

Cotton Outlook

Special Feature

August 2013



World Long Staple Market

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Lull before the storm?

*By Mike Edwards,
Cotton Outlook*

Having advanced quite strongly between February and April, international offering prices for long staple cottons have shown a relatively stable appearance over the past couple of months. A glance at the supply and demand situation, however, prompts one to wonder whether this does not represent the proverbial lull before the storm. As is clear from the various contributions to this publication, uncommitted supplies from the 2012/13 crops are dwindling fast, while the area sown to the 2013/14 crops in the United States, Egypt and China has fallen.

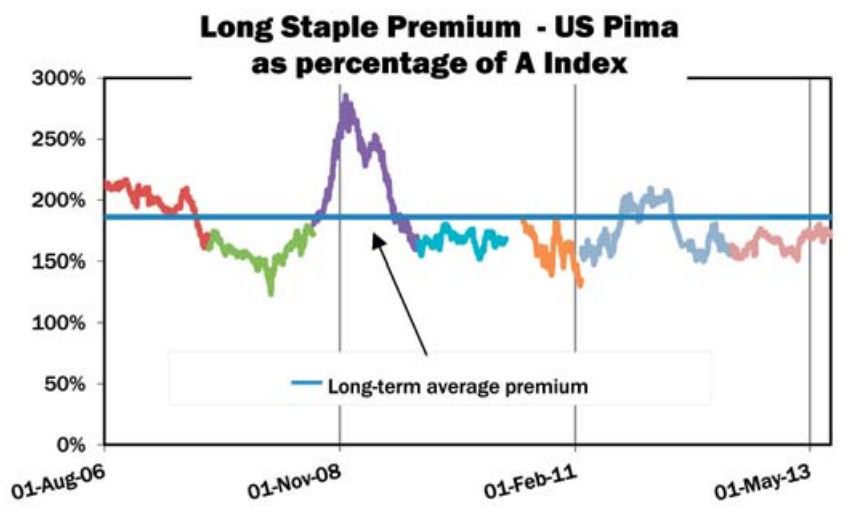
It is also interesting to note the progressive downward trend of production in some countries that were once significant players in the global market. As our world production table illustrates, output in countries

World LS Output (tonnes)					
	2010/11	2011/12	2012/13	2013/14	2013/14 v 2012/13
United States	109,755	185,327	169,782	139,561	-18%
Egypt	120,809	168,482	100,000	85,500	-15%
of which:					
ELS	27,921	39,547	11,000	5,500	-50%
Giza 86	92,888	128,935	89,000	80,000	-10%
Sudan	4,482	17,000	15,000	3,000	-80%
Uzbekistan	2,000	2,000	2,000	2,000	Unch
Tajikistan	180	850	1,000	900	-10%
Turkmenistan	24,000	21,000	18,000	20,000	11%
India	62,500	72,000	65,000	70,000	* 8%
Peru	5,000	8,000	8,000	8,000	Unch
China	120,000	130,000	60,000	40,000	-33%
Israel	7,000	15,500	14,500	11,000	** -24%
Spain	2,250	4,000	2,000	2,500	25%
Australia	500	990	600	600	Unch
Total	458,476	625,149	455,882	383,061	-16%

*includes cotton with staple of over 33mm **includes Pima and Acala

such as Sudan and Peru shows a pattern of long-term decline. In Central Asia, only Turkmenistan is today producing long staple cottons on a significant scale.

The four main producers - US, Egypt, India and China - today account for over 90 percent of global output, the last two countries being net importers of long staple cotton and together representing about 60 percent of global consumption. In this polarised sector, unburdened by the huge stocks that hang over the upland market, the supply and





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World LS Consumption (tonnes)					
	10/11	11/12	12/13	13/14	13/14 v 12/13
Americas					
United States	6,000	6,800	5,500	5,500	Unch
Mexico	600	785	725	750	3%
Peru	11,000	13,000	13,000	13,000	Unch
Europe					
Italy	3,000	2,000	3,000	3,000	Unch
Switzerland	4,000	1,500	2,000	2,000	Unch
Germany	5,500	1,000	2,500	5,000	100%
Turkey	7,000	10,000	15,000	15,000	Unch
Portugal	600	400	400	400	Unch
Asia					
China	165,000	205,000	155,000	150,000	-3%
India	95,000	95,000	120,000	140,000	17%
Pakistan	30,000	40,000	50,000	45,000	-10%
Indonesia	9,000	6,200	7,000	6,000	-14%
Japan	9,500	3,500	4,000	3,500	-13%
South Korea	5,500	5,200	2,600	2,600	Unch
Bangladesh	6,000	12,000	12,000	12,500	4%
Thailand	5,000	8,000	9,000	9,000	Unch
Taiwan	3,000	2,000	1,500	2,500	67%
Turkmenistan	2,000	3,500	3,500	3,500	Unch
Africa					
Egypt	25,458	54,883	75,000	55,000	-27%
Others	4,000	4,500	4,500	4,500	
Total	397,158	475,268	486,225	478,750	-2%

demand balance in long staples, as Jarral Neeper notes, can easily be tipped one way or the other.

In all the circumstances, prices might already, perhaps, have shown a stronger upward trajectory, had it not been for the cautious nature of mill demand. As in the upland market, mills have for the most part been covering only against their known requirements. As a result, significant business remains to be arranged during the season ahead. One factor affecting demand will be the relationship between upland and fine count cotton values. That relationship is not a constant one, but at present – as measured by the comparison between Cotlook’s Pima quotations and the A Index – the long staple premium is modestly below its long-term average.

Caution is no less in evidence on the supply side. US shippers are as yet reluctant to press new crop Pima for sale, mindful of the market’s potential to develop upward momentum during the months ahead, on supply and demand considerations alone. On this occasion, the apparent shortfall, approaching 100,000 tonnes as indicated by our world production and consumption estimates, would seem to send an unambiguous signal.

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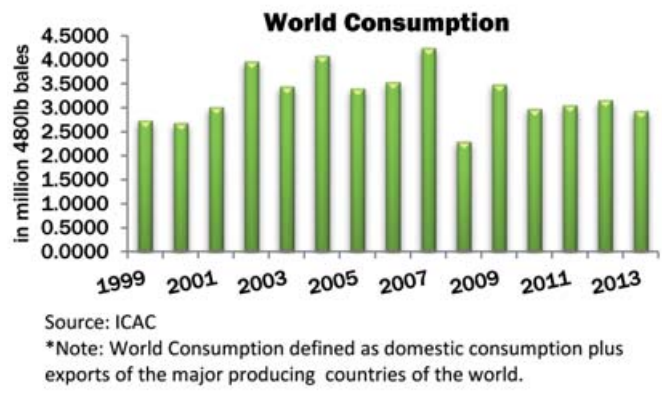
*By Jarral Neeper, President and CEO,
CALCOT*

Unlike the global cotton situation, world ELS stocks are on a downward trend. With such a small number of bales being produced and consumed, an imbalance favoring either too much or too little is easily tipped directionally.

At the end of the 2006/07 crop year, the stocks to use situation of the world’s major producers and exporters of LS and ELS cottons rested at 42 percent, due in large part to a 24 percent increase in world production from better pricing the prior year. One of the most prolific increases came from China, which produced a record crop of 817,000 bales, or 50 percent higher than the previous year. In addition to world production, global consumption of extra fine cotton was on the upswing. In the following 2007 crop year, world offtake (consumption plus exports of the major producing countries) rose just over 20 percent to 4.26 million bales and the stocks to use ratio dropped to 32 percent.

In the 2008 crop year, the US economy came under fire from the implosion of the housing market, as it wreaked havoc on major financial institutions. By spring of 2008, poorer pricing in extra fine cotton combined with better prices for corn and rice led Egypt to reduce plantings by 50 percent, which was most likely the lowest level of plantings in more than a century. The US extra fine cotton production also fell dramatically, decreasing from a record production of 850,000 bales in 2007 to 432,000 bales in 2008. World extra fine production fell by 39 percent but even more devastating was the drop of almost 46 percent in total offtake to 2.3 million bales, the lowest level in modern times.

With the US and European economies struggling, China continued to prime the pump with tremendous infrastructure spending, and its economy remained a locomotive of economic strength. Chinese



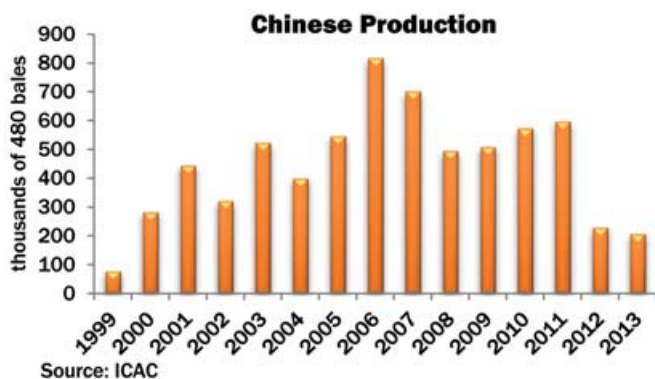
consumption of ELS cotton began to gather steam in the 2001 crop year, surpassing 200,000 bales for the first time. By 2003, it had doubled to 413,000 bales and, by the 2006 crop year, it had more than doubled again to 873,000. There was a decline in the 2008 crop year to just under 700,000 bales, but use rebounded sharply in the 2009 crop year to a record 965,000. This helped to mop up excess supplies, and was a major reason world ending stocks fell to a modern day low of just 657,000 bales versus 1.37 million the year before.

Of course, we are all painfully aware of the resulting price explosion that took place in the 2010 crop year and with it a natural contraction of consumption by some 500,000 bales. Without the curtailment in use, however, world ELS stocks would have virtually disappeared.

The 2011 crop was notable in that price movement was persistently lower, and contract sanctity was put to the test, failing miserably in some cases. Between August 1, 2011 and the middle of August, 2012, US quotations landed in the Far East, fell by 90 cents per pound and realistically, business was being done at even lower levels to work off stocks. Beginning stocks more than doubled between the 2011 and 2012 crop years, rising from 634,000 bales to 1.35 million.

The 2012 crop year stands out for the large number of US export sales commitments into China. As of June 20, 2013, the US had committed 444,000 running bales into China and had shipped 386,400 running bales. These export sales and shipments are noteworthy as they mark the first time China has imported quantities of US ELS cotton greater than its overall apparent needs of total ELS cottons. It is estimated that China's needs this year were somewhere in the vicinity of 370,000 bales.

Why the big surprise in Chinese purchasing? One rumor posited that the government purchase program for upland cotton was so attractive that many Chinese ELS growers sold into the state reserve rather than into the marketplace. Although Chinese production had fallen quite dramatically (from almost 600,000 bales in 2011 to 230,000 in 2012), the estimated amount of carryover was more than sufficient to meet any appreciable shortfall in production.



Still another possibility is that, with persistently high prices for raw material in China, the Chinese textile sector decided to focus more on high value products, which resulted in a shift to the US Pima market. It is also possible that a number of bales are simply being moved from US warehouses to consignment warehouses in China.

The reality is probably somewhere in the middle of the three musings but in the end what we have as evidence are the commitments to China and the resulting shipments.

As a result, as we move into the 2013 marketing year, the world will be starting off with estimated stocks about 25% lower than a year ago, and world production is forecast to be a modern day low of roughly 1.7 million bales.

Egypt, the United States and China production figures for 2013/14 are all estimated to be lower than the 2012 season. Egypt is expected to produce between 410,000 and 420,000 bales. Last year they produced 500,000. In the US, lower plantings and lower yields (down from record yields of 2012/13) mean production will fall to roughly 580,000 bales, which represents a year-on-year decline of 200,000

bales. And in China, production is estimated at only 210,000 bales, the lowest output since 77,000 bales were produced in 1999.

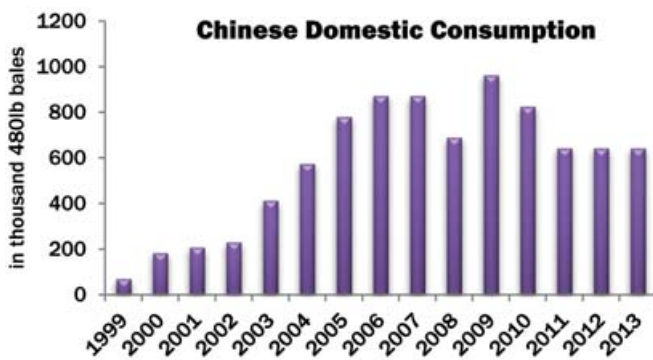
All in all, total available supplies are expected to be some 550,000 bales less than a year ago. Total offtake will be smaller too, by an estimated 250,000 bales, which means that another drop in stocks, of close to 300,000 bales, could be realized. By these estimates, stocks will be low, but not at record lows. So how does price figure into the all this?

Although Cotton Outlook did not, at the time of writing, have enough evidence to quote US or Egypt new crop pricing, the anecdotal evidence would suggest that, at least as far as US quotes are concerned, they would be in the vicinity of \$1.65 to \$1.75 landed the Far East. On Monday July 1, the A Index of upland prices was 91.35 cents per pound, so the ratio of American Pima to the A Index would be in a range of 1.81 to 1.92. It would be difficult to say that this ratio is destined to improve significantly anytime soon. So, unless the A Index moves significantly higher by the time the American Pima quotes are introduced by Cotton Outlook, it is unlikely that American Pima quotes would be expected to be any higher than the range suggested above.

The International Cotton Advisory Committee, in its latest world supply/demand estimates, released a range of price expectations for the season average A Index of \$1.01 to \$1.48, based on a number of variables, but to simplify, their calculation has a lot to do with stocks inside and outside of China. The mid-point estimate of \$1.22 would suggest a potential for a season average price of American Pima, landed the Far East, of roughly \$2.25.

It is difficult to envision the season averaging a number of that magnitude, but it would be perfectly plausible to see the range of quotations between \$1.65 and \$2.25 for the year.

So much will depend on events moving forward that making any projection this early in the season is fraught with peril. However, there is little doubt that supplies of extra fine cotton are shrinking and that the number one supplier to the world, the US, will have a seriously curtailed supply situation relative to the 2012 crop year.



US Pima Supply and Demand



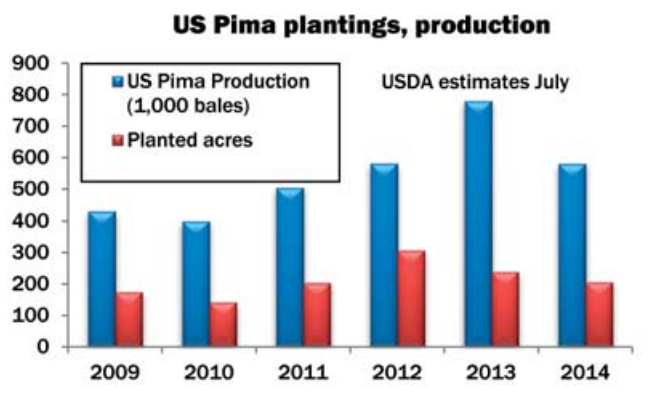
By John Scruggs,
Cotton Outlook

Pima acreage and production are forecast to decrease for the 2013/14 marketing year, with planted acres falling to 206,000 and output expected at 580,000 bales. The adjustment follows the 2012/13 season with strong yields and output of 780,000 bales, the bulk of which had been committed for export as the season neared an end.

Export commitments were estimated at 898,769 statistical bales for the season through July 11, 2013, as reported by the USDA export sales office. Total supplies for the season were thought to be 1,049,000 bales, and next season's beginning stocks could be drawn lower than initially expected. USDA has been adjusting its current season Pima export forecast higher in recent months and last changed the figure to 850,000 bales, up from 815,000 in the June report.

At just under 450,000 running bales (by July 11), China has increased purchases of US Pima during 2012/13 by over 65 percent from the previous season.

Second is India, accounting for 127,000 bales (up 66 percent), and in third place Pakistan, with nearly 64,000 (down 36 percent).



Shippers have been hesitant to book new crop export sales early in the season, as weather and yields are still unknowns that may affect final quality and harvest results. In addition, smaller global ELS production may have upside consequences for US Pima prices next year, and growers are holding out for better farm prices than those currently being offered by merchants.

US Pima Cotton		
	2012/13	2013/14
Planted acres	238	226
Harvested acres	237	221
Yield/harvested acre (1,000 acres)	1,581	1,365
Beginning stocks	269	180
Production	780	628
Imports	1	-
Total Supply	1,050	808
Domestic mill use	20	25
Exports	850	650
Total disappearance	870	675
Ending stocks (1,000 bales of 480 lbs)	180	133
USDA estimates as of July 11, 2013		



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Egyptian Supply and Demand



*By Ray Butler,
Cotton Outlook*

It goes without saying that the persisting political and economic disarray renders even more difficult than usual the task of forecasting the output from an agricultural crop, and of assessing the textile industry's raw material requirement. However, the scenario is one of declining cotton production, rising fuel and input costs, and farmers turning to other, more lucrative crops. Meanwhile, a struggling public sector textiles industry badly lacks finance, including the foreign currency with which to purchase cotton imports.

At the end of the first week in July, the estimated uncommitted supply of domestic cotton from the 2012/13 season was put at no more than around 15,000 tonnes, about half of which was expected to be delivered for local mill use, with mills taking advantage of an increased rate of government subsidy for spinning such cotton (££200 per metric cantar, or about 26 US cents per lb). By the end of June, mills had received slightly more than 67,000 tonnes during the 2012/13 season, so their further receipts could amount to a few thousand tonnes. Taking this into account, along with exports of roughly similar magnitude, the carryover of uncommitted cotton going into the 2013/14 season would appear to be distinctly tight.

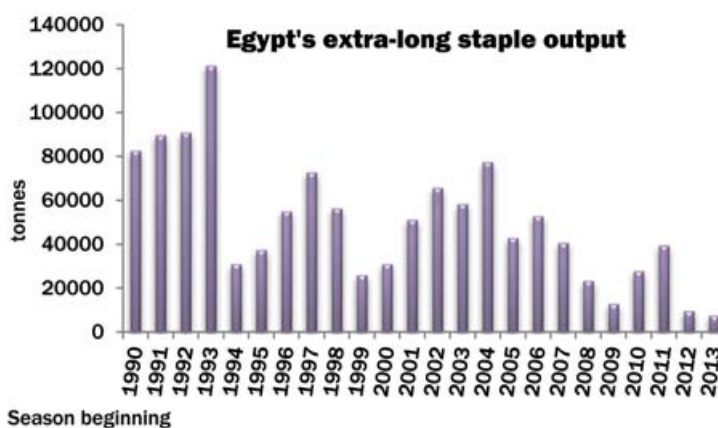
Looking ahead to the new crop, a fair consensus exists that an area of at least 290,000 feddans (as reported in the article in this Special Feature by Dr. Moustafa) is under cotton this year, though some mention has been made of a continuation of late planting in Lower Egypt, beyond the customary mid-June cut-off date. Nevertheless, a reduced lint outturn seems in prospect compared with last year, since not only will the area planted fall short of last year but farmers might

also struggle to achieve satisfactory yields in face of financial constraints and difficult supply logistics. Cotton Outlook's forecast for the total crop (including Upper Egypt varieties), at the time of writing, is 95,000 tonnes, some 15,000 less than the estimate for 2012/13.

Within the total, production of Giza 86 is forecast at around 80,000 tonnes, versus 89,000 during the current season, while output of ELS varieties is forecast at merely 5,500 tonnes – half of the volume produced in 2012/13 and a small fraction of the level regularly achieved in earlier years.

The supply and analysis on the opposite page disregards imports.

Egypt, it would seem, will require significantly greater imports so as to maintain spinning output during the coming season, something that will doubtless challenge the new administration, given the country's paucity of foreign currency exchange. The ban on imports (except those by mills in the 'free trade' zone) imposed in October 2011 and not lifted until late March this year, together with the



Supply & Demand of Egyptian cotton					
(tonnes)					
	Giza 86		ELS		All***
Carryover August 31, 2011*		8,467		4,821	14,157
2011/12 Production*	128,935		39,547		184,296
Total Supply		137,403		44,368	198,453
Consumption of domestic cotton*	52,596		2,286		67,638
Exports***	62,000		27,000		89,428
Total Disappearance		114,596		29,286	157,066
Carryover August 31, 2012		22,807		15,082	41,387
2012/13 Production	89,000		11,000		110,000
Total Supply		111,807		26,082	151,387
Consumption of domestic cotton	55,000		1,000		75,000
Exports	53,000		22,000		75,000
Total Disappearance		113,000		23,000	150,000
Uncommitted carryover August 31, 2013		183		2,624	1,387
2013/14 Production	80,000		5,500		95,000
Total Supply		80,183		8,124	96,387
*Source: Egyptian Cotton Gazette					
** Total from Central Agency for Public Mobilization and Statistics (CAPMS)					
***includes Upper Egypt varieties, which are generally not exported					

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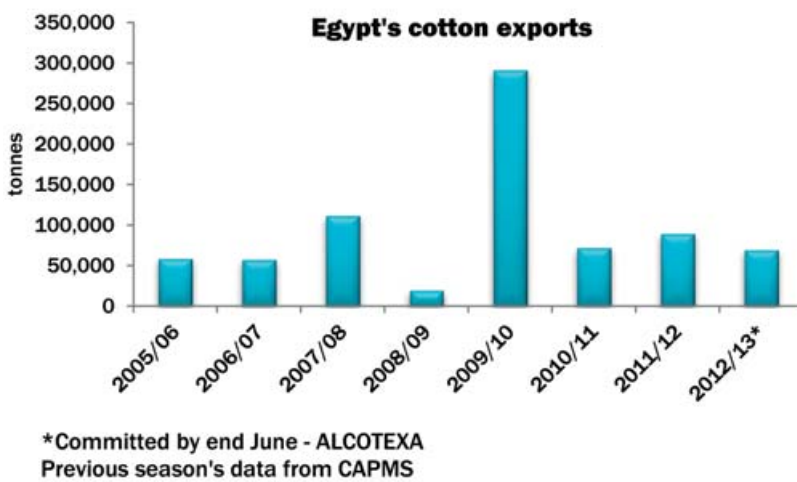
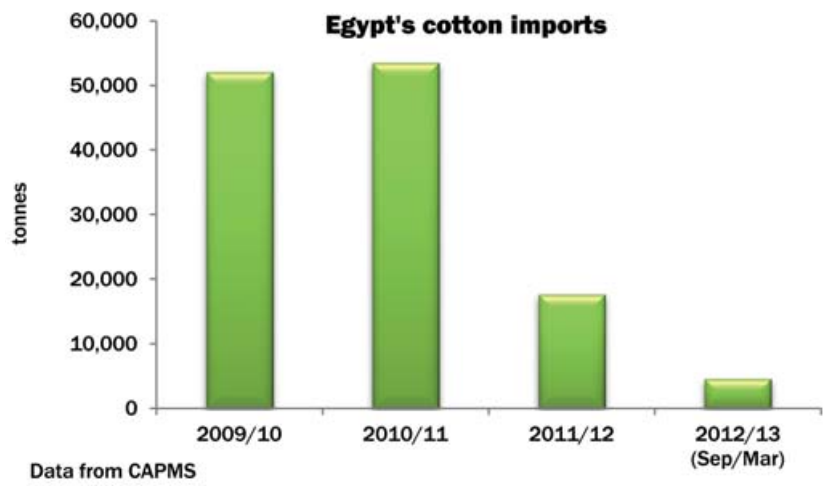
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subsidy paid to mills for using local supplies, have served to constrain import purchases by mills outside the 'free zone' over the past couple of seasons. Figures from the Central Agency for Public Mobilization and Statistics (CAPMS) show imports of slightly less than 16,000 tonnes during the 2011/12 season. Those from September through to March this year were 30 percent less than a year earlier but anecdotal evidence suggests there was a pick-up in trading, once the ban had been removed.



Without large-scale imports, the availability of supply of Egyptian cottons for export will inevitably be tight, especially in the ELS styles, given the fall in output.



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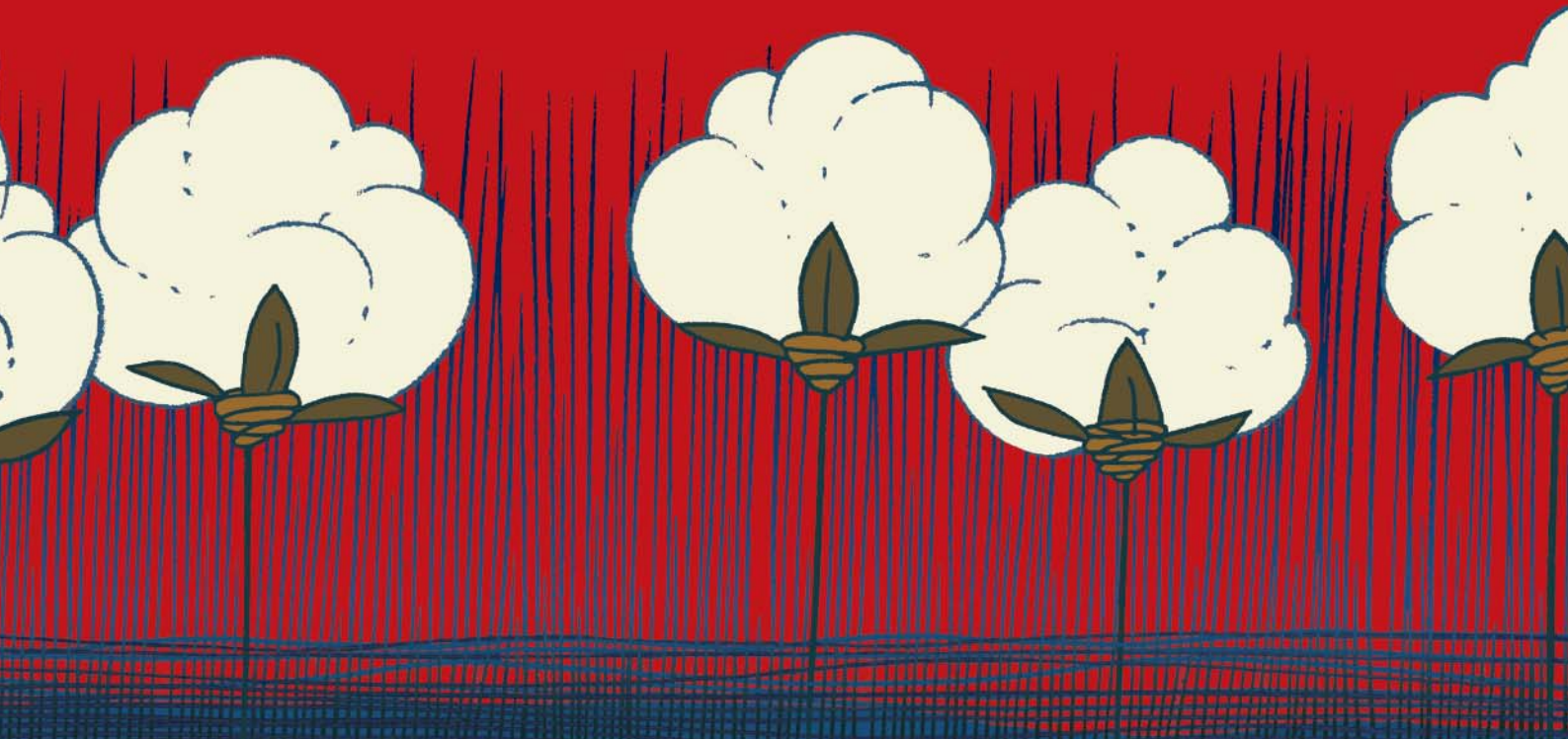
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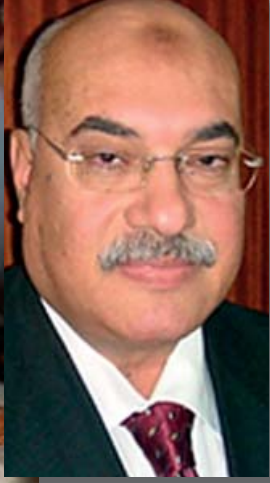
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Egyptian Cotton is Entering a Dangerous Phase: Domestic Spinning Mills Suffer

Dr. Ahmed Moustafa Mohamed, Vice Chairman, Deputy Member of Board, Cotton & Textile Industries Holding Company

Farmers turn away from cotton

2013 /14 will see a decline in Egyptian cotton production to its lowest level in recorded history, to 1.8 million cantars of lint cotton (about 90 thousand tons), a quantity that will not be enough to cover the requirements of local spinning mills and exports.

If there is no intervention from the responsible authorities to restore the status of the extra-long staple portion of the crop, the reduced level of output in prospect could lead to the demise of these varieties.

The new season will commence with virtually no carryover, which will be influential on prices. A sharp rise is to be expected.

Table 1:

Egyptian Cotton Area and Production by Seasons			
Season	Area 1000 Feddans	Production 1000 Cantars	Production 1000 metric tons
2007/2008	587	4529	226
2008/2009	313	2374	119
2009/2010	288	1897	95
2010/2011	375	2619	131
2011/2012	525	3686	184
2012/2013	340	2200	110
2013/2014*	290	1800	90

*Final area and estimated production
Source: *The Egyptian Cotton Gazette No.140 (April 2013)*

Factors influencing farmers to turn from cotton

1. A lack of clarity and stability as regards agricultural and marketing policies.
2. Failure to announce a floor or guaranteed cotton price prior to planting.
3. Rising costs of production, especially in regard to labour for hand picking, fertilizers and pesticides.
4. Comparatively better returns from

producing other crops, such as rice and corn, notwithstanding the severe shortage of irrigation water and the penalties that can be applied if water use regulations are violated.

5. Subsidising cotton use, rather than cotton output. The annual subsidy amount allocated for the 2012/13 season is about E£250 million, which has been paid at the rate of E£150 per cantar (equivalent to 20 US cents per lb) and has now been increased to EGP 200 per cantar (26 US cents per lb). The subsidy was put in place for the purpose of encouraging mills to use domestically-produced cotton but the cotton has been used to produce medium and coarse counts (mainly 30s & below). It would be better if this subsidy was directed to the cotton producers in the form of strengthening the inputs not outputs.

Giza 88 under threat of disappearing

As shown in Table 2, the actual area sown to the Giza 88 extra-long staple variety this year is merely 14.5 thousand feddans (representing about 5 % of the total area),

Table 2:

Cotton varieties map in 2013/2014 season				
Variety	Planted Area 1000 feddans	Estimated Production 1000 Cantars	Estimated Production 1000 Tons	%
Giza 92	5.6	30	1.5	1.7
Giza 88	14.5	80	4	4.4
Giza 86	247.8	1550	77.5	86.1
Giza 90	22.1	140	7	7.8
Total	290	1800	90	100

Source: *Ministry of Agriculture for area and Cotton & Textile Industries Holding Co.*

which is the lowest for this variety since 2001/02. There will be, in consequence, a deficiency in the availability of seed to sow the following crop, in the 2014/15 season; experts say that, at most, next year's plantings of Giza 88 will cover about 3,000 feddan, with a knock-on effect thereafter (the variety may disappear in 2015).

Table 3:

The planted area for Giza 88 and its production from 2001/2002 season till present		
Season	Area 1000 Feddans	Production 1000 Cantars
2001/02	27.7	260
2002/03	39	375.1
2003/04	59.7	479.8
2004/05	55.2	546.2
2005/06	74.6	457.8
2006/07	63.9	568.8
2007/08	94.7	752.6
2008/09	59.9	465.8
2009/10	34.4	255.7
2010/11	68.6	554.6
2011/12	97.6	783.2
2012/13	31.2	186.1
2013/14*	14.5	80


*Final area and estimated production
Source: The Egyptian Cotton Gazette No.140 (April 2013)

Challenges facing spinning & textile industries

A number of challenges facing the industry have led to a reduction in production capacity. About one third of public sector mills have currently stopped work.

The main challenges facing the sector are as follows:

1. An acute shortage of lint cotton and its high prices.
2. Lack of investment since 1993 in the public sector spinning mills (which account for 65% of the total market share) till now, except for Misr El Mehalla Co., as a result of privatisation programs.
3. Conflicting governmental decisions, especially the ban on imported cotton for a period of 18 months (removed in March 2013).
4. Increasing wages, labour unrest and stoppages since the revolution.
5. Contraband yarn and fabric imports



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Table 4:

The Egyptian Yarn and Fabrics Exports & Imports From 1/7/2011 to 30/6/2012		
Type	Exports	Imports
	Billion EGP	
Yarn	4.8	16.3
Textile	4.3	1.6
Clothes	9	3.9
Total	18.1	21.8

Source: General Organization for Export & Import Control

Imports & exports of yarn and fabrics

During the period from 1/7/2011 to 30/6/2012, yarn and fabrics exports were valued, approximately, at E£18.1 billion, while imports in the same period were worth E£21.8 billion.

The CTIHC Strategic Plan

Many efforts are being made by the Cotton & Textile Industries Holding Company (CTIHC) to return the spinning and textile Industries in the public sector to their former standing. The current plan is to move some spinning facilities from their current locations within cities to new industrial zones outside urban areas, and thereby take advantage of the land price differences. The money generated will be directed toward the modernisation of machinery, without impinging on workers' rights.



An Analysis of China's Long Staple Market in the 2012/13 Season

By Fu Changjian,
Changzhou World Cotton Co., Ltd.

During the 2012/13 season, compared with the global market for upland cotton, a different trend emerged in the world's long staple cotton market. The Chinese medium staple market remained stable, with some decrease in price. But there was a sharp rise in the price of long staple cotton. Having slumped over the past two years, the long staple cotton market in China and the world hit a bottom at the end of the year, and the price of long staple cotton has begun to increase steadily.

extreme conditions, the purchase price of seed cotton was 1 yuan/kg lower than that of upland cotton. The cost of lint slumped to less than 23,000 yuan/tonne. Farmers lost confidence in planting long staple cotton, because the price hit the bottom of planting costs.

The exceptionally low price of long staple cotton attracted people with vision, and enterprises with abundant funds, to make purchases at the lowest price, and the market began to rebound. The price of lint rose to 24,500 yuan/tonne. With the recovery of consumption, stocks have been digested by the market over the past several months. Orders of high count yarns increased rapidly in textile mills. Since the Spring Festival, in particular, market conditions have improved significantly. Demand for fine count yarn exceeds supply. The price of long staple cotton skyrocketed from 24,500 yuan/tonne to 28,500 yuan/tonne in less than a month. Huge orders of long staple cotton made by China and South Asia stimulated an increase of the global price from 138 to 162 cents/lb. The price and consumption should remain stable until the end of this season.

Supply and Demand of Long Staple Cotton in China					
Unit: Tonnes					
Season	9/10	10/11	11/12	12/13	13/14
Opening Stock	45,000	15,000	30,000	110,000	100,000
Output	90,000	120,000	130,000	60,000	50,000
Import	80,000	60,000	90,000	110,000	60,000
Export	Negligible	Negligible	Negligible	Negligible	Negligible
Consumption	200,000	165,000	140,000	180,000	180,000
Closing Stock	15,000	30,000	110,000	100,000	30,000

Notes:
 1. China's cotton season starts from September and ends in August of the next year.
 2. Cotton stocks include industrial stocks, commercial stocks and social stocks.

Slumping price stimulated consumption

At the beginning of this year, consumption was in a downturn. The transaction volume was shrinking and cotton prices remained at a low level due to the pressure of huge long staple cotton stocks. In China, long staple cotton is not included in the national reserve. When new supplies enter the market, the purchasing price of seed cotton can decrease rapidly. Some ginners stopped collecting seed cotton. Under

Huge stocks to digest and transform

The opening stock of long staple cotton was huge this season, particularly in China. However, the planted area decreased significantly in China this year, making people worry about a further decrease in the next year. Optimistic expectations of consumption over the next year and, in particular, the skyrocketing price since the Spring Festival, sent some textile mills into a panic. Certain mills and traders in China began to make huge orders of long staple cotton from foreign countries, such as Egypt, Israel and Sudan. Imports of US Pima cotton alone have reached 100,000 tonnes. This huge

inflow of long staple cotton made it difficult for China to reduce its own stocks, despite the fact that consumption of long staple cotton is huge in China. Most stocks of long staple cotton are destined for domestic use. Consequently, the global stock of long staple cotton is decreasing, but the stock in China is excessive. At the end of the 2013/14 season, as long as there is no big slump in consumption, world stocks of long staple cotton will decrease significantly, as will those in China. But resources will be relatively abundant in the future.

Decreasing output and shrinking supply

It is estimated that the area planted to long staple cotton has further decreased in the 2013/14 season, although the extent of decrease is not as great as we had earlier expected, thanks to the rising price since March. Currently, the planted area of long staple cotton has been determined in the world. But uncertainties still exist during the cycle of cotton production, such as those related to the climate, availability of irrigation water and spread of insects. Therefore, total output is still uncertain, but without dramatic changes. In general, it is difficult for the global output of long staple cotton to exceed 400,000 tonnes, but output in China will be 40,000 to 50,000

tonnes, which is beneficial for the country to digest its huge stocks.

Future trend

The independent trends of the Chinese and global long staple cotton prices will continue in the future. Decreasing output and stocks of long staple cotton imply that long staple cotton prices will rise; it is difficult to project that they will go down. If consumption is high, an extreme market trend may occur, until exceedingly high prices suppress consumption and increase supply.

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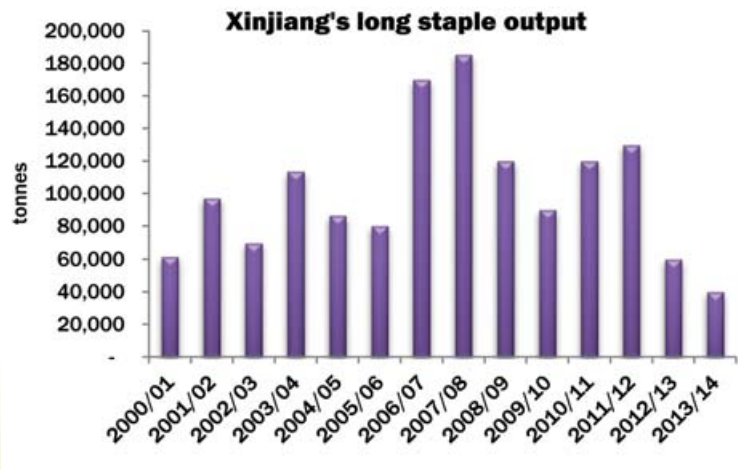
China Note

*By Ray Butler,
Cotton Outlook*

At a recent gathering in Urumqi, Li Cheng, General Manager of the cotton group Nongyishi, under Division 1 of the PCC (military group), reported that the area under cultivation to long staple varieties in Aksu Prefecture is merely around 20,000 hectares, which is several thousand less than this year's official planting area. Potential lint outturn is put at merely 35,000 tonnes, which would represent a decline of 42 percent from last year, and would be the smallest level of output during the current century. This figure is regarded by some observers as being at the pessimist end of the scale of expectations, though it should be noted that the latest weather reports, referring to excessively high temperatures, have not been encouraging in regard to yield prospects.

Mr. Li noted that output in the first decade of the century typically provided around eighty percent of the country's

long staple lint requirements, a proportion that has now probably fallen to around 25 percent. The fall in production has occurred against a background of poor returns (less than those available from upland cotton production or, indeed, from fruit crops). The speaker entered a plea for long staple cotton to be afforded its own state reserve procurement plan, with a procurement price set at 1.5 or 1.6 times the upland equivalent.





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Long Staple Cotton – a Yarn Manufacturer’s Perspective

*By Mr. Zaheen uddin Qureshi, Chief Operating Officer,
Saif Group – Textile Division, Islamabad.*

USDA anticipates that, despite higher consumption and less production, the world’s cotton ending stocks will rise further by the end of the 2013 marketing year. This has put some pressure on medium staple cotton prices, and the upward momentum witnessed in March 2013 has been substantially subdued. The Cotlook A Index, reflecting the price of medium staple cotton, was 90.35 US cents per lb on February 1, 2013 and on June 10, it was 93.20 cents, a change of 3 percent.

On the contrary, long staple cotton prices have shown a consistent upward trend. The price of Pima 2-2-46 was 140.00 cents per lb on February 1, 2013, and that has moved to 160.00 cents. Giza 86 has risen from 135 to 155 cents per lb, and Giza 88 from 150 to 163 cents per lb, an upward change of almost 14%.

Key reasons identified for this trend were:

- Lower production of long staple cotton. World production in 2012-13 was around 480,000 tonnes, as compared to 623,000 tonnes in 2011-12, and 770,000 in 2007-08. In 2013-14, it is estimated that the figure will be reduced to 415,000 tonnes.
- A sharp rise in imports of LS and ELS cotton by China and India during 2012-13.
- The subsidy on Giza 86 for local mill use.

From a yarn manufacturer’s perspective, it becomes quite confusing to take buying decisions when the two cotton markets are behaving differently. There is no fixed premium for ELS/LS cotton over medium staple, instead it varies according to demand and crop size. Yarn manufacturers usually face marketability challenges, as yarn produced from fine count cottons is costlier and attracts less attention from the fabric producers/end users, thus overall demand shrinks.

Apart from the above, the luxury brand markets that took a massive hit during the financial crisis in 2008-09, and subsequent European financial turmoil, have still not recovered fully. Demand for fabric/ bed linen produced from licensed Supima/ Giza yarns has been drastically reduced. This has pushed spinners either to shift to cheaper long staple cotton blends, or to coarser counts, by increasing their yarn preparation capacities.

In recent years, another challenge faced by fine count yarn producers is the introduction of various high tenacity cellulosic fibers, such as Tencel, Micro Tencel and Modal, at much cheaper prices, compared to ELS cotton. These fibers are increasingly being used to replace ELS/ LS cottons, and are ultimately reducing the blend cost/ yarn price. A yarn manufacturer carrying high cost inventory usually faces stiff price competition, while operating in commodity yarn markets.

A strategy to deal with the situation

Yarn manufacturers heavily dependent on ELS/ LS cotton are advised to adopt the following strategy, especially during current volatile market conditions. This may not fetch them super profits but will definitely save them from exposure to any unpleasant situation, in case of a large market correction:

1. Cotton buying policy should be focused more on its profitable conversion to yarn, rather than driven by market sentiment. A yarn manufacturer is supposed to make profits from selling yarn, not by betting on cotton prices.
2. Any strategic cotton buying decision must be made with the consent of sales and marketing staff, and backed by solid reasons.
3. Production staff must be more flexible in raw

material blending, when they have to compete in commodity yarn markets.

4. Aggressive marketing campaigns must be launched to develop customer awareness, especially in emerging markets like India, China, Indonesia and Pakistan. This is how the premium paid in the fine count yarn price can

be converted into greater profitability for the fabric/apparel produced from that yarn.

5. Lastly, a strong control on overheads, whether operational or financial, is very much recommended. In a commodity business, no one can sustain higher costs in the long run.

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Europe-Tradition and Innovation in LS/ELS

By Luca Massardi,
Ecom Agroindustrial Corp. Ltd.

European consumption

Recovery confirmed? European LS cotton consumption has consolidated during the 2012/13 season the positive recovery started in 2011/12.

The record low set in 2010/11, with slightly below 15,000 tonnes, seems now far away in time and the last three seasons' statistics are reconfirming the idea that European fine counts spinners are consolidating their recovery.

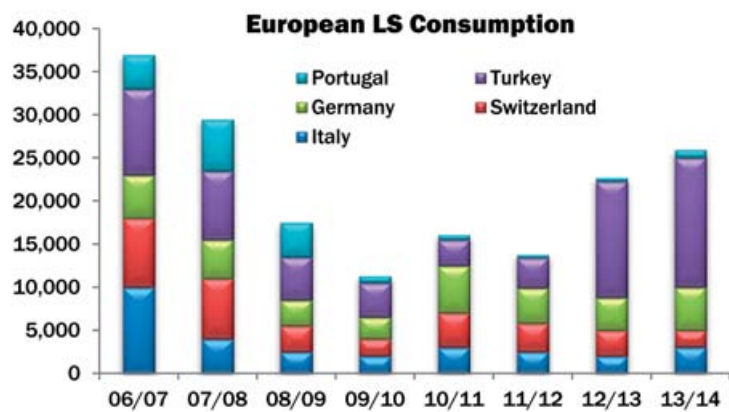
Turkey has been definitely the market where this trend seems unequivocal, with 13,500 tonnes consumed in 2012/13 and predictions for the same or a higher rate of use in 2013/14 (15,000 tonnes). Switzerland and Italy are now both more stabilized and the usage numbers for 2013/14 will likely not exceed those of 2012/13; Germany is however set for a rather firm consumption number.

With expectations for the global world LS/ELS output to decline further in 2013/14 by about 5% and world consumption, at best, improving by 2-3%, the EU users of Long Staple cottons are posting a remarkable "come back", toward the levels seen in 2007/8 and earlier in 2006/7.

Turkey – LS expanding

The local spinning sector is running at full capacity with thousands of new spindles getting started for the 2013/14 season, following consistent investment plans. The demand for fine counts outside Turkey is progressively rising, with inquiry for yarns and products from the EU and Russia gaining momentum.

The Turkish Textile Industry is taking advantage of its proximity to European markets, combining high quality standards with timely supply. The



interconnection with world leading fashion brands is a key factor in the success of high quality yarn producers!! Italians, Germans, French, once almost leaders with the finest fabrics for the Home Textile as well as for the top end shirt makers, are now more often sourcing their needs in Turkey. Although the leading position of fine fabric producers has been lost by Italy, my native country is still a place of remarkable examples of how the EU and Turkey are trying to find their way "towards excellence": The project involves Egyptian producers of the best Giza varieties (Giza 45 and Giza 87), together with long traditional spinning groups and the most innovative fabric manufacturers, who are joining together to achieve new goals - History, Tradition and Innovation together to create the finest fabrics and clothes.

"Sartorial Denim" or "Sportswear go chic" are the new mottos with end fabrics made from US Pima and Giza Cotton advertised on top fashion stages like "Pitti Moda" in Florence or right on the spot of music events (eg. Royal Albert Hall, London – Ligabue Live Concert last May 2012 wearing a shirt of Albin Group) by VIP testimonials such as Mr Bono of U2 (embracing a common project of sustainable production chain with Renzo Rosso CEO of Diesel Inc. Italy).

EU Long staple production

EU production of ELS cotton continues only in Spain, with the commitment of local cotton seed production companies in cooperation with the farmers. This hard work has resulted in the last ten years in a change from importing 50% of all seed used in Spain to producing 90% of the seed necessary to the country. It has also resulted in Spain becoming an exporter to the largest cotton producing country in EU, Greece.


As per the "Fibra Extralarga", the Extra Long Staple, since the project started in 2006/07, Spanish production increased in 2008/9 and 2009/10 to reach the record output of about 4,000 tonnes of lint in 2010/11! However, over the past two seasons, problems related to sourcing the hybrid seed variety (a cross between two species, the *gossypium hirsutum* origin USA and *Barbadense* origin Egypt) have heavily impacted the production of the Spanish ELS. The final output in 2012/13 has been only about 1,000 tonnes, while the expectations for 2013/14 are for an important recovery (to about 2,000 tonnes) - still well below the record figure of 2010/11.



In spite of the great efforts of the COAG (Coordinadora de Organizaciones de Agricultores y Ganaderos), the farmers of Andalucía (the region of southern Spain where 98% of Spanish medium staple and long staple is grown) and a local private ginner (Algosur) since the beginning committed to this project, the sourcing difficulties, the high cost of hybrid seed (Intercott-211) versus the normal varieties, have caused a reduction of acreage devoted to ELS!! A climbing road ahead of EU fine cotton producers...

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Long Staple and ELS Cotton in Israel

Fibre Characteristics and Integrated Pest Management

*By Menahem Yogev, Classing Institute Director,
Israel Cotton Board Ltd*

ELS and LS cotton have dominated Israel's cotton area for over a decade. A combination of well-adapted varieties, coupled with excellence in grower performance, has resulted in high yields and superior fibre qualities.

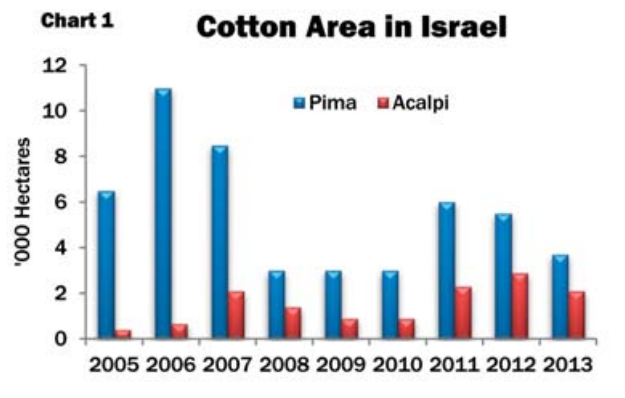
Cotton area has varied over the years (chart 1). Farmers are very flexible in their ability to decide which crop to plant, hence the mix of the crop usually varies from year to year. A master plan for the coming year is discussed every September/November, and the cotton prices prevailing at that time play a major role in farmers' decisions.

In the autumn of last year, prices were relatively low. In consequence, the area sown for the current season has dropped to around 6,000 hectares, from about 8,500 last year.

The growth of cotton in Israel is guided by ecological ideas.

Cotton is drip irrigated and the water used is recycled, which achieves two goals:

- drip irrigation can save about 20% more water than other irrigation systems;

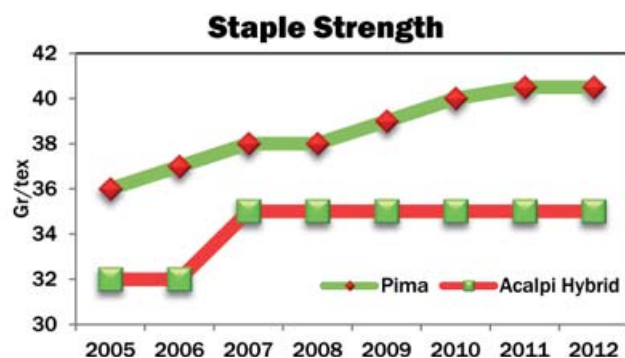
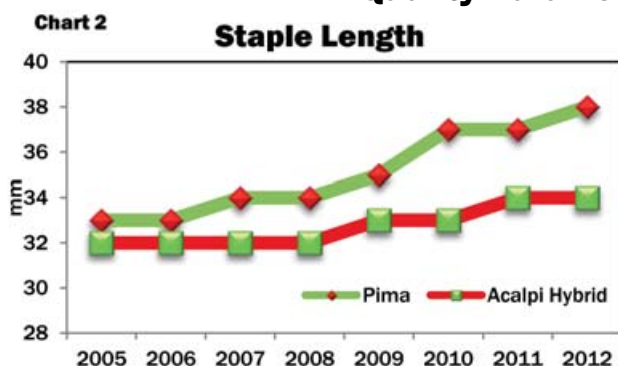


- use of recycled water in this semi-arid area, where fresh water is short in supply, allows Israel to continue to grow cotton, and to keep rivers clean.

Variety development and management methodology ensure both yield and quality improvements (chart 2).

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Quality Parameters 2013-2014:			
Variety	Length (HVI)	Micronaire	Strength (HVI)
Israel Pima ELS	36-38 mm	3.7-4.5	39-42 GPT
Israel Acalpi LS	34-35 mm	3.5-4.1	34-37 GPT



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management is almost impossible, we have adopted the practice of using synthetic pheromones to cause disruption to mating.

In the insect kingdom, males are attracted to females guided by a chemical compound dispersed by the female. Application of about 250 strips per hectare, containing slow release, synthetic pheromone, disrupts the process. Special traps containing this pheromone are used to indicate its efficiency. We have learned that increasing the numbers of strips – up to 1,000 per hectare – brings a significant increase in effectiveness.

The pink bollworm is now a problem in very few fields, and insecticide use has been reduced dramatically - to the point that only 10% of the total area is treated.

Israel cotton is now exclusively and successfully marketed by Otto Stadtlander GmbH, Germany and consumed by the best and leading spinning mills all over the world.

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COTTON OUTLOOK'S ANNUAL SPECIAL EDITION

The 72nd Plenary Meeting of the International Cotton Advisory Committee – the United Nations of Cotton - will take place at the end of September in Cartagena, Colombia. As always, Cotton Outlook's annual Special Edition will be produced to coincide with this important gathering, attended by senior government officials from cotton producing and consuming countries around the world, as well as a broad range of participants from the private sector.

This years Special Edition will include our review of the major developments in the world market over the past twelve months, as well as contributions from the host country, and articles of regional interest. We aim for the publication to be distributed to delegates at the conference and to our worldwide readership.

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Long Staple Cotton Production in Central Asia – Diminishing Trend

By Galina Fisher,
Cotton Outlook

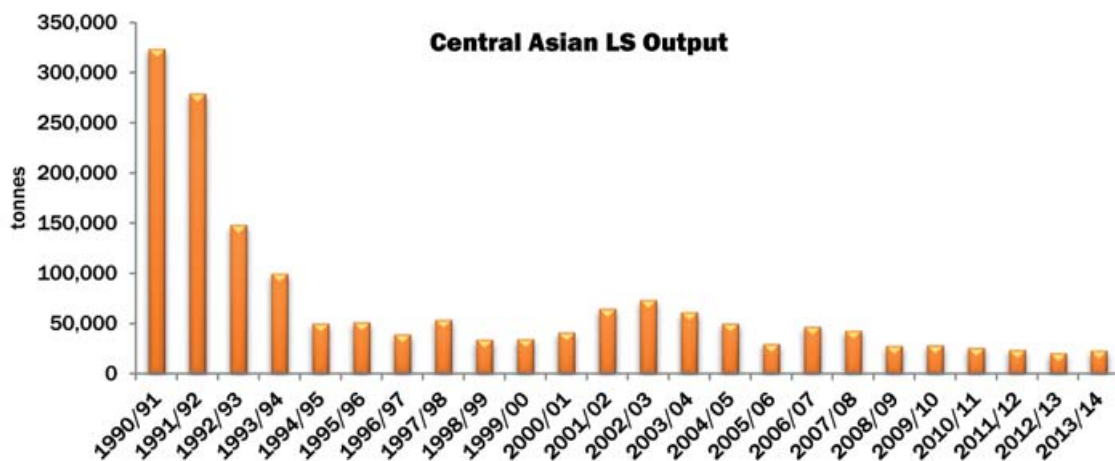
In our previous annual Long Staple Special Features, we have noted that long staple production in Central Asia is on a diminishing trend and expressed concern that the prospects for recovery are bleak.

Long staple cotton has traditionally been grown in the southernmost parts of three of the five Central Asian cotton-producing countries, namely Uzbekistan, Turkmenistan and Tajikistan, where the climate and soils are most suitable for the growth of such varieties.

The steady decline of production in the region can be traced back over two decades; upland production has also fallen during the same timeframe, though by much less. During the past few seasons, however, the production of long staple cotton in Uzbekistan and



Tajikistan has contracted substantially. Today, these two countries annually produce in aggregate no more than 3,000 to 5,000 tonnes. In Uzbekistan, LS cotton is cultivated in just one province – Surkhandar - while in Tajikistan cultivation is confined to a small area - in the southern part of Khatlon province.



The most common factors that have contributed to the decrease include: poor incentives for farmers to grow these labour-intensive and time-consuming growths; absence of official long staple production targets; strong pressure to meet overall seed cotton production plans. Weather has also played a crucial role. Fluctuations in international prices seems to have been of least significance.

Today, the only sizeable producer and exporter of long staples from this part of the world is Turkmenistan. Official, seasonal plans for production always set ambitious goals but the reality is that actual production has been broadly maintained during the past decade, in a range between 18,000 and 25,000 tonnes of lint. Production from the 2012/13 crop was about 18,000 tonnes, according to Cotlook's estimate, while in 2013/14 output is expected to be about 20,000 tonnes.

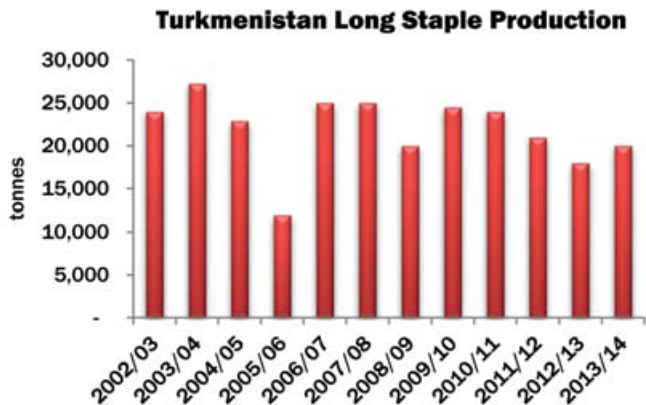
Long staple production in Turkmenistan				
	2010/11	2011/12	2012/13	2013/14
Production*	24,000	21,000	18,000	20,000
Consumption*	2,000	3,500	3,500	3,500
Export sale**	10,100	9,610	3,680	0
Stock*	11,900	7,890	10,820	16,500
* Cotlook's estimates **Official records as at 1/8/2013				

Two provinces, Mary and Akhal, cultivate the varieties in question, which are customarily grown from local seeds, such as 8763-I, 9078-I, Ash-25, 9871-I, 9938-I, Yoloten-5, Yoloten-14, Yoloten-21 and Yoloten-32. It is understood that price incentives are offered to farmers and subsidies are in place; any variation in production volume is normally explained by weather conditions.

The bulk of Turkmen long staples goes for export; local consumption is merely a few thousand tonnes per annum. The main consuming markets overseas are located in South East Asia.

Export sales at the origin are conducted via regular trading auctions at the Commodity Exchange in Ashgabat. During the past few seasons, a large stock has been accumulated, as the pricing formula, at times, can be unattractive to potential

international buyers. At the time of writing this article, in mid-July, the stock of long staples from old and current crops is as shown in the accompanying table.



Future prospects

There is no real evidence to suggest that revitalisation of long staple production in the Central Asian region is possible in the short to medium term. The longer-term view is no more promising, in the absence of significant changes to the way such cottons are produced and farmers are rewarded. Otherwise, the best that can be anticipated is that the status quo will prevail.

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