

World Long Staple Market

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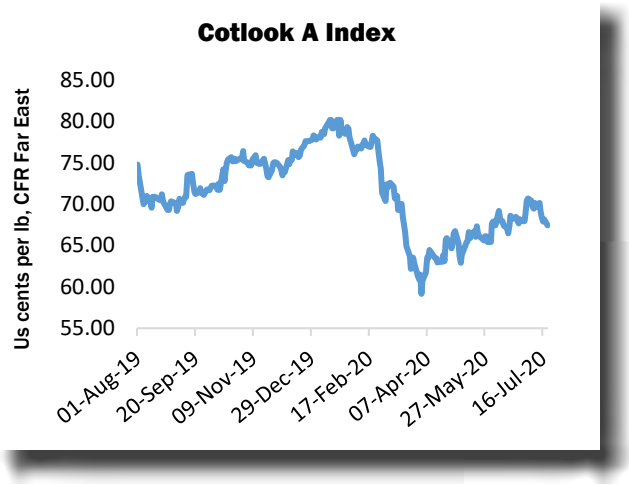
World long staple market: the year in view

Antonia Prescott, Deputy Editor, Cotton Outlook

Last year, a single issue dominated the narrative for the cotton trade in general, and for long staples in particular, as the world's largest producer and second-largest consumer of long staple cotton were engaged in a trade war the impact of which reverberated along global supply chains for any number of goods. It was the fervent hope of most in the cotton world that the Phase One trade deal signed between Beijing and Washington in January would put an end to the uncertainty of the preceding months and would stimulate an upturn in Sino-US trade, and hence global consumption (not least of long staple cotton) as confidence returned to the market.

Alas, as is so often the case, an unforeseen eventuality arose, and indeed was already beginning to create disruption even as the Phase One deal was inked. In the period since the threat posed by the appearance of the novel coronavirus in China was made manifest in the form of the Covid-19 pandemic, entire supply chains have seized as one country after another succumbed to lock-down restrictions in an effort to protect their populations from infection. The cliff-edge fall in household consumption, prompted by the closure of retail outlets and severe financial uncertainty for individuals as well as organisations, was the trigger for mass cancellations and requests to postpone orders of textile and apparel goods, with unavoidable knock-on effects for spinners, traders and ultimately producers.

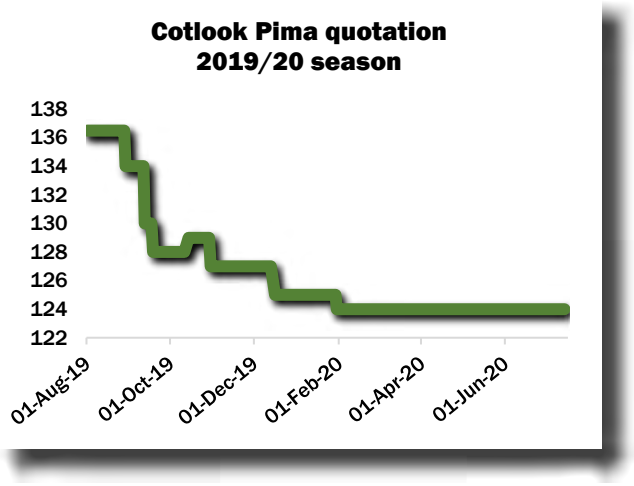
Long staple production and consumption have not escaped the impact; in fact, certain commentators (including some of those contributing articles to this very publication) suggest that the axe has fallen harder on the long staple market than elsewhere, since demand for high-end, luxury goods has dropped more sharply than for mainstream, essential items.



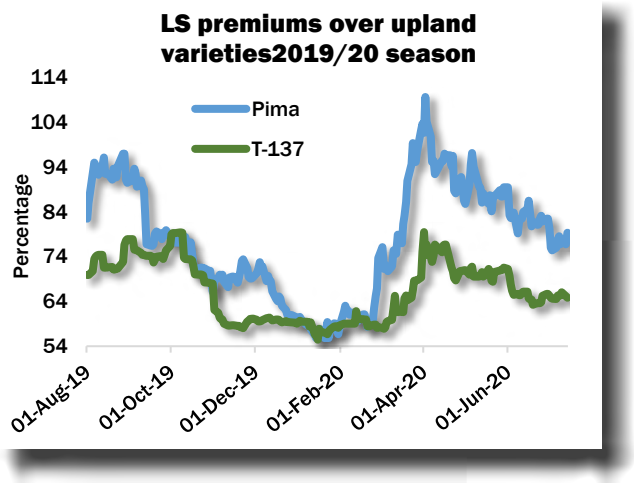
For once, price is not the single most important factor influencing (and in turn being influenced by) demand. Nevertheless, it is instructive to consider the relative movements of rates for long staple varieties compared to upland over the past year.

The Cotlook A Index (which represents upland prices) has declined by about ten percent over the course of the entire season: the increase in confidence in the period leading up to the Phase One trade agreement was followed by an abrupt decline in March, as the scale of the likely impact of the pandemic became clear, and then an only gradual recovery in offering rates across the world as markets opened (somewhat cautiously) for business once again. However, the benchmark quotation for Pima (Grade 2, 1-7/16", CFR Far East) has followed an entirely different trajectory, falling relentlessly in the period from August to March, marking a nine-percent reduction overall.

Pima shippers have since then endeavoured to maintain their offering rates (already deemed to be below the cost of production) but heavy discounting has on occasion been observed as they have sought to convert the sporadic enquiries into firm business. The general depression of international long staple values has meant that a Pima competitiveness payment was triggered for the first time since the 2009/10 season.



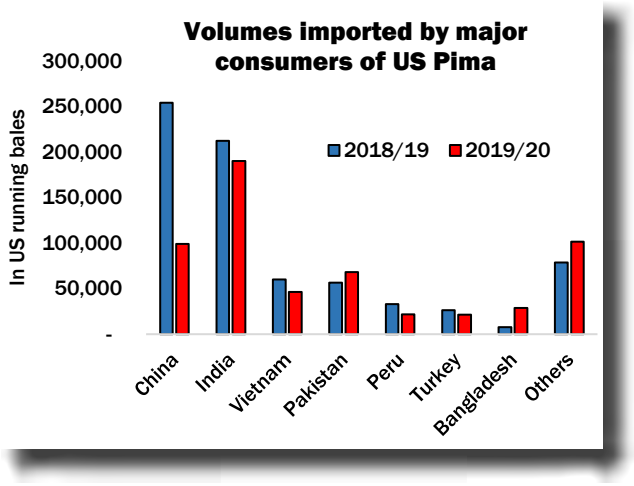
The Chinese Type 137 quotation has suffered an even more dramatic fall of 17 percent. The stories of each of the two varieties relative to upland values (spot values in the Chinese market are measured by the China Cotton Index) are therefore similar: the premiums for both Pima and T137 reached short-lived highs between March and April (boosted, perhaps somewhat artificially by the precipitous falls in upland rates at that time), before staging a retreat over the remainder of the season.



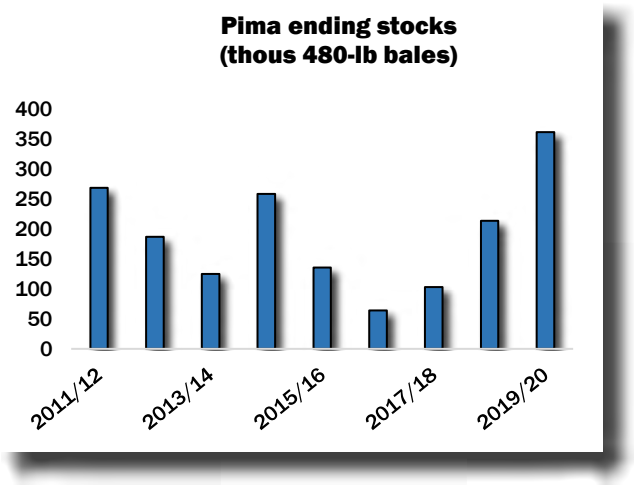
Trade

All but a very modest proportion of international trade was arrested in early spring this year as logistics systems ground to a halt and orders were cancelled. Any recovery for textiles inputs and products in the period since has been faltering at best, although long staple cotton and fine-count yarns and fabrics may have fared worse for reasons already discussed. It should be stated too, though, that demand for long staple cotton has seen a persistent decline over a number of seasons; perhaps Covid-19 has simply served to heighten an already established trend.

The most significant importers of Pima all showed a reduction in their uptake of the US variety in 2019/20; given the scale of the overall fall, the relatively modest increases recorded for Pakistan and Bangladesh hardly made any impact.



The drop in exports means that the carryover of Pima into 2020/21 will be the largest for many years.



The situation is somewhat similar in the case of Egyptian cotton. This season's ending stocks are estimated at anywhere between 15,000 and 35,000 tonnes, depending in large part on the fate of the unshipped sales commitment still outstanding in mid-July (Egypt's marketing season comes to a formal close at the end of August). Last year, ending stocks amounted to just over 5,800 tonnes and were 9,580 the year before. This season, Egyptian export registrations fell by almost a quarter overall, and at the time of writing there is a significant query over the remaining 23,738 tonnes left to ship. Up to 20,000 may not be dispatched by the deadline, according to some commentators, which would bring the year-on-year decline in exports to almost 50 percent. Of course, the crop (and therefore the exportable surplus) was smaller this season; nevertheless, carryover as a proportion of production looks likely to be the largest since 2015/16, which saw the smallest crop in recent years.

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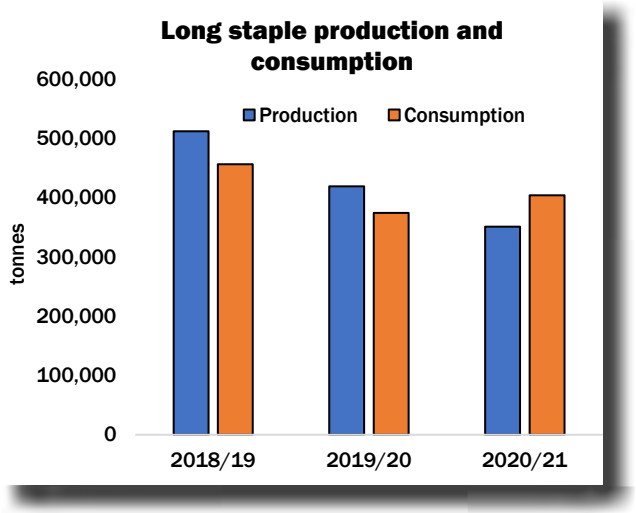
Long staple supply and demand outlook for 2020/21

The slide in demand for long staples has been evident for several seasons, and the fact that the pandemic restrictions hit countries across the world just at the moment when planting decisions for the 2020/21 season were being made has clearly not improved the situation.

World LS Output (tonnes)

	2018/19	2019/20	2020/21
United States	174,000	149,000	124,000
Egypt	109,559	67,600	50,000
India	100,000	90,000	90,000
China	80,000	60,000	40,000
Turkmenistan	15,000	21,000	20,000
Uzbekistan	3,000	5,000	10,000
Tajikistan	1,000	1,000	-
Israel	9,000	7,800	7,950
Sudan	1,000	1,000	1,000
Peru	5,000	5,000	4,000
Spain	5,500	4,000	4,000
Total	**512,059**	**419,200**	**350,950**

USDA estimates that the area dedicated to Pima this year is 195,000 acres (79,000 hectares), which would be 15 percent less than in 2019/20. However, the combination of low prices and slack demand prompts many observers to suggest that the final tally of acres will ultimately reveal an even lower figure. A still greater reduction in percentage terms is envisaged for Egypt. Catgo's final planting figure is 182,968 feddan, not quite 77,000 hectares – a fall of almost a quarter from last year. Meanwhile, the area dedicated to long staples in Awati County in Xinjiang, China has dropped by a third (to 28,000 hectares) since, as discussed elsewhere in this publication, the trend for spinners to replace long staples with blends of high-quality upland cotton has continued. The productivity gains made by recourse to machine picking of upland cotton in Xinjiang have thus far passed the long staple sector by.



The 2020/21 season will therefore see a sharp fall in long staple production: our early forecast indicates a decline of 16 percent from the previous season. Global output will in fact have contracted by roughly one third over the space of just two seasons.

Meanwhile, the outlook for long staple consumption during 2020/21 remains exceptionally uncertain in the context of the persisting pandemic and its economic fall-out. Pima export data are rather discouraging in this regard. By July 9, only 37,500 bales had been registered for export in the coming season, but the bulk of those sales were recorded for shipment to India in late October last year. With three weeks of the current marketing year remaining, 126,500 bales on this season's order book had still to be shipped. In the circumstances, a confident assessment of long staple consumption during the season ahead, never a simple task, is fraught with particular difficulty. The post-pandemic retail landscape is as yet ill-defined, as are the specific prospects for high-end, branded cotton textile goods. Our forecasts suggest only a partial recovery (about eight percent) from the steep decline (18 percent) experienced during the 2019/20 campaign.

World LS Consumption (tonnes)

	2018/19	2019/20	2020/21
India	195,000	160,000	175,000
China	140,000	110,000	115,000
Pakistan	37,000	32,000	35,000
Egypt (ELS, G86, G94)	15,000	12,000	13,000
United States	5,000	3,300	4,000
Bangladesh	12,000	10,000	11,000
Latin America	13,000	15,000	16,000
Europe (inc. Turkey)	15,000	12,000	13,000
South East Asia	21,000	17,000	18,500
Others	3,500	3,000	3,200
Total	**456,500**	**374,300**	**403,700**

As far as the season ahead is concerned, our forecasts would tend to suggest a drawdown in global stocks. However, the hypothesis of a recovery in consumption during 2020/21 has yet to be tested and is of course vulnerable to the further repercussions of the Covid-19 pandemic.

It may be hoped that as countries move beyond the first phase of their Covid-19 response, and businesses throughout the supply chain get back up and running – however tentatively – demand for textiles inputs will revive and with it that for long staple lint and fine-count yarns. A smaller supply than seen for many years may also be advantageous for prices across the board. From a longer term perspective, though, it is difficult to envisage a reversal of the general trend of decline, since the structural issues driving it are by now so entrenched, and spinners have been so innovative in replacing their long staple needs with other varieties.

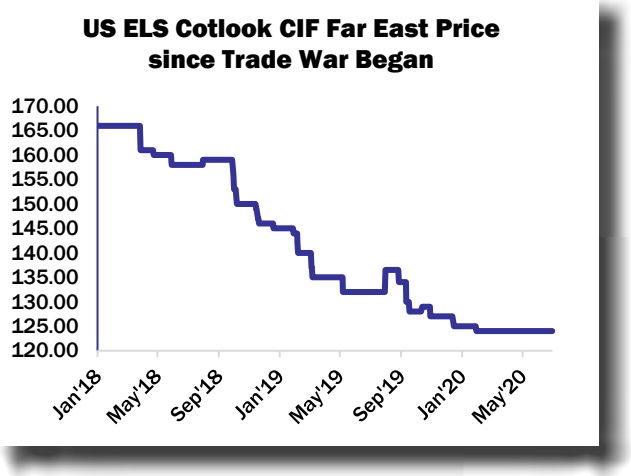
The Outlook for US ELS cotton in 2020/21

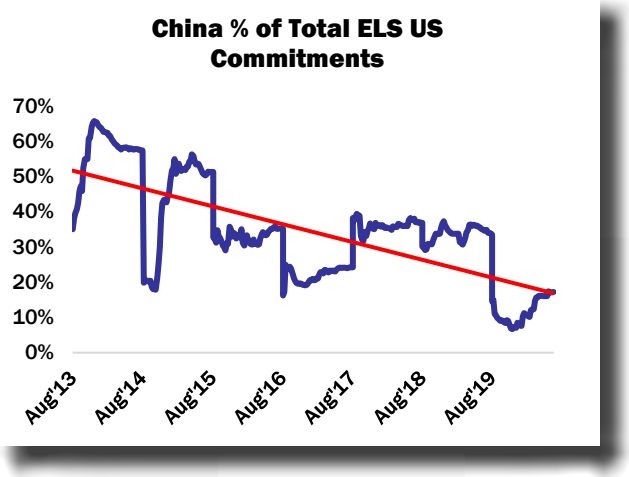
Ernie Schroeder Jr.,
CEO, Jess Smith and Sons Cotton

The US ELS (extra-long staple) grower has faced difficult times since the beginning of the US/China trade war in early 2018. Prior to the trade frictions between the two countries, US ELS Pima prices, based Cotlook CFR Far East, were at 166.00 cents per lb (see chart below). The raising of tariffs on both sides brought a quick decline in demand, and prices dropped sharply, down 25 percent from those previous highs as demand turned hand-to-mouth. In many parts of the US, these prices fall below production costs, and we are seeing many growers abandon ELS cotton in favour of competing crops, such as corn, wheat, and in the San Joaquin Valley of California where 85-90 percent of US ELS cotton is grown, even permanent crops such as nut trees are being planted to replace ELS cotton.

As the US raised tariffs on Chinese imports, China retaliated with onerous tariffs on our goods entering China, to devastating effect. China, which had been the largest purchaser of US ELS cotton, could no longer afford the high cost of that cotton due to the tariffs, and their market share (see chart below) fell into decline, from near 70 percent of total ELS commitments (outstanding sales + exports) to a low of seven percent, before recovering in recent weeks to around 17 percent. Until these tariffs are removed or the Chinese authorities waive them on a case-by-case basis, it will be difficult for China to compete when converting this high-priced cotton into yarn. We have seen some diversion in the supply chain, with India, Vietnam and Pakistan gaining market share, but this has been slow, as it takes time to convert processes to the requirements of ELS, meanwhile the Covid-19 pandemic has shut down many mills and sharply reduced demand worldwide.

The USDA's June '20 WASDE (World Agriculture Supply & Demand Estimates) report (see table overleaf) showed ending stocks rising to a five-year high by the close of the 2019/20 crop season, with stocks-to-use at 47 percent, also very high. This explains the low prices



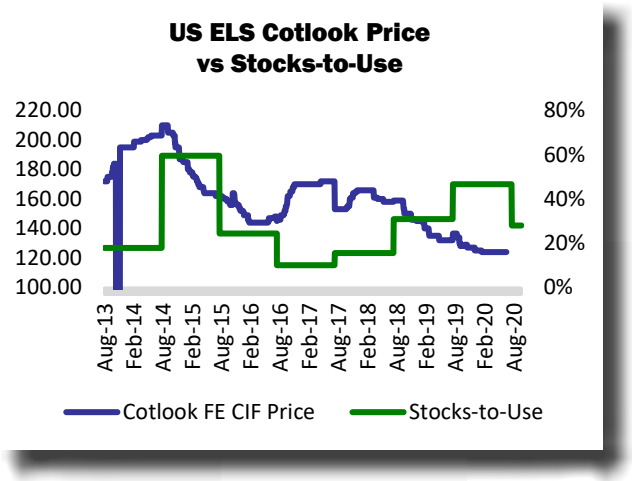


US ELS ('000 480-lb bs)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Planted acres	201	192	159	195	253	250	229	228
Harvested acres	199	190	155	188	250	249	224	225
Yield/harvested acre	1,527	1,432	1,342	1,454	1,341	1,545	1,472	1,419
Beginning stocks	187	125	259	136	64	103	214	287
Production	634	566	433	569	700	801	686	665
Imports	7	3	3	2	2	3	2	0
Total supply	**828**	**694**	**695**	**707**	**766**	**907**	**902**	**952**
Domestic mill use	23	25	25	29	27	22	15	20
Exports	680	410	534	614	636	671	600	675
Total disappearance	703	435	559	643	663	693	615	695
Difference unacc.	0	0	0	0	0	0	1	0
Ending stocks	125	259	136	64	103	214	287	257
Stocks-to-Use	18%	60%	24%	10%	15%	31%	47%	37%

during the crop year. In that same June '20 report, USDA announced its expectation that US new crop ELS production will be marginally less, down three percent year on year, but that supply will be still high due to the carryover stocks from the previous season. A rebound in exports, as predicted by USDA, will trim ending stocks by ten percent year on year and allow the stocks-to-use ratio to fall to 37 percent, a small bright spot after many years.

The US ELS market received some additional good news on June 30, 2020 with the release of the USDA Planted Acreage report, which showed US ELS planted acreage down 15 percent from the 2019/20 crop year, and California in particular down 19 percent. That news, along with reports that Chinese ELS production will be reduced by 30-35 percent and Egyptian will also fall slightly, could begin to turn this market. If we adjust this lower US acreage using the same abandonment and yield figures that the USDA applied in the June'20 WASDE, it gives 568,900 (480-lb) bales of production, down 96,000 bales even from the figure in that report. Even if we revise exports down by 25,000 bales in



recognition of the lower production, that will reduce ending stocks by 71,000 to 186,000 bales, and push stocks-to-use from 37 percent to 28 percent. The last time stocks-to-use was near that level was during the 2018/19 crop season, when the ratio was 31 percent and prices averaged 143.00 ¢/lb.

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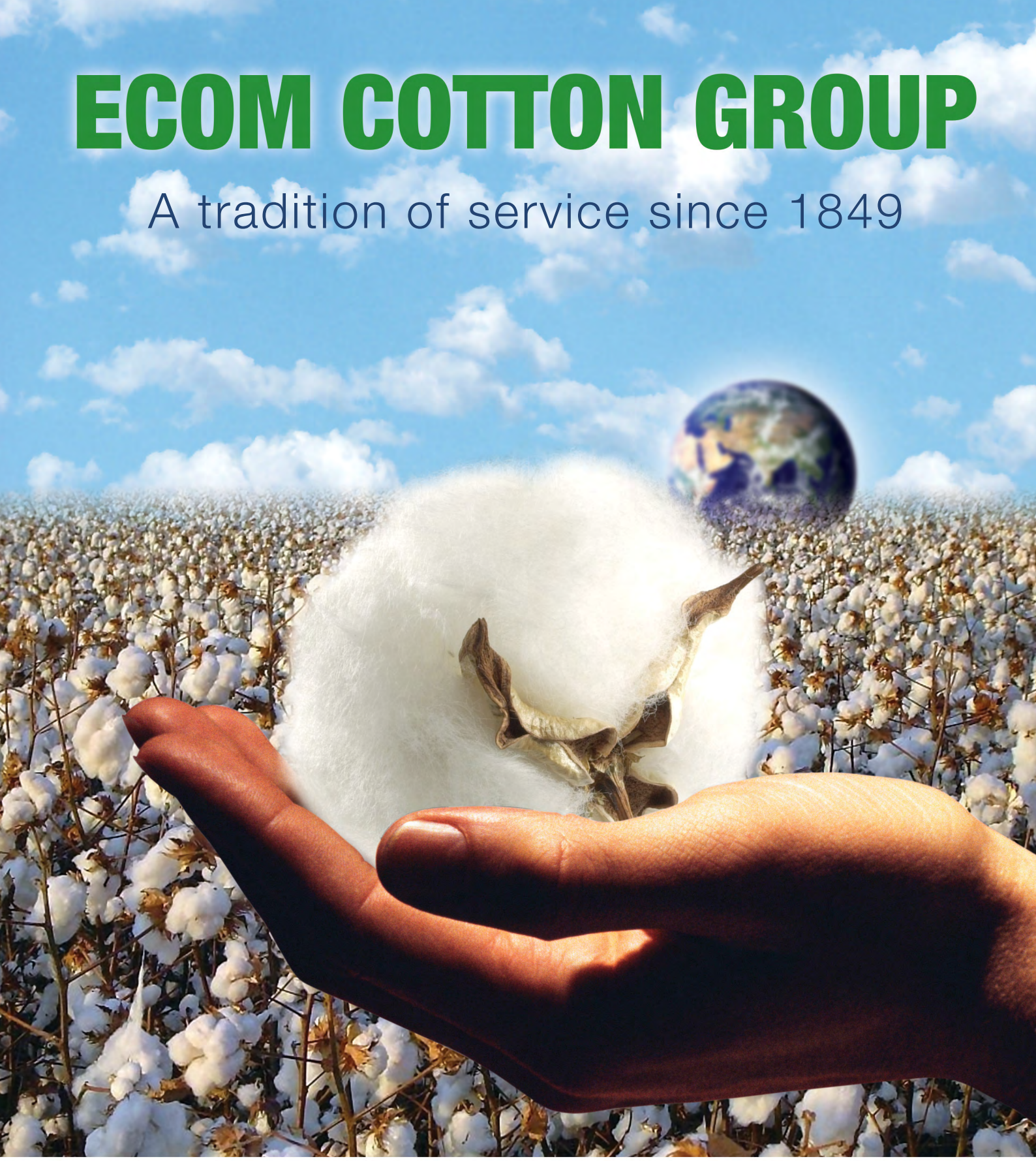

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Cotton Egypt Association announces the official launch of BCI in Egypt

Khaled Schuman, Executive Director and Wael Olama, Chairman of Cotton Egypt Association.

The Cotton Egypt Association (CEA) is proud to announce that the Better Cotton Initiative (BCI) officially launched its programme in Egypt in June 2020 with support from the United Nations Industrial Development Organization (UNIDO). The BCI programme aims to support farmer livelihoods through the adoption of more sustainable farming practices. Another major objective of this programme is to improve Egyptian cotton's sustainability in order to enhance access to global value chains.

Wael Olama, Chairman of the Cotton Egypt Association, explains that implementation of the BCI system has proven to be of great value globally as it has increased productivity and improved the overall quality of crops, while simultaneously reducing the consumption of water and pesticides.

"As part of CEA's efforts to restore the world's confidence in Egyptian cotton, we will continue to support this great project, partnering with UNIDO, because of the benefits it brings to farmers, merchants, producers and consumers, who deserve products made of sustainable Egyptian cotton grown in accordance with BCI standards."

Khaled Schuman, Executive Director of Cotton Egypt Association, adds that the Association introduced the BCI initiative after UK, US, and European retailers expressed to CEA their desire for sustainable Egyptian Cotton in 2016. Currently, many global retailers are adopting BCI in the light of the demands of modern consumers and the requirements of global markets. He notes that that some retailers are already selling BCI cotton products exclusively, and that an increasing number of retailers are determined to be selling sustainable cotton products by 2025.

"As renowned global stores continue to demand progress towards sustainability and the implementation of BCI certification, it is becoming increasingly clear that sustainable farming and production of Egyptian cotton have become essential. The demand for sustainable cotton, along with the environmental and social impact of the project, highlight the importance of the BCI program in Egypt," affirms Mr. Schuman.

In partnership with UNIDO, CEA is managing a private sector working group, bringing together local and

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Sustainable Egyptian cotton starting 2020/2021 season

Major European retailers continue to express their demand for sustainable Egyptian Cotton and require their suppliers to obtain the Egyptian Cotton license to ensure that their products are made of 100% authentic Egyptian Cotton

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international retailers, traders, manufacturers and brands to cooperate and coordinate to ensure the success of the BCI project.

Schuman notes that, as part of CEA's efforts to launch the BCI programme in Egypt, the Cotton Egypt Association last year invited renowned retailers, including John Lewis, Marks & Spencer, Macy's, Dunelm and Next, as well as a number of international manufacturers, to visit Egypt and participate in a day of harvesting of Egyptian cotton grown in accordance with BCI standards. In addition, CEA also arranged a visit for the same group to the newly developed Fayoum ginning factory.

The BCI program was launched in 2019, starting with a pilot project, after the success of the initial experiment and a rigorous evaluation to ensure that Egypt was implementing strict measures to guarantee implementation of the BCI standards of sustainability.

"In addition to the increasing demand for BCI products, most retailers insist that any Egyptian cotton product should

be licensed with the Egyptian Cotton logo trademark. A product bearing both the Egyptian Cotton logo and the BCI logo is guaranteed to be sustainable and made of 100 percent authentic Egyptian cotton," says Schuman.

The Egyptian Cotton Project – UNIDO

THE EGYPTIAN COTTON PROJECT
مشروع القطن المصري

From the farm to the consumer, the textile and retail industry in Egypt has a significant economic, environmental, social, and governance impact. Cotton goes beyond the country's boundaries, holding a key position in the global textile value chain. This being the case, stakeholders in Egypt are increasingly encouraged to foster strategic partnerships with development organisations, governments and private sector representatives, in order to support the inclusive and sustainable development of the cotton sector. With demands increasing to demonstrate transparent and socially responsible practices, the textile industry needs to take the lead in driving sustainable solutions.

The same challenges apply to the particular situation of Egyptian "white gold": the long and extra-long staple varieties of cotton that have had an historical impact on Egypt's overall economy and that now demand a fully integrated cotton textile sector.

Development initiatives in the cotton, textile and garment industries have lately focused on promoting and improving efficiency and sustainability at each step of the value chain. Efforts to advance the representation of the Egyptian cotton industry in the global marketplace are at the forefront of governmental and international projects carried out in Egypt. This collaborative approach is focused on spreading a culture of improved and sustainable practices for cotton cultivation, yarn production and clothing manufacturing whilst empowering farmers, young people and women engaged in the cotton value chain.

In 2017, The United Nations Industrial Development Organisation in Egypt, building on the "Cottonforlife" CSR initiative from the Filmar Group, initiated "The Egyptian Cotton Project" funded by the Italian Agency for Development Cooperation. The project started with a strong collaboration with the Egyptian Ministry of Trade and Industry and the Ministry of Agriculture and Land Reclamation, through their respective bodies: the Cotton Egypt Association (the entity that manages the Egyptian cotton trademark and branding) and the Cotton Research Institute (which oversees the breeding and cultivation of Egyptian cotton in the field). Taking a multi-stakeholder approach in order to efficiently connect supply and demand, UNIDO activated a private sector working group composed of local and international private sector partners interested in promoting sustainability along the Egyptian cotton value chain.

The Egyptian Cotton Project seeks to support the government of Egypt and local cotton stakeholders in reviving the fortunes of their "white gold" by improving the economic, social and environmental performance of Egyptian cotton farmers and processors at the national level. The program focuses on the main pillars of a sustainable Egyptian cotton value chain, aiming to integrate sustainable cotton cultivation and industrial processes, traceability and transparency, innovation and green technologies, all backed by strategic global public-private partnerships and skills development initiatives. The cooperation agreement with the Better Cotton Initiative, signed in 2019, allowed the deployment of a pilot cotton plantation supported by cotton traders, manufacturers and brands. The pilot paved the way towards the launch of the Better Cotton programme in Egypt in June 2020.

Towards sustainable cotton: Better Cotton Initiative implementation in Egypt 2020 and key global partnerships

On the production side, the project has been cooperating with the Cotton Research Institute (CRI) to support the introduction of sustainable practices in cotton cultivation, starting with the pilot programmes in Kafr el Sheikh and Damietta. These schemes followed the requirements of the Better Cotton Initiative, the most popular certification system for sustainable cotton established in 23 countries worldwide.

In June 2020, the BCI programme was officially launched in Egypt. The participating farmers will receive training on the Better Cotton principles and criteria. By adhering to these principles, farmers produce cotton in a way that is measurably better for the environment and farming communities. Approximately 2,000 smallholder cotton farmers will receive training and support on how to grow Egyptian cotton more sustainably while also improving their livelihoods.

The BCI programme aims to support farmer livelihoods through the adoption of more sustainable practices. In 2019, BCI initiated a trial project with the Egyptian Cotton Project to train cotton farmers on its approach to sustainable cotton production. Following the successful completion of this trial and the necessary start-up process required for a new country, Egypt officially became a new BCI programme country in June 2020. From the 2020-21 cotton season onwards, farmers in Egypt who participate in the BCI programme may be eligible to receive a licence to sell their cotton as 'Better Cotton'.

Together with the Cotton Research Institute and the implementing partners ALKAN and Modern Nile Cotton (the organisations responsible for supporting and training farmers to continuously improve their sustainable agricultural practices according to the Better Cotton principles and criteria), UNIDO will ensure that farmers receive the knowledge and tools to improve their agricultural practices. The project also works closely with CottonConnect on the development of ground-level training and the implementation of the BCI programme in Egypt.

Ongoing training to support the implementation of the Better Cotton Standard System by Egyptian farmers and smallholders currently covers essential planting preparation methods as well as awareness raising of BCI principles and criteria. However, to ensure the safety of farmers, farm workers and on-the-ground partners during the ongoing global Covid-19 pandemic, innovative methods are being employed: temporarily, the training programmes are being delivered via digital platforms instead of in the field, in order to comply with safety measures set out by the government.

The Egyptian Cotton Project is also implementing education programmes which promote the health and welfare of farmers and workers, gender equality and entrepreneurial opportunities for the young. The training sessions address topics such as child labour and the importance of education and skills training to serve as a positive choice for young people in rural areas. The project works closely with the Ministry of Education and organisations in the private sector on promoting technical education 2.0 strategies, which link technical education to job opportunities and market requirements and make connections for hands-on training and internships.

In complement to these initiatives, the project is also addressing the position of women in the value chain in coordination with the National Council for Women (NCW). The aim is to assist the development of their technical skills with regard to production and also to provide support in areas such as financial literacy and health. Finally, the project is cooperating with the Ministry of Education and the private sector on the development of an agricultural training curriculum, which aims to synergise other projects and initiatives taking place in the sector.

Outlook for the Egyptian cotton sector: integrated supply chain reform

Hisham Tawfik
Egyptian Minister of Public Business Sector

Background

For decades, Egyptian cotton has occupied an exclusive niche due to its unique specifications. In 1927, the special nature of the cotton crop led the entrepreneur Talaat Harb Pasha to make a suite of investments in related industries, including ginning, spinning, weaving, dyeing and finishing, to capitalise on the valuable local resource and add value. Other actors in the private sector soon followed suit, directing most of their investment towards downstream activities, such as weaving and the manufacture of ready-made garments. Thus, the Egyptian cotton sector has always been a major contributor to the Egyptian economy in terms of GDP, exports and job creation.

Egyptian state-owned cotton ginning, spinning, weaving dyeing and finishing enterprises have also played a major role in the cotton supply chain, providing well-recognised high-quality inputs to major private sector entities involved in downstream sectors. Today almost two thirds of upstream activities are handled by state-owned companies (SOCs). However, over the past couple of decades SOCs have witnessed very little development, not only in terms of machinery and new technology, but also as regards the proper maintenance of existing assets and capacity building of manpower.

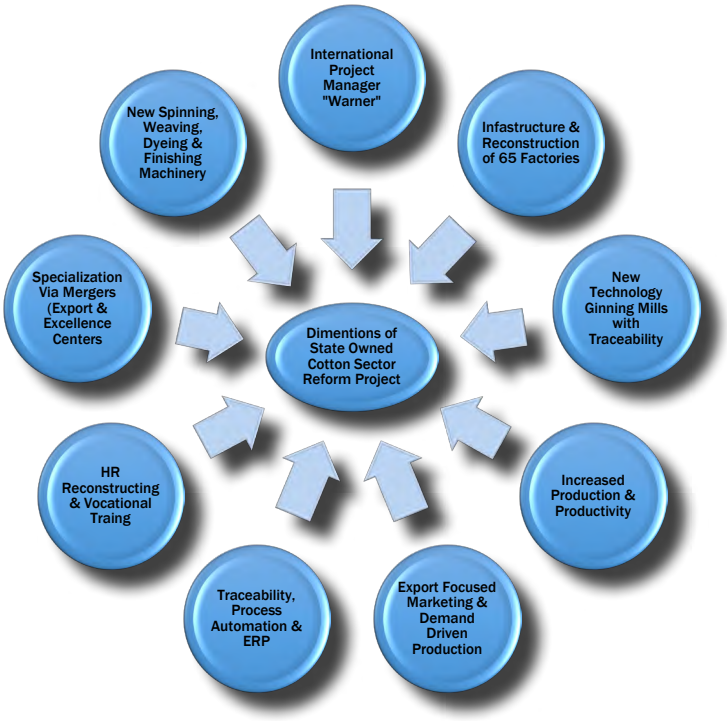
In fact, this state-owned component of the sector has suffered from long years of neglect, resulting in decreased productivity and competitiveness. Moreover, this period coincided with a resumption of development and expansion in the downstream private sector and an increasing number of free trade agreements, which gave rise to enhanced potential for exports. The coincidence of these factors forced the private sector to turn away from domestically produced inputs towards imports of short staple cotton, and coarser yarns and fabrics, which has contributed to the further deterioration of the financial conditions of the sector as demand has declined.

This worsening of conditions necessitated a plan to reform the role of the state-owned sector, which should provide the backbone of the Egyptian cotton industry, so that it can again supply high-quality inputs to private downstream manufacturing enterprises, and ensure that the whole industry conforms to international standards of sustainability and traceability.

The reform plan for the up-stream state-owned component of the Egyptian cotton industry

In 2016, the international consultancy firm Werner was engaged to assess the nine ginning and trading companies, and the 23 spinning and weaving companies affiliated to the Cotton and Textile Industries Holding Company (CTIHC), and draft a reform plan for the sector. The resulting multi-faceted plan includes: infrastructure reconstruction, new machinery, HR reform and capacity-building, financial reforms and historical debt settlement. The report also outlined a restructuring component, which involved merging the 32 companies into a smaller number of larger operations (one dedicated to ginning and trading, and nine to spinning, weaving, and dyeing and finishing) to enable specialisation in production processes and improve the quality of outputs, and also to allow a focus on exports to particular destinations. The plan also included a review of the automation of work procedures (as part of a sector-wide enterprise resource planning exercise, also known as ERP), and most importantly of the local and international

marketing of higher value-added products (as opposed to exporting raw cotton).



Werner's reform plan (which came with an estimated budget of €1.1 billion) was submitted to the cabinet in late 2018 for approval. In early 2019, Werner was mandated by CTIHC to supervise the implementation of the reform plan over 2.5 years in partnership with a set of carefully selected local consultants (in the construction, financial, HR and ERP sectors). All contracts pertaining to the new machinery were signed in 2019/2020 with reputable international companies (Bajaj for Ginning, Ritter, Savio and Marzoli for spinning, Itema for weaving, Benninger for finishing and dying, and Reganni for printing). Civil/electro-mechanic tenders are also being issued, financial merger preparations are being finalised, and a manpower assessment is under way, as is the pilot phase of the ERP implementation.

The scope of the reform plan was not limited to the investment in human resources and upgrading machinery, factories and technology. In order to ensure a return on this huge outlay, a comprehensive set of regulatory, managerial, governance and business reforms have been introduced at the same time (again, as part of the sector-wide reform programme), to complement those efforts. These include: amendments to statutes governing SOEs; the introduction of a standard compensation and benefits policy based on productivity and profitability; the assessment of top management; establishing centralised marketing units within holding companies; training in cost accounting; revisions to the standard chart of accounts; and the standardisation and automation of operational procedures in six areas (production, warehouses, HR, finance, procurement and sales) in preparation for the introduction of ERP systems in subsidiary cotton holding companies. Together, these innovations will take the sector to an unprecedented level of sustainable efficiency, standardisation and profitability.

Anticipated outcomes of the reform plan

A major component of this reform plan is the restructuring of the sector into a smaller number of more specialised entities, with higher productivity and a more export-oriented focus on further value addition to the well-known Egyptian cotton. This entails the mergers of existing companies into bigger entities and increasing the level of specialisation and quality of output (Excellence Centres), while focusing on exports to certain destinations (Export Centres). The purpose is to achieve proper inputs for the growing private-sector-led readymade garment manufacturing industry, rather than exporting unprocessed Egyptian cotton at low prices. This restructuring will result in the following outcomes:

- **One ginning and trading company** arising from the merger of the existing nine companies. The new company will control seven new automatic ginning mills, which use recent technology developed by Bajaj, and are capable of producing bar-coded traceable cotton. The company will also function as the Holding Company's cotton trading arm, sourcing inputs of raw cotton from farmers and facilitating its transfer to sister companies via the new auction system;
- **Nine spinning, weaving, dyeing and finishing entities, including three centres of excellence and three export centres**, resulting from the merger of the existing 23 spinning and weaving companies. The new entities will have minimal involvement in the area of readymade garments (limited to bed sheets, towels, classic men's shirts for export, and class B underwear for the local market), to ensure complementarity with the private sector, which will take the lead in this area, capitalising on its capacity to cope with changes in international fashion trends;
- The higher productivity of the new machinery will ensure the availability of **sufficient quality inputs (yarn and fabrics) for the growing readymade garments industry** targeting both local and export markets, thereby diminishing the need for imported inputs, and enhancing its production and export capacities;
- Higher productivity due to more efficient procedures and capacity building will result in the **need for a smaller labour force**. An early retirement programme will be required, and a good number of experienced labourers will need to be redeployed elsewhere in the supply chain;
- Another very important consequence of restructuring the sector will be a **large number of unutilised assets located in residential areas** around various governorates. Some of those unused assets have been earmarked to help finance the historical debt settlement, and contribute towards the total cost of the reform plan, which is estimated to be around E£21 billion.

The predicted impact of the reform plan is not limited to productivity, output quality, enhanced export capacity and local supply chain linkages, and ultimately financial profitability. It will also **raise the skills of the labour force**

through vocational training and exposure to up-to-date technologies and industry techniques, as well as more environmentally friendly practices, which will contribute to the enhanced sustainability of the sector. The use of new machinery and techniques will **address environmental concerns** raised with regard to the outdated technologies currently in use, which result in air pollution and sector-specific respiratory disease arising from inefficient ventilation. Other eco-friendly practices under consideration include solar water heating and more environmentally friendly chemicals for dyeing and finishing.

The plan also includes **moving factories and industrial activities outside residential areas**, thus limiting the negative impact – though diminished by the environmental friendly technologies – of industrial activities on social communities. In addition, some of the unutilised industrial areas located in the middle of residential districts that result from the mergers will be developed into clusters of small and medium-sized enterprises dedicated to labour-intensive garment production. The positive consequences will be two-fold: job creation on the one hand, and less environmental harm on the other. This project represents another economic and social by-product outcome of the reform plan, providing opportunities for both members of the unutilised labour force (many of whom will benefit from early retirement) and young entrepreneurs. In addition, it provides an opportunity for large exporters to outsource part of their orders exceeding their capacity.

Coordination with other stakeholders (public and private)

This ambitious reform plan had to be complemented by a large and coordinated effort between various stakeholders active in the Egyptian cotton sector, including government ministries (mainly agriculture and trade and industry) and private sector organisations, in order to capture the opportunities in the international market for readymade garments. This coordination aims to ensure the coherence of efforts made by all stakeholders, and thus bring about optimal outcomes.

At the governmental level, a committee headed by the minister for the public business sector was formed to coordinate efforts across the agricultural and business sectors. Among the main objectives of the committee is to ensure reforms across the entire supply chain, starting with clean, sustainable and traceable cotton farming, and ultimately enhancing the value added to Egyptian long staple cotton, through further local processing.

Cleaner long staple cotton and enhanced added value

The committee is currently studying a proposal received from a multinational company seeking to implement an agricultural advisory program linked to purchase contracts with farmers of long staple cotton, thus ensuring higher productivity of cleaner and traceable cotton, together with better income for farmers. This would provide cleaner inputs to the new ginning mills and the state-owned spinning and weaving activities under reform. Thus, cleaner and higher value long staple cotton will be available for downstream use.

Short staple cotton planting

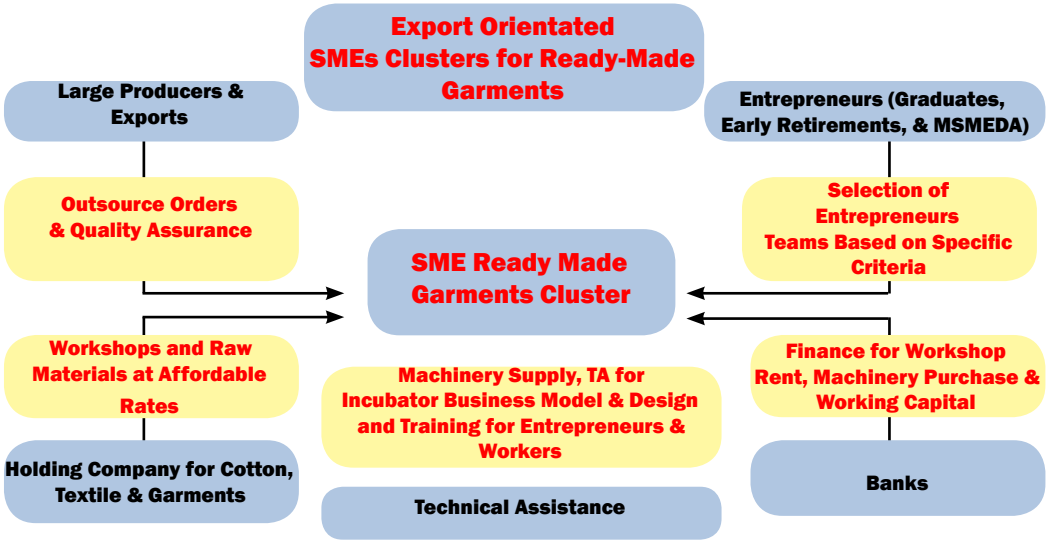
The committee has also decided to plant short staple cotton for the first time in Egypt. These varieties are in high demand from local garment manufacturers, but industry currently relies on imports to meet this need. As a trial, in May this year 250 feddans were planted with high-yielding short staple cotton seeds in isolated areas far away from the long staple planting areas in the Delta. If the trial is successful, further contracts will be agreed with farmers in order to allow a local supply to substitute for imports of short staple cotton, serving the demand of the local industry and ultimate clients.

Pilot trading system based on auctions and market prices

In 2019, the committee introduced in two governorates (Fayoum and Beni Souif) a trial handling (collection) and trading system for seed cotton based on auctions with strict rules for cleaner handling. This complemented the introduction of cleaner ginning practices at the new ginning mill in Fayoum, ensuring cleaner cotton for use downstream. The system will be rolled out to all governorates during the 2020 season.

On the private sector front, regular meetings are held with the major private sector players and business community leaders in the area of ready-made garments, with the twin objectives of (a) ensuring that the outputs of the upstream sector (under reform) serve their input needs in terms of both quality and quantity, and (b) discussing the potential for sector expansion, in light of the anticipated international demand and production capacity.

The first objective serves the aim of enhanced complementarity between the state-owned and private



components of the sector, through import substitution of the private sector inputs, as well as the enhanced profitability of the state owned upstream.

The discussions, particularly on the topic of the unutilised real estate assets resulting from the restructuring of state-owned companies, gave rise to another project aiming to promote and support the creation of SME clusters in the area of exportable readymade garments. These are needed in order to meet the increasing demand from international markets, which exceeds the production capacity of even the largest players in the local private sector; however, the clusters will still benefit from private sector supervision when it comes to quality standards.

The business model for the project can be summarised in the accompanying diagram.

Conclusion

The state-owned enterprises of the upstream Egyptian cotton sector are being reformed and upgraded to increase the availability of quality inputs for the private-sector-led downstream market. The reforms are being carried out with the collaboration of government ministries and the private sector, and have the aim of providing cleaner and traceable agricultural and trading outputs on the one hand, and more competitive local products with higher added value on the other.

These innovations will give rise to increased production and export capacity, making better use of unutilised assets and creating more jobs for Egyptian workers.

The development of an integrated supply chain for the Egyptian cotton industry, that increases added value to one of the country's most important and celebrated crops will result in:

- clean, sustainable, and traceable long staple cotton farming and ginning;
- a local supply of in-demand short staple cotton, replacing imports;
- transformed state-owned upstream enterprises, representing the backbone of the industry;
- refreshed private-sector-led downstream activities, capable of coping with international fashion trends;
- additional production capacity in SME clusters, with outputs that meet international standards for quality;
- better use of resources, the creation of more jobs, and improved production and export capacity overall.

Internationally competitive ready-made garments, with high local value added, produced from Egyptian traceable cotton by Egyptian hands.

The impact of the Covid-19 pandemic on Egyptian apparel exports

An interview with Mrs. Marie Louis Bishara, chairwoman of Apparel Export Council for Egypt.
Interview by Mohamed Darwish, Cotton Outlook representative in Egypt.

The Apparel Export Council for Egypt is a non-profit organisation established by ministerial decree in 1997. Its mandate is to act in an advisory capacity for the Minister of Trade and Industry, and to advocate for the welfare of the sector's exporters, while also promoting Egyptian apparel exports.

Mohamed Darwish: We have heard about a new strategy for the Apparel Export Council for Egypt. Can you give us some details?

Marie Louis Bishara: The Council's strategy is based on a digital revolution that will help and support factories (which make up the membership of the export council) achieve an online presence in order to market their products. Egyptian apparel products will be promoted via electronic platforms (b2b portals) and companies encouraged to invest in digital tools. This will be especially important given that most physical exhibitions have been cancelled in the light of Covid-19; the focus henceforth will be on virtual showcases.

MD: Can you tell us about the Council's plans to support the vertically integrated supply chain?

MLB: The Egyptian textile industry already has a vertically integrated supply chain. The country is the pivot for vertically integrated textile activity in the Middle Eastern region, which involves the complete production process all the way from the cultivation of cotton, through the spinning of yarns and manufacture of fabrics, to the production of ready-made garments.

The Egyptian textile sector is committed to growing and developing excellence in the Egyptian fashion and textile industry, by nurturing, supporting and promoting local designers, artisans and manufacturers.

We are also dedicated to guiding Egyptian producers on how to meet international standards and showcase their work in the local and international fashion arena.

The Apparel Export Council builds successful synergies by linking young fashion designers with technical and innovation centres nationally and internationally.

The export environment has been challenging this year. Total apparel exports for the period spanning January to May 2020 show a decline of 29 percent compared to same period of 2019: US$484M vs $680M.

Apparel Exports

Value: in Millions USD

	Total	May	April	March	Feb	Jan
2019	145	131	130	139	135	680
2020	144	128	105	50	58	484
%	-29%	-57%	-64%	-19%	-3%	-1%

MD: The Better Cotton Initiative's Egyptian project was officially launched in June 2020. How is Egypt working towards achieving sustainability in the textile sector?

MLB: The Better Cotton Initiative comes under the framework of The Egyptian Cotton Project, which oversees the entire supply chain from cotton seeds to clothing. The Better Cotton Initiative (BCI) pilot is intended to support the branding of Egyptian cotton as part of a renewed drive to increase sustainability, improve working conditions all the way along the supply chain, and support cotton growers and relevant institutions as they prepare for the project to be rolled out on a national scale.

The project's vision is to pilot the BCI standard system in Egypt in order to advance the cotton industry in a way that cares for the environment and the farmers growing it,

through a multi-stakeholder programme jointly coordinated by UNIDO, relevant governmental entities, farmers' cooperatives, cotton and textile associations, and local and international private sector stakeholders.

From the 2020-21 cotton season onwards, Egyptian farmers who participate in the BCI programme may be eligible to receive a licence to grow and sell certified 'Better Cotton'.

MD: What is the expected economic impact of the BCI initiative?

MLB: Through the BCI approach, based on market transformation and multi-stakeholder participation, Egyptian cotton and apparel exports are expected to increase tremendously, helping our white gold retake its rightful position in the global value chain.

However, the council does not expect to see results immediately. A clearer vision will be possible after six months, when we will be able to compare the outcomes for participating organisations with the previous six-month period.

MD: What do you estimate will be the impact of Covid-19 on the global apparel trade?

MLB: Amid the pandemic, the global apparel and fashion industry has moved quickly towards digitisation, and Egypt's vision is to become the leading country for e-commerce in Africa.

As the pandemic continues to cause political and economic turmoil all over the world, affecting business and consumer activities, digital transformation has become a now-or-never choice for companies. And for those in the apparel industry – whether global retailers or apparel manufacturers – investing in digital tools to streamline their supply chains is critical to minimising the possible trade risks and uncertainties. The apparel industry is one of the most challenging fields, since it is highly sensitive to global economic uncertainty and has to respond quickly to new trends.

MD: What are the implications of Covid-19 for the Egyptian apparel sector?

MLB: The Ministry of Industry and Trade is currently implementing a comprehensive plan to protect the industrial sector against the fallout from the virus. Apparel factories must be committed to compliance with precautionary measures including workplace sterilisation and disinfection to ensure worker safety and production continuity.

As a result of the pandemic, the apparel sector faces a lot of challenges, including order cancellations, postponements, and payment delays, as well as a decline of global demand for clothing products, which in turn has led to a liquidity crisis in manufacturing.

In this regard, the Council was keen to search for different solutions, so we held several meetings with leading companies in the field of export risks insurance and factoring, the Egyptian Export Development Bank and the French insurance company Coface, as well as some legal consultants, who were able to present their services and provide advice to the Council's members to help them mitigate the risks over the next few months.

Long staple cotton in Xinjiang

Sun Gang, Futures Department Manager,
Xinjiang Yinlong International Agricultural Cooperation Co., Ltd

Globally, long staple cotton is facing an unprecedented market environment, and the prospect for a recovery in consumption recovery during the 2020/21 season is mired with challenges. World prices for long staples have been depressed for several consecutive seasons. As the production cost of long staple cotton is higher than that of upland cotton, and yield is lower, it is predicted that the planted area of long staple cotton worldwide in the 2020/21 season will be around 514,000 hectares, with an annual decrease of six percent, while output is estimated at 339,000 tonnes, down ten percent year on year. The area for US Pima is expected to fall to 73,000 hectares, with area in California down 20 percent year on year.

Travel around Xinjiang has been difficult this year due to the Covid-19 pandemic, so most of the data discussed below were collected via phone conversations with local ginning mills and growers located in Awati County, the main long staple producing region in China.

Planting

Sowing proceeded in an orderly manner between late March and early April in Awati, although the start of the planting period was very slightly delayed by cooler weather. The total area planted in Awati this year was around 420,000 mu (28,000 ha), down by 210,000 mu or one third from last year, and by a half from the level seen in 2018. The main reasons for the decline are: 1) labour shortages; 2) high picking costs (placed at around 2.5/3.0 yuan per kilo); 3) unsatisfactory yields. As a result, long staple area has been falling with each passing year. In 2019/20, output in Awati totalled 50,000 tonnes, but that figure is expected to drop to 33,000 tonnes this year. Meanwhile, because of low temperatures during April and May, plant development has been poorer than last year, and topping will be finished only by late July.

Planting costs

Production costs for long staples are placed at around 2,200 yuan per mu, taking into account seed, fertilisers, pesticides, irrigation water and wages for handpicking. The equivalent cost for upland cotton is 1,800/1,900 yuan per mu. Meanwhile, the average market price for long staple seed cotton last year was 7.5 yuan per kilo (the maximum was eight yuan), and subsidies totalled 1.05 yuan per kilo, so long staple growers' income equates to about 100 yuan per mu more than that of upland growers. In our communications with local growers we learnt that by late June long staple cotton plants were 50/65cm in height with 12/14 bolls, nine branches and two to three flowers. Weather permitting, the indication based on current progress is that seed cotton yield will be maintained at 260/270 kilo per mu (giving a ginning outturn of 33 percent), while lint yield is estimated at 80/90 kilo per mu.

Market sales

Old crop stocks held in Awati were estimated to amount to between 6,000 and 7,000 tonnes, most of which consisted of lower quality cotton; lots with higher specifications (length 37mm, strength 40/42 GPT, Micronaire 4.2), which normally account for one third of total output, have sold out. At the beginning of the year, long staple lint prices were running between 21,000 and 21,500 yuan per tonne; however, after the Covid-19 outbreak in late February, these dropped to around 19,500 yuan and have been held at a

similar level ever since. That price is over 2,000 yuan per tonne lower than the ginner's break-even cost, and yet it is still very difficult for long staple cotton to find a buyer in the market.

The reasons why long staple cotton has been less popular during recent years include:

1. the upgrading of spinners' machinery with improved textile technology. New processes mean that high-count yarn production can be fully replaced by blending Australian and Xinjiang high-grade upland cotton;
2. the decline in consumption of long staple cotton in downstream markets, leading to reduced demand for high-count yarn. Even before the outbreak of Covid-19, the global trade in long staple trade cotton was adversely affected by friction in Sino-US relations beginning in 2018, and the impact is getting worse. Moreover, the recent comprehensive blockades by countries in an effort to prevent and control Covid-19 have led to a further decline in demand for textiles and clothing around the world.

Given the current market situation, the need for cost-effective inputs is even greater than normal. For those companies with a requirement for high-grade cotton, stocks produced in Australia, Brazil and by the PCC (army group) in Xinjiang represent best value and are therefore among the top buying priorities. If an order has a particular specification for 'long staple', 'Australian cotton' or 'contamination free' US Pima and/or Australian cotton are the best choice. For medium-grade cotton requirements, mills can lock in advantageous prices for Xinjiang cotton (old or new crop) via a spot price strategy, and for low-quality cotton procurement, they are advised to consider inexpensive Xinjiang cotton, imported cotton, or a combination of cotton from Xinjiang and eastern provinces.

International market

According to a report produced by the International Cotton Advisory Committee (ICAC), long staple cotton production in 2019/20 amounted to 400,000 tonnes (down 14 percent year on year), representing 1.5 percent of the global total. Seventy-two percent of world LS and ELS output was produced in the US, Egypt and India. ICAC also predicts that the final figure for production of US Pima in 2019/20 will be 158,000 tonnes, down nine percent year on year; figures for Egypt and India are 89,000 and 68,000 tonnes, down 20 and six percent, respectively; while the output in China is 40,000 tonnes, down 33 percent.

At the time of writing, the spot price for US Pima in China is 21,000 yuan per tonne, which renders it more attractive and competitive with regard to Xinjiang long staple over recent months (prices for which ranged from 21,000 to 21,500 yuan per tonne). Typically, US Pima, which has better specifications in terms of fibre indicators and foreign fibre ratio, is priced about 1,000 yuan per tonne higher than Xinjiang long staples. As Pima drops below the asking price for Xinjiang cotton, it will surely attract greater market attention. China is a major consumer of long staples, while US is the major exporter. However, the trade war has had the effect of distorting traditional patterns of supply and demand, such that the price of Xinjiang long staple is now higher than US Pima. Meanwhile, the fact that Xinjiang long staple production has been higher than market demand in the past two years means that prices are low from an historical perspective.

To sum up, the current Covid-19 crisis may have a lasting and far-reaching impact on long staple cotton consumption, which has been on a downward trajectory anyway in recent years. In turn, a reduction in planted area and production is envisaged, so it is difficult to foresee a significant improvement in the demand of long staple cotton until the market recovers.

Chinese long staple outlook – a ginner's perspective

Pang Hao, General Manager of Awati Ti'an Yun Ginning Mill, Xinjiang

Cotton Outlook: Can you tell us something about your background and commercial operations?

Pang Hao: I have been involved in the cotton business since 2001, and our factory in Awati was established in 2006. We have around 100 employees in total, including 80 part-time pickers each year. Seed cotton procurement and the quantity of lint produced on an annual basis have been stable for the past few years, at 12,000/14,000 and 4,000/5,000 tonnes respectively.

CO: How long have you been involved in long staple cotton and what was your motivation in getting into this sector of the cotton industry?

PH: I've been engaged in long staple ginning since 2002. At that time, the profits available from long staples were quite impressive, albeit with big price fluctuations. Spinning mills in Shandong were our major customers; however, most of these enterprises have since closed down.

CO: What is the current state of the long staple market in China?

PH: According to official estimates, the area planted in Awati this year measures 420,000 mu (28,000 hectares), and half a million mu (33,333 hectares) for Xinjiang as a whole, down by over one third from last year. In 2020, we predict yields will also be lower since output is so dependent on weather conditions and temperatures, which have not been ideal this year. Temperatures in the latter part of the growing season will be critical to the final outcome.

Our sales process has also changed over the years. In the past, buyers would never travel to Xinjiang, and lint would be transported directly to factories in the 'mainland'. However, more recently buyers (mostly from export-orientated companies) tend to come to Xinjiang themselves to select crops. Business has been difficult for a few years and long staple prices have been falling ceaselessly.

CO: How do the economics of long staple production compare with those for upland cotton?

PH: Long staple yields are relatively small – say, just over 200 kgs per mu – lower than upland, which is normally over 400 kgs. The growing period is also ten to 15 days longer than that for upland cotton. Thus it involves higher costs and more risk. As for ginning, we have over 50 machines dedicated to long staples, and the process is very time-consuming; for upland, we only have six machines and the ginning process is quite efficient.

Personally speaking, I would say that long staple production is in gradual decline, because the business is too risky. As a result, Xinjiang long staple resources will become fewer and fewer in years to come.

CO: We understand that the failure to adopt mechanical harvesting in long staple production has meant that the cost savings in upland production have not been replicated for long staples, with the result that many farmers have shifted to upland. What are the obstacles to mechanising long staple production?

PH: Yes, that's correct: upland cotton production has become more cost-efficient, and machine-picking is very common nowadays. However, it will take time for the same technical developments to be applied to long staple production. So far, the technology for mechanical harvesting does not produce cotton that can meet our standards, the biggest problem being foreign fibres.

Instead, differences in the growing environment and plant height mean that long staples are mostly picked by hand. High-quality outcomes from machine-picking are unlikely to be achieved in the short term, with the result that labour costs (which account for over a third of the total cost of long staple production) will remain high.

CO: Turning to the demand side of the long staple market, how has this changed over recent years and what is the current state of buying interest?

In recent years, very few orders of long staple cotton have been witnessed and sales have been very sluggish. Market demand has declined dramatically since the beginning of the trade war.

CO: You mentioned that there is a decline in the production of long staple cotton in China. What are the main factors influencing that trend? How do you see the future of long staple production in Xinjiang?

PH: Firstly, there is the fact that returns for long staple cultivation are poorer than for upland, and secondly, long staples have gradually been substituted by high-grade cotton in yarn production, which has led directly to weaker demand in the downstream market. Altogether, I think that long staple output is likely to fall further, especially given the reduction in planted area. As for the future of long staples, I foresee that such a weak trend will not improve significantly in the second half of the year, so our strategy is to reduce seed cotton procurement so as to avoid excessive financial exposure.

Looking further ahead, I'm still not optimistic about the future of long staple prices. Firstly, stocks are very high, but consumption is likely to remain weak. Furthermore, I have noticed that many spinners who were once the main buyers of long staples have ceased operations or have adjusted their blends. In addition, many clients have asked suppliers to stop using Xinjiang cotton.

Most importantly, however, for as long as there is no improvement in the export market (whether because of the trade war or the pandemic), the current state of the long staple market is unlikely to change and may even get worse.

Fine count yarns: shifting trade and consumption patterns in the future

Dr KV Srinivasan, Managing Director, Premier Mills Pvt Ltd, Sree Narasimha Textiles Pvt Ltd and Premier Fine Linens Pvt Ltd

The cultivation and spinning of extra-long staple cotton (ELS) originated in Egypt, India and Peru. The cloth produced from this fabric was exported to many countries. With the advent of the Industrial Revolution, the manufacturing of cotton yarn on an industrial scale then moved to spinning mills in Europe. By the 21st century, due to an increase in the cost of manufacturing in developed countries, cotton yarn production had shifted to Asia and Africa. Egypt and India were the major producers and exporters of fine-count yarn, but in the last decade China has also become a significant player in this market.

Fine cotton yarns are produced from ELS cotton. These cottons are grown only in selected areas and the volume produced is considerably less than for medium and short staple cottons. Therefore, the quantity of fine count yarns produced around the world is also lower compared to medium and coarse count yarns. The main countries which produce ELS cotton are Egypt, India, USA and China, although smaller quantities are also grown in Peru and Central Asian countries.

The global trade in cotton yarn of all counts for the year ending March 2020 (April 2019 to March 2020) was 3,515,000 tonnes, valued at US$9.98 billion, of which fine count cotton yarn accounted for 117,000 tonnes, valued at US$642 million, which is 3.3 percent in terms of quantity but represents 6.4 percent of total trade in terms of value.

The major importers of fine count yarns are Italy, Germany, Japan, South Korea, Portugal, Turkey, Bangladesh and Pakistan. Together, these countries account for more than two thirds of the global trade. While imports into countries such as Japan and Italy are for the purposes of value addition and domestic consumption, other countries including Bangladesh and South Korea use fine count yarns in the production of finished products for exports to the EU and US.

The market dynamics in fine count yarn are determined by several factors:

- The availability of long and extra-long staple cotton fibre. As this cotton is grown only in limited areas, the crop size can fluctuate from year to year depending on local conditions and climatic issues. This can result in volatility in prices from time to time.
- There is a big difference in the time taken to manufacture yarns and textiles from long staple cotton, when compared to medium and coarse counts. This inevitably has an impact on the productivity of machinery and increases the running costs for manufacturing in spinning and weaving units.
- Demand in the market is currently limited for fine and super fine count cotton yarn used to manufacture high-value products, such as top-end shirt fabrics, bed linen, etc., which are sold at a premium.
- Consumer resistance at a retail level to spending on high-value textile and clothing products.

Given the factors above, even though the unit price of fine count cotton yarn in US$ per kg is much higher, demand is significantly lower compared to that for regular count yarns. Therefore, maintaining consistent quality parameters at a competitive price point is critical to survival in this niche market.

The available data show that world trade in fine count cotton yarn has declined by approximately 20 percent over the past three years, from US$800 million in the 2017-18 season to US$642 million in 2019-20.

Moreover, it is expected that consumer spending in the present Covid-19 pandemic period will be directed more towards essential products, hence overall spending on clothing of all types is bound to decrease.

India's share in the global market for fine count yarns has declined over recent years. This is due to tariff disadvantages (when compared to Egypt) and to a lack of superior ELS cotton varieties in comparison with those available from Egypt and China. India has to focus on developing its own extra-long staple cotton strains which can match the quality of the other premium ELS cottons grown in Egypt, USA and China.

Production of fine count yarns, which offers improved value addition, can also involve additional processes such as twisting, singeing and mercerising. These produce a superior quality yarn but require additional labour and machinery. These costs are added to the value of the yarn and make them more expensive. The higher labour intensity of fine count yarn production is an ever-more important factor, especially since the potential for automation in these additional processes is limited.

Fine count yarns have traditionally been used in knitwear, apparel and home textiles. Over time, though, these high-cost inputs have been replaced by cheaper yarns from medium staple cotton spun using a compact system. Another area in which consumption of fine count yarns has fallen is knitted sportswear. Traditionally, high quality sports shirts were manufactured from mercerised fine count yarns. These have now been replaced by performance fabrics spun from man-made fibres. In the home textiles sector, there is still a good demand for high thread count bed linen produced from fine count yarns and this segment continues to grow. In apparels, though, high quality shirts were traditionally woven from twisted fine count yarn produced from ELS cotton. In many cases, these have now been replaced by single compact yarns produced from long staple cotton.

The branding of ELS cotton has created an awareness of the advantages of textile products produced from these cottons. The Supima programme has in the last decade built up a very good brand name and awareness of ELS cotton. A similar programme has also started for Egyptian cotton. Consumer recognition of these high-quality products will hopefully create demand for luxury textile apparel and home textiles and result in greater demand for fine count yarns.

These programmes may also highlight to the customer the advantages of products manufactured from ELS cotton in terms of comfort, luxury and longevity, and thereby increase market share for textiles produced from ELS cotton.

The cultivation of extra-long staple cotton and production of fine count yarn are specialised activities producing inputs for a niche market. While the demand for such products has declined, it is expected that once the global economic situation improves, interest in high-quality goods will revive once again.

Impact of a collaborative project to develop the long staple DCH-32 Variety in India

SK Jhamb Director (Raw Materials), Vardhman Textiles Limited

ELS cotton worldwide

Extra-long staple cotton varieties, well known for their superior quality and spinnability, are the finest and highest value cottons in the world. However, the availability of such varieties is limited: worldwide ELS cotton production in 2019/20 is projected to be just 381,000 tonnes from a total cotton output of 26.77 million tonnes, a mere 1.4 percent of overall production. The US is the largest producer of ELS cotton in the world, followed by India, Egypt and China. About 90 percent of ELS cotton is produced in these four countries.

ELS cotton consumption is projected to be about 372,000 tonnes, out of an all-cotton total of 22.35 million tonnes in the year 2019-20; that is, about 1.7 percent of global consumption. India and China alone consume about 75 percent of that total.

	Quantity in thousand tonnes	
Countries	**Production**	**Consumption**
USA	146	5
India	75	150
China	60	120
Egypt	67.6	10
Others	36.8	87
Total	**385.4**	**372**

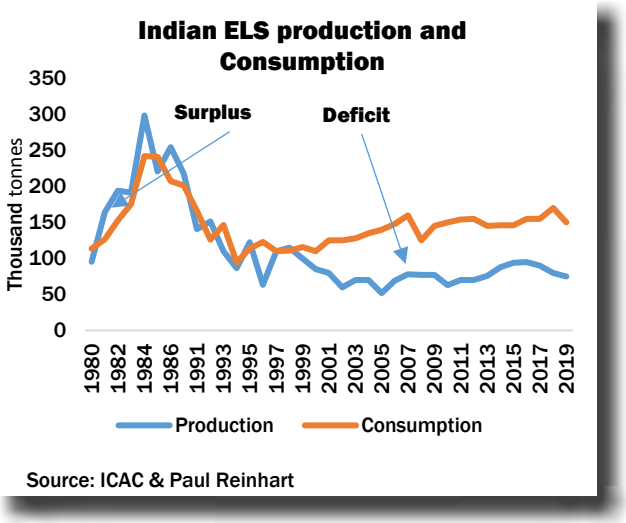
Source: Cotlook & Paul Reinhart

ELS cotton is used for fine and superfine counts of yarn suitable for the production of high-end garments and home textiles products. Given the limited quantities of ELS cotton available, products made from these varieties occupy a niche segment of the luxury market.

Over more than a century, research into ELS varieties has been carried out in India. A major breakthrough took place in 1974, with the introduction of the SUVIN variety (a name derived from the first letters of the parent strains, Sujata and Vincent). This was a hybridization of Sujata with the Sea Island St. Vincent V 135 variety.

The highest production of Suvin was the 44,000 bales (of 170 kg lint) achieved in the 1989-90 season. At present, annual output is less than 1,500 bales.

The first interspecific (hirsutum x barbadense) hybrid cotton, Varalaxmi, was released in Karnataka in 1972. This was followed by the extra-long staple hybrid cotton DCH-32 in 1981. Presently, DCH-32 is the main ELS variety in the Indian cotton basket.



Source: ICAC & Paul Reinhart

Present Indian ELS profile:

In the 1980s, India had a production surplus of ELS cotton. However, from the 1990s onwards, India became a net importer of long staple cotton.

Currently, long staples are produced in four Indian states. Their distribution is shown in the accompanying table.

Sr. No	State	Area in thousand hectares	Production in thousand bales of 170 kgs	Production in thousand tonnes	Yield (kgs/hectare)
1	Karnataka	30	**93**	**15.76**	525
2	Tamil Nadu	55	**150**	**25.42**	462
3	MP	83	**198**	**33.69**	406
4	MH	0.38	**1**	**0.17**	447
Total		**168.4**	**441**	**75.04**	446

CITI-CDRA project to improve Indian ELS varieties

In recent years, participants in the textile supply chain have expressed a need to improve the profile of Indian ELS (the DCH-32 variety), both in terms of quality and quantity. The process of delivering effective guidance to farmers of ELS cotton and monitoring outcomes is easier than for upland farming because of the smaller area on which ELS is cultivated and the lower number of farmers involved. Accordingly, the Confederation of Indian Textile Industry, a national body representing textile mills, has taken the lead in this area through its research body, known as CDRA (Cotton Development and Research Association). CITI-CDRA has been working in association with the Madhya Pradesh state agriculture department, Bayer Crop Science (Mumbai) and the Madhya Pradesh textile mills association based in Indore.

The project was implemented mainly in the Ratlam, Jabua and Dhar districts, using a public-private partnership model. It began in 2017/18 and ran successfully for the following two seasons. The aim is to continue the project in 2020/21 in order to pursue further improvements in ELS cotton yield, production and quality by encouraging farmers to adopt the latest technologies for production, plant protection, integrated pest management and nutrient management.

The collaborative project area falls under two agro-climatic zones, namely the Jabua hills and the Malwa Plateau. The Jabua hills are characterised by low and unevenly distributed rainfall, poor soil and rocky terrain. It covers the whole of the Jabua district except Petlawad Tehsil. Dryland production of maize, cotton, soybean, wheat and gram is predominant in this region.

The Malwa Plateau covers Ratlam, Dhar and the Petlawad Tehsil area of the Jabua district. Geologically, the Malwa Plateau generally refers to the volcanic upland region of the Vindhya mountain range. It is characterised by black to red soil, which is typically low in sulphur and deficient in zinc. Black soil requires less irrigation because of its high capacity for moisture retention.

Strategic implementation of the project:

I. **Formation of project implementing committee.** The first stage was to form a project committee, including prominent members from the state agriculture department, district-level agriculture departments (known as *krishi vigyan kendera* or farm science centres), scientists, including some who work for Bayer science, CITI-CDRA representatives and experts on cotton.

II. **Promoting the cultivation of Bt. cotton hybrids with higher lint recovery.** As part of the project, sincere efforts were made to promote the cultivation of Bt. cotton hybrids (as listed in the table above) in order to achieve higher lint recovery in the target areas. Farmers were encouraged to sow only these varieties in the project areas.

III. **Front-line demonstration programmes for cotton farmers.** Front-line demonstration programmes were implemented by CITI-CDRA, in association with the state and district agriculture departments. A team, including a project co-ordinator and officers, as well as team members from the state and district level agriculture departments, made frequent field visits. In addition, training camps and farmer schools were organised on a regular basis for cotton farmers in the project area. These training and awareness programmes were delivered by trained scouts, employees of Bayer Crop Science, officers from the state and local agriculture departments and other cotton experts.

The training provided covered the whole gamut of cotton cultivation processes, including integrated nutrient management (INM) and integrated pest management (IPM). The main focus was given to low-cost technologies, such as pheromone traps, yellow sticky traps, light traps, bird perches and use of

Profile of different ELS areas and varieties targeted by the 2019/20 project.

Region	Ratlam	Jhabua	Dhar
Total Cotton Area (ha)	30,700	34,850	97,000
Approx area (ha) under project	29,950	19,705	3,400
Area in clusters (ha)	Ratlam 10,650 Sailana 9,500 Bajna I & II 9,900	Jhabua 2,475 Ranapur 2,640 Petlawad 10,240 Thandla 4,350	Dattigaon 3,400
Varietal profile (ELS)	Tulaoinath, Aadinath, Kavita Gold, Kashinath, Amarnath, Jagannath, Paras, SP904, Mahadev, Parasnath, Minerva, Varah Laxmi, JK eharuundi, Excecot, Bahubali, Aiknath, Purmine, Shivshakti, DCH-32 etc.	DCH 32, Kashinath, Aadinath, Paras CH 32, SHB-3, SP904, mahadev, Nav Bharat, J.K Chanmundi, Kavita Gold etc.	DCH 32, Kashinath, Aadinath, Parasnath, Paras DCH 32, Kavita Gold, JK Chamundi, Agristar, DCH 32, Avistar Gold, Bhumi BG-II

biological techniques so as to reduce the cost of cultivation at the same time as achieving higher outputs and better quality. Farmers were provided with information on the latest technologies for cotton production as well as practical instructions for the preparation of neem-based insecticides, the identification of common pests and diseases, and the conservation of farm-friendly insects. There was also a focus on the safe use of insecticides and clean cotton-harvesting techniques.

Table showing number of events and farmers' participation during the year 2019-20:

S.No	Events	Ratlam		Jambua		Dhar		Grand Total	
		No. of Events	No. of participating farmers	No. of Events	No. of participating farmers	No. of Events	No. of participating farmers	No. of Events	No. of participating farmers
1	Farmer Training	78	3,184	41	1,078	10	341	129	**4,603**
2	Farmer Field Schools	39	1,134	-	-	-	-	39	**1,134**
3	Fields Days	21	731	-	-	-	-	21	**731**
4	Awareness Camps	9	505	-	-	-	-	9	**505**
5	Mass Awareness	-	15731	-	7948	-	1622	-	**25,301**

	Seed Cotton Yield			Cotton Lint Yield			No of Sprays		
District	Project Area	Non Project Area	Difference %	Project Area	Non Project Area	Difference %	Project Area	Non Project Area	Difference %
Ratlam	19.55	18.26	7%	652	609	7%	4	6	-33%
Jhabua	18.84	12.79	47%	628	427	47%	5	6	-17%
Dhar	20.12	14.33	40%	671	478	40%	4	6	-33%
Overall	**19.5**	**15.13**	**29%**	**650**	**505**	**29%**	**4**	**6**	**-33%**

Project officers made several visits to farmers' fields so as to understand the practical problems they face, and took time to work out solutions and provide guidance.

Technology awareness

One of the aims of the project was to increase technological awareness among cotton growers via regular programmes and events, which covered the following topics:

- ✓ Deep summer ploughing.
- ✓ Crop rotation.
- ✓ Timely sowing using recommended seeds.
- ✓ Fertiliser application based on soil testing.
- ✓ Timely gap-filling for optimum plant population.
- ✓ Sowing of refuge crops on field borders when using Bt. hybrids to prevent the unwanted mixing of varieties.
- ✓ Clean cultivation.
- ✓ The development of new varieties to avoid lodging and encourage lateral branching.
- ✓ Application of plant growth regulators to prevent flower and boll drop.
- ✓ Draining of excessive rain water whenever possible.
- ✓ INM and IPM.
- ✓ Pest surveillance on the part of cotton growers.
- ✓ ETL (economic threshold level) based plant protection.
- ✓ Clean harvesting of cotton, covering kapas picking, storage and transportation in order to minimise trash.

Impact of the project

Economic Impact

To measure the impact of the project, district-wide outcomes (in terms of yields for seed cotton and lint and frequency of spraying) were compared with areas not covered by the project.

The improved seed cotton and lint output, the lower prevalence of spraying and the use of other low-cost techniques allowed the farmers taking part in the project to achieve additional revenue averaging Rs 26,220 per hectare (about US$ 350 per hectare) when compared with the non-project area during the 2019-20 cotton season.

Quality impact

The cotton produced in the area covered by the project also showed improvements in terms of its quality parameters. In particular, the quality of the DCH-32 cotton produced had better length, strength and Micronaire values. Clean harvesting of the DCH-32 variety also resulted in lower trash levels. Altogether, the improved quality profile of Indian ELS cotton produced via this trial has the potential to help the whole value chain for Indian textiles, and in particular the spinning sector, which will be able to produce better quality fine count yarn.

Ways forward

CITI-CDRA will continue the project in the 2020/21 season, with the following objectives:

- ✓ To further improve the seed cotton and lint output with lower input costs.
- ✓ To further improve the HVI parameters of the ELS cotton produced in the project area so as to make this better-quality cotton available to the textile industry.
- ✓ To control contamination levels in the ELS cotton produced. With reduced contamination, growers should be able to achieve better market prices for their seed cotton. To this end, more awareness-raising and training programmes are planned for the future. Distribution of cotton bags for use in harvesting within the project area will also be considered.

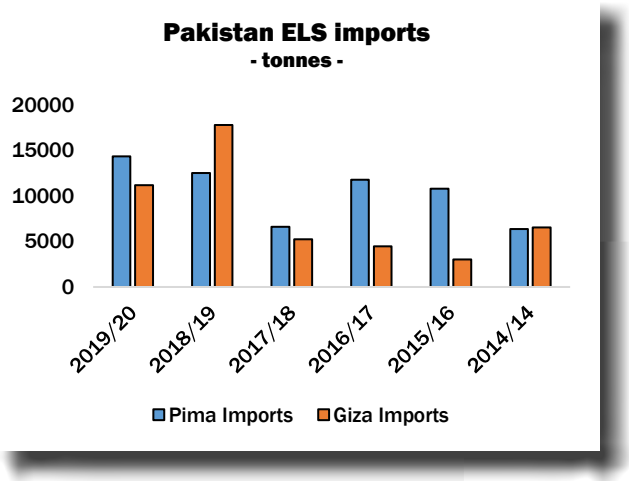
Pakistan LS/ELS cotton consumption prospects – an uncertain outlook

By Junaid Vaid, Director
A. E. Mohamedy & Co. AXA International, AXEM Fibres

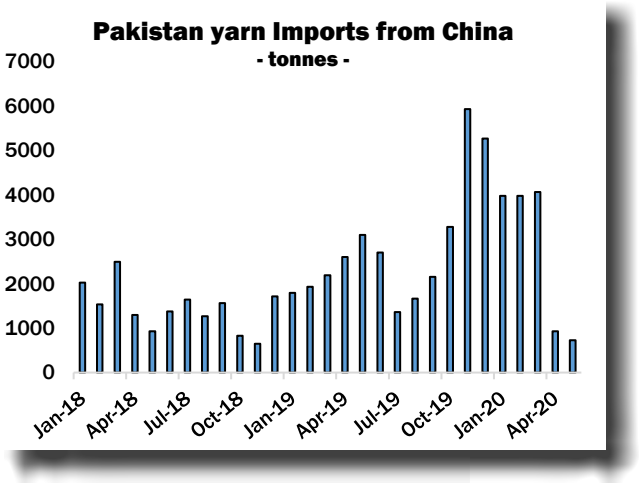
Pakistan has been a major consumer of LS and ELS cotton over the last few decades and ranks behind only China and India in terms of the volume of long staples used. However, the consumption pattern for LS/ELS varieties in Pakistan varies widely year by year, depending on the price relationship between upland and ELS strains. Even the relationship between prices for LS/ELS and manmade tencel/lyocell fibres tends to influence consumption patterns heavily, as many mills are able to replace ELS cotton with these manmade fibres. One further determining factor is the price of fine-count yarn imports: lower import prices will usually lead to mills altering their production mix of yarn counts.

Historically, Pakistan has consumed a variety of LS/ELS growths, with the origin of choice in any particular season typically based on its value proposition. In contrast to that of other big consuming markets such as China and India, Pakistan's production of branded ELS products (manufactured using Pima or Giza yarn or fabric) has traditionally been very modest. Thus, Pakistan mills are able to switch easily to the most competitively priced growth without losing their customer base, all the while maintaining the same quality. This has also allowed mills to switch to alternative fibres whenever the price relationship between cotton and man-made fibres shifts one way or the other. Indeed, a couple of years ago, Pakistan was the biggest consumer of tencel fibre, but the period since has seen its consumption fall as LS/ELS cotton prices have dropped over the last two seasons. Furthermore, mills are always on the look-out for profitability when it comes to the various yarn counts and even manage to alter their production mix within a season, depending on demand and the relative returns from coarse and fine-count yarns.

During the 2018/19 and 2019/20 seasons, as US Pima and Egyptian Giza prices have gone down, Pakistan's share of imports for these growths has picked up. Moreover, since Pakistan suspended trade with India in August 2019, the quantity of Indian DCH-32 usually imported has also been replaced by these growths. The majority of Pakistan mills which consume LS/ELS cotton belong to large textile groups that have the financial capacity to cover for extended periods whenever they feel that ELS prices are undervalued or are lower in contrast to upland prices. Some of these mills, by making forward purchases particularly for US Pima, use it as an opportunity to make a trading gain on their purchases. Thus during the last two years, with Pima/Giza prices going down continuously, mills have tried to average out their higher purchase levels, which has extended their coverage significantly. Pima/Giza imports by Pakistan mills during the last few seasons are shown below.



Over the last few years, another crucial factor in determining the LS/ELS consumption in Pakistan has been the presence of very competitive offers of mainly fine count yarns from India and China. However, since trade with India has been suspended since last August, China has become the main supplier of fine count yarns to Pakistan. Mills have regularly found prices for Chinese 60/1 and 80/1 yarns, which Chinese manufacturers are reported to be spinning from Chinese ELS cotton, to be even lower than their own costings. Imports picked up following the suspension of trade with India in the last quarter of 2019, only to nosedive sharply following the spread of the pandemic in the second quarter of the current year.



The unprecedented crisis that resulted from the global spread of Covid-19 has caused significant disruption to LS/ELS consumption in Pakistan and particularly to demand for products made from these growths. With mills across the country facing almost two months of enforced lock-down, followed by operations on a reduced scale, their coverage for LS/ELS growths has been extended accordingly. However, more worryingly, demand for fine-count yarns/textile products has been very slow to pick up, after the gradual opening of markets. Some mills have thus been forced to alter their production mix from finer to medium counts. In particular, mills spinning NE 60/1 and 80/1 have struggled for sales and have been forced to curtail production of these counts and shift to slightly lower counts. Thus consumption for LS/ELS cotton during the second quarter of the current year is estimated to have been even below half of the normal pattern.

In terms of domestic demand for products manufactured from fine-count yarns, the country's leading textile brands lost huge sales opportunities when lock-down in Pakistan was enforced in March, in order to curb the pandemic. The start of summer is the most important selling period for ladies' summer lawn fabric, which is primarily made from fine-count yarns, and most textile manufacturers were holding huge inventories of their latest summer offerings. The government decision to allow clothing stores to open partially before the crucial Eid holiday period gave some much needed breathing space to the textile value chain and some of the inventories were liquidated. However, with the purchasing power of much of the country's population under strain due to the pandemic, demand for textile products has been nowhere near normal levels and there is much uncertainty with regard to the prospects for an improvement in demand even during the second half of the current year.

Most leading textile brands already had a strong online presence and tried their best to push products through these online platforms due to the closure of physical markets and stores. However, online sales penetration still represents only a fraction of overall sales in Pakistan and is nowhere near the levels witnessed in developed markets. Nonetheless, there has been an improvement in online sales for most textile items during the last few months, and textile companies are focusing on improving their online offerings. Pakistan textile brands' online presence has been a focus of regular demand from the ex-pat population based in western and other regional markets.

International demand for luxury home textile and other textile products made from fine-count yarns has also understandably taken a hit. Although Pakistan's share of the luxury textile business is only nominal in contrast to other leading consumption markets, this may slow an already flagging consumption of LS/ELS growths in Pakistan over the next few months.

However, with much greater reliance on local demand for consumption of fine-count yarns and not on demand for luxury textile products from international markets, Pakistan is placed in a relatively good position to bounce back from the current crisis. Pakistan's population of over 220 million and its relatively low ratio of exports to GDP bode well for a revival in demand for textile products and for the country's wider economy.

Israeli ELS cotton – making a sustainable difference

Jonathan Spenser and Menahem Yogev
The Israel Cotton Production and Marketing Board Ltd

Keeping up in order to consistently make a difference in the long staple cotton market takes creativity and innovation.

The traditional market attributes of quality, reputation, consistency and dependability, to name but a few, remain mandatory; however, nowadays these do not suffice.

Today, a customer-driven demand for social and environmental responsibility on the part of cotton and textile suppliers is driving a requirement for proven, accredited sustainable cotton production, meaning that the adoption of sustainability criteria and recognised standards is imperative.

It is no coincidence that demands for sustainability in cotton production are surging. Cotton has been perceived as a thirsty crop, responsible for the depletion of natural water resources. The cotton production chain is also accused of the consumption of massive doses of toxic chemicals that disrupt eco-systems and are detrimental to human health. There is a perception too that the industry is exploitative, employing cheap or even forced or child labourers in sometimes indecent conditions in fields and mills.

However, that is changing.

In recent decades, cotton research and development programmes worldwide have led to dramatic cuts in land, water, and energy usage, reduced soil loss, and a substantial decrease in the application of chemicals via the introduction of biotechnology and a shift to integrated pest management. Cotton production and textile manufacturing is increasingly mechanized and automated, eliminating the requirement for intensive manual labour.

Moreover, in Israel, cotton has never merited this notoriety. Water and irrigation stewardship, adoption of integrated pest management principles, utilisation of high ag-tech in plant growth control and crop management were always baseline practices. These, coupled with continuous introduction of excellent varieties and a well-organised classing, warehousing and marketing structure, are the foundations of Israeli Pima's superior quality, consistency and reputation in the marketplace.

In Israel, the sustainable production of cotton has always been valued on its own terms, not simply as a market necessity.

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we partner with the Better Cotton Initiative to improve cotton farming globally

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3 Netivot St. P.O .Box: 384, Herzlia B', 4610302 ISRAEL
Tel: 972-9-9604003, Fax: 972-9-9604010
www.cotton.co.il

otto stadtlander
gmbh

marcusallee 3 • 28359 bremen • germany
telephone +49 421 20 42-0 • telefax +49 421 20 42-200
www.osta.de • e-mail: info@osta.de

Quality Parameters 2019-2020

Variety	Length (HVI)	Micronaire	Strength (HVI)
Israel Pima ELS	37-38 mm	3.7-4.5	41-45 GPT
Israel Acalpi LS	34-35 mm	3.4- 4.2	34-37 GPT

In 2015, the Israel Cotton Production and Marketing Board (ICB) became a member of the Better Cotton Initiative (BCI) and a BCI-licensed "Implementing Partner". All cotton produced in Israel is certified as Better Cotton, with all Israeli growers committed to its production according to BCI's principles and criteria.

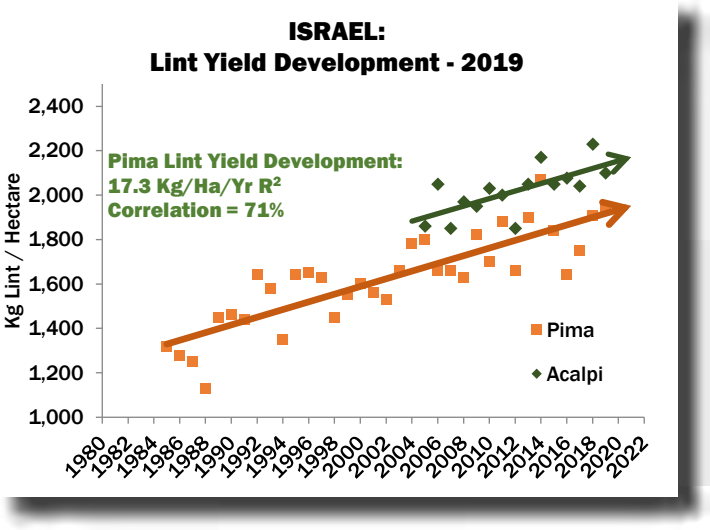
In its quest to improve, ICB has recently surpassed itself and developed a cotton production standard of its own, based on best management practices in the realms of pest control and chemical usage, water stewardship, soil fertility and conservation, biodiversity and environmental considerations, decent work and farm management. The new standard, known as the Israel Cotton Production Standard System (ICPSS), has recently been benchmarked and approved by BCI in comparison to the BCI principles and criteria.

Starting this coming season (2020/21), ICB will become a BCI "Strategic Partner", independently implementing a standard of its own to produce quality cotton fully recognized by BCI as "Better Cotton".

ICB is fully committed to the new sustainability principles and believes they will provide an edge in the marketplace. The entire crop conforms to BCI "Better Cotton" standards, and thus ICB continues its tradition of supplying the highest quality cottons, but which now enjoy the additional advantage of being produced under rigorous and recognized standards to complement its excellent reputation for world-class quality and service.

All Israeli cotton is 100-percent machine picked by John Deere Baling Pickers, 100-percent roller ginned, involves 100-percent mechanized production, HVI and stickiness testing, and is now 100-percent sustainably produced and accredited as BCI "Better Cotton".

Israeli cotton is – for the last 11 years - exclusively and successfully marketed by Otto Stadtlander GmbH, Germany and consumed by the best and leading spinning mills worldwide, in countries including China, India and the Far East, as well as Turkey, Europe and South America.



ELS in Central Asia in 2020/21

Galina Fisher, Cotton Outlook

Uzbekistan

Uzbekistan had big plans for long staple production this season, at least initially, before the passage of a new decree that abolished official production and procurement targets. Back in December 2019, the Ministry of Agriculture suggested a significant increase in the production of long staple cotton on account of attractive international prices and the fact that ELS varieties featured in its future plans for domestic use. It was hoped that ELS cotton would be planted on an area measuring over 60,000 hectares across four provinces: the two traditional cotton regions of Kashkadar and Syrkhandar, where climate and soil conditions are ideal, but also in two new areas in Bukhara and Navoi.

Things did not go according to plan, partially because of the adverse weather this spring (too much rain and cooler than normal conditions, which are not ideal for ELS), but also because the ginning technology available for long staple cotton is still limited and somewhat out of date. Finally, it is expected that the domestic market would struggle to absorb such a large quantity of ELS cotton, while export demand is low, particularly for Uzbek ELS, partly on quality considerations. As a result, some clusters and individual farmers made the decision not to grow so much ELS this season: preliminary private estimates suggest that the area actually planted to LS this year is around 12,500 hectares, all in the traditional Syrkhandar and Kashkadar regions, and nothing at all in Bukhara or Navoi. Such an area may ultimately produce about 10,000-13,000 tonnes of lint.

Uzbek cotton really falls within the category of LS rather than ELS due to its shorter staple length (typically about 33-34 mm). Outmoded ginning technology for this variety means that the quality of lint produced also suffers and the ginning outturn is lower than could be desired.

This season, farmers planted local varieties such as Syrkhon-14, Syrkhon-16 and Syrkhon-103, as well as Termez-202. Last season, farmers experimented with Turkmen varieties, however imported seeds are expensive.

Tajikistan

Weather conditions, the coronavirus, financial pressures and a lack of demand from customary markets (Turkey and Russia) and more recent destinations (Bangladesh, Pakistan and China), as well as high production costs, have all combined to deter farmers from growing ELS cotton. The declining trend has been noticeable for several seasons; however, 2018/19 and 2019/20 saw a dramatic reduction in ELS production to a mere few hundred tonnes.

Turkmenistan

No information is currently publicly available about the area planted to ELS cotton in Turkmenistan. However, based on the general situation for cotton production this spring (adverse weather leading to a delay in plant development) as well as disappointing results in 2019/20 (due to poor quality inputs and a lack of timely agronomic work), at this stage we can assume that the production of ELS will not exceed last year's level.

Turkmenistan traditionally cultivates ELS in the southern parts of the cotton belt, in the provinces of Akhal and Mary.

Despite the considerations outlined above, Turkmenistan remains the largest ELS producer in Central Asia. The domestic market is gradually increasing its use of such cotton; however, it is believed that large stocks have been carried over from previous seasons as exports are at a standstill.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