

# Cotton Outlook

Switzerland 2012



ICAC | 71st Plenary Meeting | Interlaken | Switzerland





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# Contents

<b>The Search for Sustainable Cotton</b>	<b>4</b>
By Mike Edwards, Cotton Outlook	
<b>Why is Switzerland Hosting the 71st ICAC Conference in Interlaken?</b>	<b>6</b>
By Marie-Gabrielle Ineichen-Fleisch, State Secretary, State Secretariat for Economic Affairs, SECO	
<b>SEEP: Six years of work in Shaping Sustainability in the Cotton Value Chain</b>	<b>10</b>
By Dr. Francesca Mancini, Vice-chair, SEEP	
<b>Better Cotton promises to be Better, Bigger and Bolder</b>	<b>14</b>
By Daniel Lutz, Communications Manager, Better Cotton Initiative	
<b>Current Horizons in Cotton Research</b>	<b>18</b>
By Dr. M. Rafiq Chaudhry, Head, Technical Information Section, International Cotton Advisory Committee	
<b>All Things Considered: a Comprehensive Continuum of Sustainability in the Global Cotton Supply Chain</b>	<b>22</b>
By J. Berrye Worsham, President and CEO, Cotton Incorporated	
<b>Buenos Aires to Interlaken, a Market in Decline</b>	<b>26</b>
By Mike Edwards, Cotton Outlook	
<b>The Last Year in Polyester Fibre</b>	<b>36</b>
By Darrel Collier, Business Manager - Synthetic Fibres & Intermediates Tecnon Orbichem	

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# The Search for Sustainable Cotton

By Mike Edwards,  
Cotton Outlook



Writing in Cotton Outlook's Plenary Special Edition in 2006, ICAC Executive Director, Dr. Terry Townsend, described sustainable production as *"the ability to produce cotton today without diminishing the ability of future generations to produce cotton or other crops."* Since then, the focus on issues of sustainability has become ever more intense. *Is it sustainable?* has in recent years become the test to which all areas of commercial activity must submit.

For cotton, the issues raised by the 'sustainability question' are varied and complex, with the result that the identification of a consensual, working definition of sustainability has in itself presented a significant challenge for our industry.

There appears acceptance of three main 'pillars' of sustainability: social, environmental and economic. In this regard, the work of ICAC's expert panel on Social Environmental and Economic

Performance (SEEP), whose genesis can be traced to the 2006 ICAC Plenary Meeting in Goiânia, Brazil, has manifestly helped to bring a clearer focus to the issue.

In gathering scientific data and establishing benchmarks, SEEP is progressively constructing an invaluable resource to complement the wide range of national and multi-national initiatives, each with its own interpretation of what sustainability means for cotton.

The most prominent of these is without doubt the Better Cotton Initiative (BCI), the progress of which has been impressive, during a period in which output of certified organic cotton, for example, has witnessed a decline. For garment manufacturers and retailers, confronted by complex issues of traceability in a long and fragmented value chain, yet anxious to assert their credentials in the domain of sustainability, BCI clearly offers a promising way forward.

It is clear from the various contributions to this publication, and from the ICAC Plenary's agenda itself, that in recent years considerable progress has been made in raising awareness of



cotton's sustainability issues, and that positive momentum has been generated in confronting the challenges that arise from those issues. However, the three 'pillars' alluded to above do not stand in isolation one from the other and, as Dr. Chaudhry observes, the economic dimension has not always been accorded the priority given to environmental and social aspects.

Yet, one might argue that, from an economic and commercial perspective, the task of defining what is sustainable has become more difficult than ever before. Since 2008, the international cotton market has seen the most volatile fluctuations in its history. The collapse of prices under the influence of the financial crisis of 2008/09 was followed by an unexpectedly early recovery the following season. There ensued a bull market that took prices to unprecedented levels. For a time, a mood approaching euphoria reigned, as producers at last felt that their labour would be rewarded, spinners obtained equally remunerative prices for their cotton yarn, and downstream textile demand remained buoyant. But this benign state of affairs proved all too brief. Prices collapsed once again, and the previously bullish dynamics of world supply and demand shifted dramatically into reverse, to create a downward spiral from which few market participants emerged unscathed.

In nominal terms, the long-term average of the Cotlook A Index is just above 70 cents per lb. Today, however, that level of world price does not appear to offer a compelling incentive to produce cotton. In recent years, prices for competing food crops have risen strongly - as have costs of cotton production. Some observers also detect a generational change, manifested in an aversion to the labour and risks entailed in cultivating cotton in a non-mechanised system of production. And, in some major producing countries, government support, in one form or another, provides a policy framework without which the



viability of cotton production might well be in jeopardy.

At what level of international prices, in a world devoid of government support, cotton cultivation might be considered sustainable for a majority of producers is an intriguing question but ultimately a purely hypothetical one.

In the debate about sustainability, it is also worth re-examining the sometimes misunderstood role of the international cotton merchant, which has been crucial to the manner in which the world market has functioned for decades, if not longer. In order that the textile supply chain can function in an efficient and orderly manner, some predictability in the future supply of raw material, in terms of price, quality and availability is essential. To assure the ability of the spinner to buy forward, and of the producer to sell forward, has always required that the international trade, in its pursuit of profit, assumes considerable risk. That crucial function has only been sustainable for as long as there has been broad respect for the principle of contract sanctity. As market volatility has caused the risks faced by merchants to rise exponentially, a well-documented proliferation of contractual defaults has ensued. This poses fundamental questions in relation to the future willingness of the merchant community to

assume those risks - that would otherwise fall on producers and consumers of raw cotton. An opportunity to debate the question posed in the Plenary agenda - *Can we have sustainability without contract sanctity?* - could not be more timely.

Volatility on the scale witnessed in recent years clearly threatens the sustainability of cotton production, and the integrity of long-established trading practices. It jeopardises the future growth of consumption. As our review of the world market illustrates, the blow dealt to global raw cotton consumption in terms of market share lost to synthetic fibres has been a heavy one, from which the recovery has thus far been slow and faltering. As our customary contribution from Tecnon indicates, cotton can expect no quarter to be given by synthetic fibres in the battle for market share. From the spinner's perspective, cotton at over two dollars per lb was clearly not likely to prove sustainable for long. Not only the absolute level of price, however, but also the market's damaging instability, contributed to mills' sudden disenchantment with the natural fibre.

As always, the ICAC Plenary will provide a unique forum in which the cotton community can discuss the issues of the day. The theme of sustainability chosen for this year's Plenary Meeting touches all aspects of our industry.



# Why is Switzerland Hosting the 71st ICAC Conference in Interlaken?



By Marie-Gabrielle Ineichen-Fleisch, State Secretary,  
State Secretariat for Economic Affairs, SECO

It is a fact that, without cotton, Switzerland's industrial development history might easily have taken another turn. Cotton was woven in Basel as early as 1380. In the 18th century, cottage-based textile manufacturing was taken to industrial levels, thanks to Switzerland's ample supply of hydropower. This industrialisation then gave rise to other branches of industry, such as machinery and machine tools, chemicals and paper. During its golden age at the end of the 18th century, the Swiss textile industry directly or indirectly employed a quarter of the population. Even today, most people in the cotton sector recognise Switzerland as a reliable supplier of modern, high quality spinning, knitting and weaving technology, as well as precise textile testing instruments. Another aspect of this historical development is Switzerland's tradition in the area of commodity trading in general, and in the cotton trade in particular.

However, the historic tradition of cotton is not the only reason that is driving the interest of Switzerland to host the 71st Plenary Meeting of the International Cotton Advisory Committee (ICAC) from 7 up to 12 October 2012 in Interlaken. It is also

the conviction that sustainability issues in the cotton value chain can provide business opportunities. The best example is the fact that sustainable textile products have conquered ordinary retail shops in Switzerland. What started as real experimental pioneer work has become a matter of course – for enterprises as well as consumers. In order to advance this case and to share experiences, we wish to follow up during the ICAC conference in Interlaken on previous discussions on sustainability that have taken place over the past years.

The potential for sustainability in the cotton value chain is also the reason why Switzerland addresses the issue as an element of the work of the Economic Cooperation and Development Division of the Swiss State Secretariat for Economic Affairs, SECO. The aim of these cotton-related activities is to improve livelihoods and thus contribute to poverty alleviation in developing countries and countries in transition, through trade promotion. One approach towards reaching the goal is to set and improve framework conditions. Against this background, SECO is





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cotton value chain. The objective of BCI is to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector's future. During the 2011/2012 season, BCI and its partners worked with 125,000 cotton farmers in Brazil, India, Pakistan and West Africa. Pilot activities are ongoing in China, and many other countries expressed interest to grow Better Cotton.

engaged through its partner IDEAS to support the Cotton 4 (Benin, Burkina Faso, Chad and Mali), in order to strengthen their negotiation capacity and hence to better defend their interests in the Doha Round, since only the informed and effective influence on cotton subsidy programs may add to reach acceptable cotton price levels.

Another approach is to strengthen competitiveness of cotton market participants through differentiation of products, because this supports better integration into the world market. Against this background, SECO is working along the cotton supply chain to implement private, voluntary sustainability systems. In fact, SECO has been a front runner in supporting Fair Trade and Organic and thus helped to introduce

sustainable consumption and production patterns. Examples are projects in Kyrgyzstan (pictured) and West Africa, where SECO in cooperation with Helvetas Swiss Intercooperation helps to develop such cotton value chains. So far, around 10,000 cotton farmers in the three partner countries have benefited through the program from higher income, healthier working conditions and a better social infrastructure in their villages. In addition to niche market sustainability systems, SECO has been an early supporter of the establishment of broader, multi-stakeholder sustainability initiatives and roundtables for agricultural commodities. One of the examples of SECO's engagement is the contribution to the Better Cotton Initiative (BCI), which aims to mainstream sustainability in the

From the above, it may be not surprising that, during the 71st ICAC Plenary Meeting, Switzerland proposed to look at sustainability in the cotton value chain from different perspectives and that therefore the conference was given the title "Shaping sustainability in the cotton value chain". Switzerland is well positioned to host this discussion. It was already mentioned above that pioneer work of Swiss companies to make their cotton supply chain sustainable proved to be profitable business opportunities. In addition, with its history of direct democracy, Switzerland has a wealth of experience of multi-stakeholder dialogues, transparency and intensive discussions that allow different opinions to be included and creative solutions to emerge. As a host, we believe that Interlaken will be the perfect place to discuss and try out new forms of dialogue: small and scenic, situated between mountains and lakes, this venue will help us to focus and have a frank exchange of views. We also hope that new stakeholders will take the opportunity to join in and enrich our discussions. We are convinced that visiting Interlaken will be enjoyable, a rewarding experience and one giving new ideas that will ensure the sustainable growth of the cotton industry.

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# SEEP: Six years of work in Shaping Sustainability in the Cotton Value Chain



By Dr. Francesca Mancini,  
Vice-chair, SEEP

The Expert Panel on the **S**ocial **E**nvironmental and **E**conomic **P**erformance of Cotton Production (SEEP) was formally established as a result of the deliberations of the 65th International Cotton Advisory Committee (ICAC) Plenary Meeting in Goiânia, Brazil, in September 2006. However, the seeds for such a panel were sown over a number of years, as the cotton industry became increasingly focused on its broad sustainability obligations. Heightened global attention on the industry's supply chain provided the impetus for the ICAC not only to gain a greater appreciation for the industry's sustainability performance but to seek out appropriate responses to problematic activities.

The SEEP Panel currently has thirteen members and reflects a broad cross section of nationalities, expertise and experience. In many cases, members belong to relevant international organisations, such as CIRAD, Helvetas, the Food and Agriculture Organization of the United Nations, the Bremen Cotton Exchange, or to key national cotton organisations like Cotton Incorporated, the National Cotton Council of USA and the Cotton Research and Development Cooperation of Australia. In other cases, members are representatives of governmental agencies or private sector associations. In having access not only to the specific skill sets of the individual representatives but also potentially to the resources of their respective organisations, SEEP has powerful collaborative capacity and substantially broadens ICAC's resource base.

The primary objective of the Panel is to collect and review independent, science-based information on the negative and positive social, environmental and

economic aspects of global cotton production. Over the years, SEEP has not only reviewed existing information — making use of its internal expertise, but has also commissioned and supervised scientific studies to deepen our understanding of key aspects of cotton production performance. Based on the available information, SEEP formulates recommendations for further action as and when appropriate to improve the overall sustainability of cotton production.

At its inception meeting in 2007, SEEP reflected on the complexity and quantum of issues impacting the sustainability of cotton production. Specifically, as a result of the alarming industry pesticide use data that emerged during the 1990s, the Panel prioritised a greater understanding of plant protection practices and trends in chemical use. Water use and management, soil management, production efficiency and energy usage, greenhouse emissions and biodiversity were quickly added to this list of important environmental issues. Labour costs and workplace conditions became high priority topics from the social impact perspective.

## Principal activities to date

### Pesticide use

In an attempt to (at least partially) address the lack of country-specific information, SEEP acquired pesticide use datasets spanning a fourteen year period across six cotton growing countries: Australia, Brazil, India, Togo, Turkey and the USA. In collaboration with the research group Environmental Risk Assessment of Alterra, Wageningen University, the datasets were analysed to



identify trends in the use of pesticides on cotton in the six nominated countries, and to evaluate the hazards of pesticide use on cotton to human health and the environment in those same countries.

The study generated important insights into chemical use in cotton production, upon which SEEP formulated recommendations for risk reduction and mitigation.

It produced a benchmark for the type and quantity of pesticide used in the six countries. The average pesticide use per annum on cotton was 1 kg of active ingredient per hectare (a.i./ha) in Australia in 2007, 4.9 in Brazil, 0.9 in India, 0.6 in Turkey and 1.2 in USA in 2006. Additionally, with the exception of Brazil, pesticide use was found to be lower in 2007 than the levels recorded in 1994. Insecticides, and more specifically organophosphates, were the major group of pesticides used (herbicides were not analyzed). Although the study revealed a general decline in the use of WHO-classified, extremely and highly hazardous chemicals, their use rate in 2006 was not insignificant, with figures at 0.89, 0.35 and 0.21 kg a.i./ha respectively, in Brazil, USA and India. This benchmark will hopefully constitute a useful reference to track improvements in the near future in the use of hazardous chemicals in cotton production.

Interestingly, only a small number of active ingredients (compared to the number of products used) were found to be responsible for a large proportion of the hazards to human health and the environment. In many developing countries, regulatory control over the use of pesticides is still either incomplete or inadequately enforced, due to lack of technical expertise and resources. As a result, SEEP recommended that highly hazardous pesticides be eliminated in those countries where adequate



provisions for their sound management are not in place.

In Australia, the comparison of disaggregated pesticide data for the years 2003-2007 showed a higher average amount of active ingredients used per hectare of conventional cotton than biotech cotton.

No clear correlation was found to exist between variations in pesticide use over time and yield levels. Conversely, the adoption of best production and protection practices has proven to support, sustain and improve productivity under different agricultural conditions. SEEP recommended the promotion of Integrated Pest Management (IPM).

SEEP's recommendations were endorsed by ICAC member countries at the 69th Plenary Meeting in the United States in 2010. The real challenge, however, remains in the actual enforcement and monitoring of appropriate risk reduction strategies.

### Production efficiency: land, water and energy

The perennial challenge confronting the agricultural community is to meet the food and fibre requirements of a rapidly growing population with limited availability of natural resources, specifically land, water and energy.

The past half century has witnessed a steady increase in the efficiency of land use (expressed as the amount of fibre produced on one hectare of land) and water use (expressed as kilograms of output per cubic metre of water) for cotton production.

Global cotton production consumes 3% of the total volume of water used for global crop production, and in 2007 cotton was grown on 2.3% of the world's arable land, making cotton production's water use proportionate to land use. Cotton yields have doubled







since 1965, while harvested hectares have remained relatively constant, resulting in a 50% decrease in the amount of land required to produce a kilogram of fibre.

Though cotton's efficiency has improved, further efforts will be required to optimise the use of natural resources. In broad terms, the focus for improving production efficiency has been to either reduce the amount of resources required per unit of production or to increase production capacity using the same amount of resources. Ideally, the cotton industry will seek to achieve both. Solutions for production efficiency are largely customised to local circumstances. Since approximately two thirds of the world's cotton is produced by smallholders in developing countries, often farming in resource-poor areas, it would be important to focus research on developing solutions fitting their farming conditions.

SEEP has produced a factsheet providing an overview of the water use issue, its scope and current fact-based understanding.

An important environmental question that has emerged in recent years is the greenhouse gas emissions profile of the entire industry supply chain. A paper was presented at the 2009 ICAC Plenary detailing this life cycle analysis, and SEEP is currently working to complete a relevant fact sheet which will review available data on the indirect and direct emissions created during the production of cotton lint.

### Labour issues and costs

The other important pillars of industry sustainability are economic viability and social acceptance.

SEEP has begun reviewing existing data and information sources relating to the social impacts of global cotton production. Labour costs and practices are important dimensions for cotton cultivation worldwide. An estimated 110 million households produce cotton in more than 80 countries. When family labour, hired labour and employment in ancillary industries such as transportation, ginning and warehousing are included, total employment in the cotton industry reaches more than 200 million people

each season. Data on labour costs, however, are patchy and often not comparable across countries. ICAC has responded to this knowledge gap by carrying out a survey of the different labour cost components in cotton production among its member countries on behalf of SEEP. Data received from 11 countries were harmonised into a standardized format and made available on the ICAC website for further analysis.

Cotton industry employment in the eleven countries represented in this report totals about 45 million, with India alone accounting for 35 million. Estimates of total employment are difficult because of differences in definitions, the prevalence of family labour in the cotton sector, the use of crop rotations and changes in crops from season to season. Nevertheless, the information in this report gives a good indication of the types of expenses incurred by employers in the cotton production sector of major countries.

### Study on responsible cotton production

Codes of practice or standards that outline or prescribe methods aimed at reducing the overall environmental impact and improving the social and economic performance of the industry are being promoted and adopted in a number of countries. In some cases, these systems are informal, and in others, they are well developed and regulated. While these developments are generally seen as positive, there is a growing need to understand their relevance to the cotton industry as a whole, including cotton producers.

The SEEP panel has commissioned a study of those initiatives relevant to cotton production that place an emphasis on responsible stewardship of the environment, our people and our economic viability.

This comparative study will describe the existing initiatives and systems that set standards or guidelines to define, describe or measure sustainability in cotton production by investigating the following aspects:

- a. System objectives
- b. Principal motivating factors
- c. Main partners/strategy
- d. Geographical coverage and estimated farmers' participation
- e. Financing mechanism
- f. Compliance monitoring and performance evaluation mechanisms.

Importantly, the study will analyse the indicators used by the systems in core environmental areas by looking into issues such as land use and management, water use efficiency, biodiversity and chemical use. Likewise, it will consider the social dimensions of cotton



production such as responsible labour practices, hazardous work practices, labour conditions, gender and empowerment, and poverty alleviation. Finally, financial viability factors, such as farmers' access to safe micro-credits and competitive markets and prices, will be considered, if these factors are part of the reviewed initiatives. In doing so, differences between smallholder production and large-scale mechanized commercial farming will be highlighted.

SEEP has undertaken this exercise with the objective of informing the debate around cotton sustainability and in particular to support the forthcoming forum at the ICAC Plenary Meeting in October 2012, in Interlaken, Switzerland.

It was during the 59th Plenary held in Australia in 2000 that ICAC convened a technical seminar titled

“Cotton - Global Challenges and the Future”. Amongst other topics, that seminar examined, for the first time, issues of sustainability and environmental responsibility as they related to cotton production. Since then, these aspects of cotton production have become permanent items on the industry's agenda and in 2006, as a direct response to this challenge, SEEP was formed. Six years after its formation, SEEP continues to build knowledge and capacity with the aim of assisting member countries to promote viable cotton production, while managing their finite resource base in a sustainable and responsible manner.

*All documents produced by SEEP can be downloaded from ICAC's website:*

*<http://icac.org/social-environmental-economic-performance/seep-documents>*

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# Better Cotton promises to be Better, Bigger and Bolder



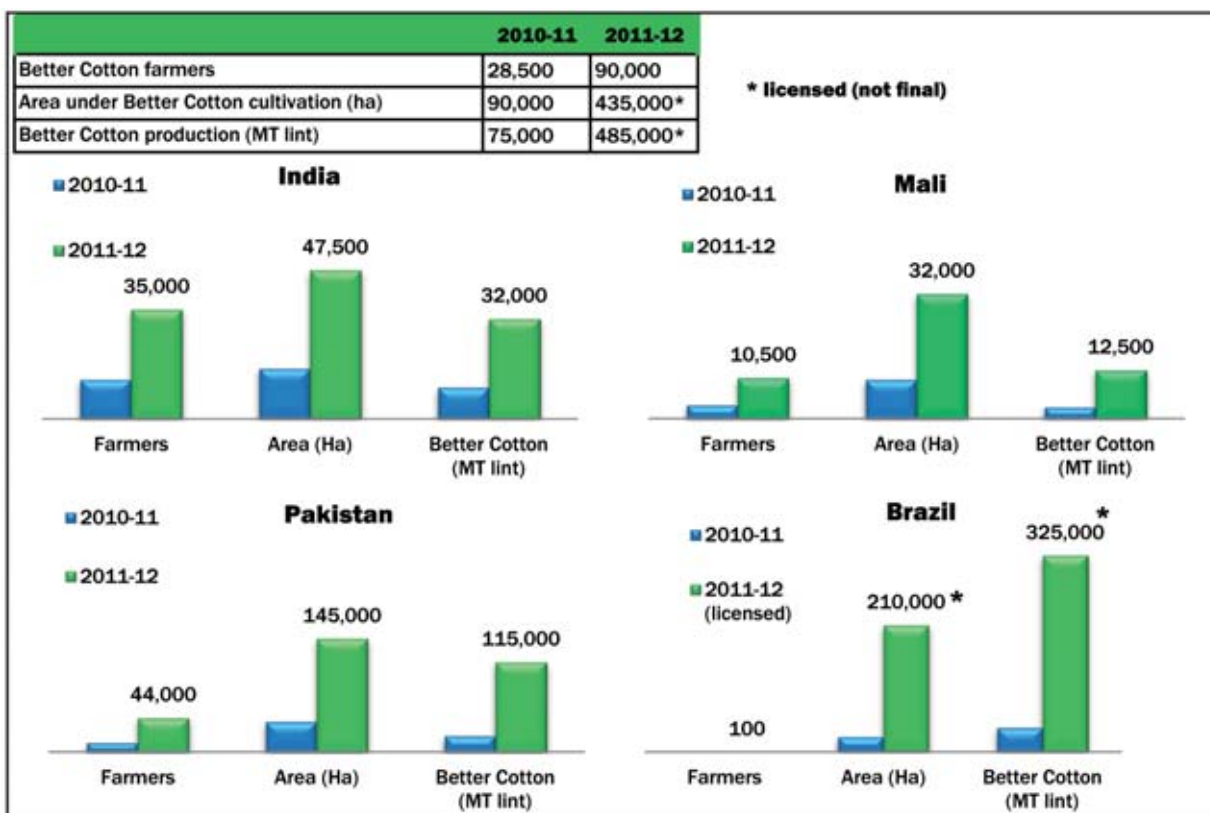
By Daniel Lutz,  
Communications Manager, Better Cotton Initiative

## Successful first two seasons

Last season 90,000 farmers produced close to half a million metric tonnes of Better Cotton on 435,000 hectares of land. Impressive numbers, considering this is only the second Better Cotton harvest. Final results on social,

environmental and economic benefits from the Better Cotton System are still coming in, and case studies from the countries where BCI is active show encouraging results too (see table below). At this early phase, however, there is not enough data to be able to prove impact, for that more time is needed.

But BCI is not resting, waiting for time to pass. In June this year, its forward strategy to become 'better, bigger, bolder' was unveiled, and will move BCI from a phase where it focused on implementation and proving the concept, to a phase where scaling up and reaching out are the lead concepts.





Results from comparisons between Better Cotton farmers and control farmers\*

<b>Brazil</b>	♦ <i>Harvest on-going</i>
<b>India (case study: 344 project farmers and 123 control farmers only)</b>	♦ Yields: +38% ♦ Commercial pesticides use: -20% ♦ Profitability: +80%
<b>Mali</b>	♦ Yields : + 5% (+40% on farmer field schools) ♦ Commercial pesticide use: -68% ♦ Farmacyard manure use: +20%
<b>Pakistan</b>	♦ Yields: +8% ♦ Commercial fertiliser use - 33% and manure use : + 200% ♦ Commercial pesticides use : - 38% ♦ Profitability : +35%

\* Control farmers were selected by Implementing Partners.

Kishen Rao from Pakistan, observed that, since Better Cotton practices have been employed – especially in the use of pesticides and fertilisers – the fish have become bigger in the local streams and buffalos do not have as many miscarriages. For him, this is proof that the environment is healthier, which is good for his farm as well as his family.

Feedback from individual farmers backs up what the figures show, namely that the training and support from BCI and its Implementing Partners are beginning to change attitudes, which in turn is beginning to change lives.

For instance, Bintou Traore, president of a Women’s Association in Mali, talks not only about the

Paparao Tadingi, a marginal farmer from India, explains how his increased knowledge of beneficial insects allowed him to stop using “poisonous pesticides”, saving him money and gaining him peace of mind. Another farmer, Prakash Valvi, was motivated to implement a drip irrigation system, realised a yield increase and raised profits by 35%.

Fernando Minoru Aoyagui manages large farms in Minas Gerais, Brazil with his son and he says that “the Better Cotton Initiative brought us a practical vision of sustainability, which considers the current state of the project and moves forward progressively....enabling continuous improvement of processes and routines of the farm”.

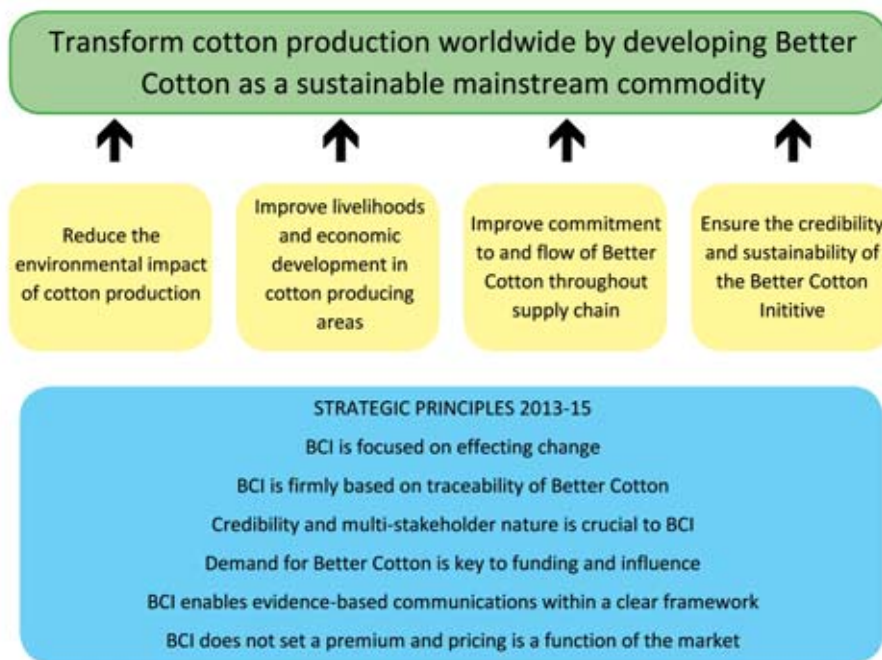
### The BCI strategy (2013-15)

2009-12 was all about implementation and proving the concept. Now that the system is working, the next phase will focus on successful adaptation and expansion: increasing the number of Better Cotton farmers and hectares, making verification simpler, getting BC into supply chains and driving demand. While such adaptation will increase efficiencies, these changes mark an evolution, not a revolution. BCI’s production principles remain the same, as does the overall goal: “to transform cotton production worldwide by developing Better Cotton as a sustainable mainstream commodity”.



increased savings they made on reducing the amount of pesticides used, but also about the increased opportunities for women (through a literacy program for women).

Outcome	Local Indicator
1. Reduced irrigated water usage	Volume of water / MT lint by Better Cotton (BC) producers
2. Reduced toxic load of pesticides	Pesticide usage / MT lint by BC producers
3. Improved soil health	Fertiliser use / MT lint by BC producers
4. Increased profitability for cotton producers	Net profit / MT
5. Increased influence of women	Women trained in BC
6. Elimination of child labour	% BC farmers promoting Decent Work in their communities



cultivation, and 1 million Better Cotton farmers.

### Strengthening the membership

Currently, BCI has over 200 members from across the supply chain, which is far in excess of its original targets for 2012. Going forward, BCI is offering members a more tailored membership package on the one hand, and asking for a greater degree of commitment on the other. Members will be held to account for continuous improvement, with a new members' Code of Conduct. As BCI's Membership Director – Lena Staafgard -

points out, "while there are already membership obligations, what we're doing is narrowing and prioritising these to focus on the most crucial practices and behaviours". Members will also be expected to take on an increasing level of responsibility, including supporting supply, stimulating demand and assisting with outreach. This is all part of BCI's strategy of staying lean and becoming increasingly efficient. If Better Cotton is to become mainstream, it has ultimately to be owned by the majority of actors throughout the cotton supply chain.

There will be a stronger focus on regions where scale and impact can be achieved more rapidly: China, India and Pakistan. At the same time, BCI will continue to work with the rest of the cotton-producing world, through global and national partnerships, to broaden its engagement and be more inclusive. As an organisation looking to its own sustainability, BCI will also implement changes that will see it become more self-financing and less reliant on donors. Volume-based fees (based on a retailer and brand member's Better Cotton use) will replace the current farmer support each member gives, and these fees will be on a sliding scale, allowing proportionately lower fees, the higher the volume use.

There will also be prioritisation and focus on what measurements of change Better Cotton reports on.

To do this, BCI knows that it has to be "better, bigger and bolder". "Better" because for all its success, the approach needs to be simpler and more user-friendly. Lise Melvin, BCI's Executive Director, describes it as "making implementation less fragmented and verification more streamlined and less burdensome, but with assurance being more meaningful". "Bigger" because while BCI is already working with tens of thousands of farmers, there are millions of cotton farmers

still to reach. And "bolder" because BCI's aim, of becoming financially self-sufficient and "transforming cotton production worldwide by developing Better Cotton as a sustainable mainstream commodity", is never going to be something that just happens by itself – especially in an industry as complex, diverse and as volatile as cotton.

Accompanying these good intentions are ambitious commitments: by 2015, the target is to have 2 million hectares (6% of the global total cotton production) under Better Cotton







Pakistan field trip. © Copyright BCI/Muhammad Shuaib.

### Partnerships

In the same way that BCI won't take on activities that its members can do better, BCI will also look to form partnerships whenever and wherever they make sense. BCI sees partnerships with local and regional governments, for instance, as a way to both speed up adoption of Better Cotton principles, as well as embedding them, long-term, into regional and national infrastructures.

BCI has already signed an interim partnership agreement with the Aid by Trade Foundation and its Cotton made in Africa (CmiA) initiative. This agreement should see improved effectiveness and efficiency in promoting greater sustainability to African smallholder farmers as well as delivering sustainable solutions for the textile and fashion industry in Europe and North America. The partnership is already yielding results, as BCI and CmiA are offering an attractive way for BCI members to procure CmiA cotton as Better Cotton from the 2012/13 harvest.

BCI is clear on the way ahead: simplify the system while expanding and being more inclusive, with strong partnerships at the forefront, with NGOs, government agencies, producer groups and supply chain actors. As Lise Melvin says: "BCI will increasingly be a facilitator, and convenor, a place to share best practice to scale up".

### Continuously improving

From the beginning, BCI knew that creating a sustainable, mass-market cotton commodity would require a process of continuous improvement throughout: from the producers to the retailers and to BCI itself. The strategy for 2013-2015

was designed through phases of enquiry with stakeholders, beginning in September 2011, and a review of other initiatives, with the final approach being approved by the BCI Council in May 2012. BCI will now continue to collaborate with members, says Lena, to work out the implementation details: "R&R (research & recommend) teams will involve members to finalise recommendations on how some of the most important areas will work, including Key Performance Indicators, Claims, Chain of Custody and the Volume Based Fee".

For the next three years, BCI and its membership will have their hands full making this new strategy work. But, if anything has been made clear in the previous three years, it's that bringing lasting sustainable change to the cotton industry requires a common vision, an open attitude and the willingness to adapt and change.

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# Current Horizons in Cotton Research

By Dr. M. Rafiq Chaudhry,  
Head, Technical Information Section, International Cotton Advisory Committee



Growers produce cotton because they make money as a consequence of gross income surpassing the cost of production per unit area or per unit weight of cotton. Production statistics show that the world cotton yield is in a period of no growth. Cotton yields only increase when a new technological element is developed and adopted. All the indications are that the world average yield will not increase for the next few years, thus exerting an additional squeeze on farmers' incomes and threatening elimination of marginal lands from cotton production.

With yields not increasing, farmers are increasingly focused on reducing production costs by optimizing input applications. The cost of production of cotton continues to rise, and farmers are anxiously waiting for a new technological advance on the same scale as biotech cotton or even better. With regard to the cost of production, weed control and labour are taking heavy tolls on production practices, compared to insecticides in the past.

Insecticide use is on the decline around the world. Many factors are contributing to the changes in



attitudes about insecticide use, but the two main factors are an increased awareness of their deleterious impacts and their expense. According to Cropnosis, plant protection chemicals worth US\$41 billion were used in world agriculture in 2010. Cotton consumed plant protection chemicals worth US\$2.9 billion, or 7% of the total. Although pesticide use on cotton rose slightly in 2010, due to specific pest problems in India and Pakistan, use of chemicals on cotton in terms of value was the same in 2010 as it had been in 2005. Taking into account inflation in pesticide prices, plant protection

chemical use on cotton decreased in real terms during the 2000s. The declining trend will continue, and there is still a lot of room to lower insecticide use further, even with the currently available technologies. For almost three decades, up until the end of the 20th century, growing cotton successfully with insecticides was a dream for most growers. Now, growing cotton without insecticides is within reach and will be achieved in the next two to three decades.

The increased awareness of the deleterious impacts of dangerous pesticides, particularly insecticides, that comprise more than half of the





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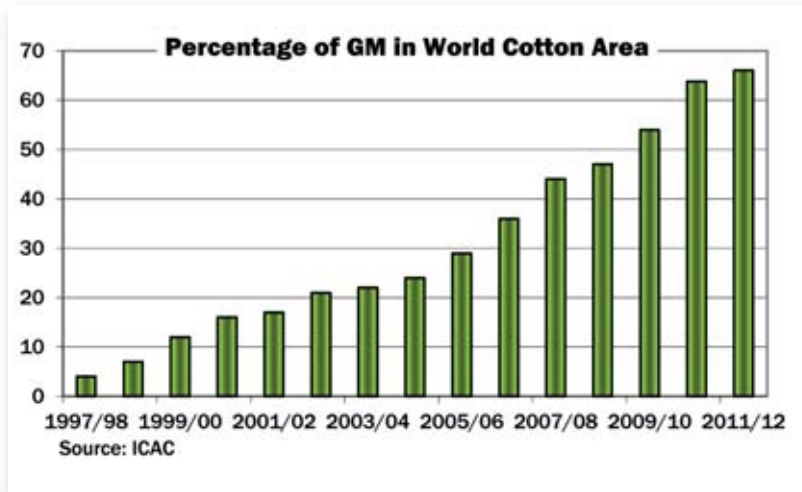


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plant protection chemicals used on cotton, has encouraged communities to focus on the social and environmental aspects of cotton production sustainability. Many internationally-funded, social and environmental organizations have conducted joint campaigns to mitigate the consequences and reduce the incidences of pesticide use. However, social and environmental concerns must be balanced with cost and yield implications in an economically viable production system. Unfortunately, economic viability is often pushed to the back seat in sustainability discussions, but there is a need to keep the producers in business. What is required is to maintain a balance among the three pillars of sustainability i.e. economic, social and environmental. The current stagnation in cotton yields demands more attention to the economic aspect.

The biggest constraint in improving yields is excessive shedding of flower buds. The physio-morphological behavior of the cotton plant dictates that each leaf axil on the main trunk or branch must give rise to a branch (or sub branch) or a flower bud. Theoretically, the number of leaves minus the number of branches is equal to the number of flowering spots. Thus, cotton plants have the theoretical genetic potential to bear 4,500-5,000 kg lint/ha. But the number of bolls is only a small percentage of the number of leaves on the plant, which means that empty leaf axils shed flower buds. Thus, in order to improve yields, there is a need to minimize shedding. Stopping shedding may not be possible because of the C<sup>3</sup> nature of the plant, but the photorespiration rate could be minimized, and that would energize the plant to tolerate more bolls. It is not an easily surmountable task and



is definitely a challenge for the research community.

The role of breeding has always been central to cotton development, like the center axle on a bicycle wheel. The most important tool for breeders is access to a large supply of germplasm with high variability. Unfortunately, the genetic base of cotton breeding programs around the world has become so narrow that breeders are running out of options. Breeding is a long and tedious process involving purifying segregating generations. The process could be shortened by 7-8 years if an easier way to purify material at the F<sup>1</sup> generation could be found. The development of haploid plants, the only technique tried at more advanced stages, has not been successful, and no new technologies are being explored. Molecular markers and marker-assisted breeding will aid in the purification process for developing a homozygous population, and this will help to shorten the process to some extent.

Questions about gene ownership are also hampering breeding programs. A breeder can develop a variety, but if a biotechnology company inserts one biotech gene, the biotech company

can legally claim ownership of the variety. Consequently, it can be illegal for breeders to share varieties with other breeders, including even those who may not have any interest in the biotech gene. Stringent enforcement of intellectual property rights will likely impose extra restrictions on the transfer of germplasm among countries and even among breeders within countries in the future. There is no international germplasm bank for cotton in the world, and legal procedures to exchange germplasm are tedious. Consequently, there is almost no legal exchange of germplasm among countries. Gene ownership and breeders' rights are counter-productive to breeders' needs. This situation strongly points to the need for the establishment of an international germplasm bank on cotton and a reconsideration of intellectual property rights, which will be discussed at the 71<sup>st</sup> Plenary Meeting of the ICAC in Interlaken.

The adoption of biotech cotton and reports of additional breakthroughs have increased hopes for continuous upgrades of technology. However, seventeen years after the first biotech events were commercialized, no new trait has been released. Further progress depends on when researchers will

<sup>1</sup> Some plants assimilate all the Co<sub>2</sub> during the process of photosynthesis: they are called C<sub>4</sub>. The cotton plant is unable to assimilate all the Co<sub>2</sub> during the photosynthesis process. Consequently, the cotton plant releases a considerable amount of Co<sub>2</sub> into the atmosphere, a phenomenon known as photorespiration. Plants that photorespire belong to the category of C<sub>3</sub> plants.

<sup>2</sup> F<sub>1</sub> is a first generation after two parents are crossed.



hit the right approach to trigger the desired action in a genotype. Farmers are still reaping the benefits of recent biotech upgrades in countries where biotechnology has been accepted, and farmers in later-adopting countries are benefiting from the recent adoption of biotechnology. A handful of countries have not experienced any increases in yields for decades. Expectations among farmers for the development of new traits are running high, but there will be disappointment if nothing is delivered in the next 10 years. However, what is expected and what is achieved may be two separate issues.

Cotton has done very well with respect to the adoption of biotech traits. Biotech cotton was commercialized at the same time in the mid-1990s as biotech maize and soybeans. According to the International Service for the Acquisition of Agri-biotech Applications, biotech maize occupied almost half of the area planted to all biotech crops in 2010, followed by soybeans at 32%. Biotech cotton accounted for 15% of all biotech crops area in 2010. However, less than half of the world's maize and soybean area was planted to biotech varieties in 2010. ICAC statistics show that 63%, or 21 million hectares of world cotton area in 2010/11, was planted to biotech varieties in 12 countries.

Enormous efforts are under way to develop new events. The limited number of technology announcements does not reflect the level of research going into product development. Biotech companies are reluctant to encourage farmer enthusiasm for products for which approval is years away. Although the benefits of biotechnology have been commendable, little is known in the public sector about the next generation of traits. Most of the research in biotechnology is driven by private, multinational companies, and plans are closely held. Unfortunately, public sector investment in cotton research has not kept pace with developments in the private sector. It is time that proper investment were made to strengthen public sector efforts in biotech cotton, with solid, collaborative, technical plans among interested cotton-growing countries, which will then create possibilities for low-cost products and long-term sustainability.

Even though information on the latest research developments and how close they are to commercial release is not available, it is certain that new products providing herbicide tolerance and insect resistance will be provided. It is expected that as many as 27 new products will be released in less than five years. Most of the new products will involve stacking genes or alternating genes for stronger effects. It is anticipated that two new traits, drought tolerance and nitrogen efficient cotton, may be approved before 2020.



Statistics show that slightly less than 40% of the world cotton area is grown under rainfed conditions. Average yields under rainfed conditions are no more than 60-70% of yields under irrigated conditions, and are often even lower. Assured irrigation allows timely planting, weeding and input application. Conventional efforts to develop drought-tolerant varieties have not been successful. Biotechnology approaches have a potential, and many research teams, including some in the public sector, have already made significant progress. Drought-tolerant, biotech cotton has the potential to add an additional 3-4 million tonnes of cotton to world production.

There is more positive news on nitrogen-use efficient technology from the private sector. It seems that nitrogen-use efficient cotton may be the next trait to be approved for commercial use. The inability of the plant to uptake all the nitrogen applied through synthetic fertilizers results in nitrogen emissions and leaching beyond the root zone. Nitrogen as a greenhouse gas is many times more potent than carbon dioxide. Nitrogen-efficient technology will allow farmers to use significantly less nitrogen fertilizer on cotton while maintaining yields, or will allow farmers to increase yields while using the same quantity of nitrogen. Lower nitrogen applications will result in lower nitrogen emissions and help the environment.

Soon after the deregulation of the first two agronomic traits, traits that would lead to improvements in fibre quality seemed to have been well advanced. However, no traits providing increases in fibre quality have yet been announced, though research goes on. One potential application could change the molecular charge of fibres to modify the reactivity of cotton to dyes. Research is years away from commercialization, but new cotton varieties could eliminate the energy-intensive processes used in dyeing and finishing.

# All Things Considered: a Comprehensive Continuum of Sustainability in the Global Cotton Supply Chain



By J. Berrye Worsham, President and CEO, Cotton Incorporated

The viability of cotton as a commodity and a textile fiber is influenced by a range of critical factors. Some, such as weather, are beyond industry control. How the industry addresses sustainability, on the other hand, is very much the industry's to direct and manage. A sound and competitive approach is one that considers the entire supply chain and long-term improvement. By maintaining focus on these two aspects of ongoing environmental gains, we can create practical and competitive advantages for cotton moving forward.

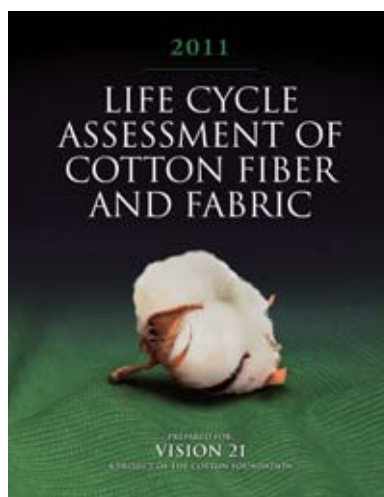
As apparel brands and retailers give increasing attention to their own environmental bottom lines, making a compelling case for cotton as a sustainable fiber option is critical to the longevity of the cotton industry. There is significant value in a comprehensive approach, one that takes the entire supply chain into consideration. It has the strategic advantages of: 1) informing research so that sustainable gains can be realized faster; 2) distinguishing cotton from competitive fibers; and 3) elevating

cotton's position in the overall sustainability community.

At the outset it should be understood that sustainability is not a fixed point, but a continuum; a measurable record of ongoing improvement. There is no textile fiber or process that has zero impact on the environment; it is illogical to think otherwise. The greatest environmental contribution that cotton or any fiber can make is to incrementally reduce the degree of

its environmental impact over time. This is best achieved by taking accurate measures of current impacts from production through to disposal, analyzing that information to identify where the greatest gains can most expeditiously be made, and pursuing a course of corrective action. Because the global cotton supply chain is a mature and tightly integrated entity, it is uniquely able to assess and affect environmental change to a degree that its competitors are unable or unwilling to do.

This three-pronged approach is the strategy behind Cotton's Life Cycle Inventory and Life Cycle Assessment. The completion of the project was a landmark event in the cotton and textile industries - a global, comprehensive and current measurement of the environmental impact of cotton knits and wovens. No other fiber organization or fiber manufacturer has attempted such a massive self-assessment, has been as diligent in seeking impartial peer reviews, or been so forthcoming with its findings. It is first and foremost a resource, but it is also a





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strategic model that can not only help advance environmental sustainability, but sustain our industry as well.

The utility of the data has always been three-fold: 1) to establish a current and accurate benchmark of cotton's environmental impact; 2) to use those data to direct research where it could make the biggest difference; and 3) to make this information freely-available to textile decision makers and the larger sustainability community. This combination of transparency and vision is already distinguishing cotton's commitment to sustainability from that of its competition.

Cotton Incorporated staff enthusiastically embraced the two-year-long challenge of data collection, assessment and review that culminated in the LCI and LCA because they understood the long-term value to the entire industry. We may be a U.S.-based organization, but the fulfillment of our mission to increase the demand for and profitability of cotton, benefits the industry worldwide. The data in the LCI are already proving useful to making the case for cotton. On behalf of the industry, members of Cotton Incorporated staff are active members of numerous sustainability organizations and NGOs. Our participation in two such groups has already been instrumental in assuring accurate representations of cotton's environmental impact in two key sustainability indicators.

Field to Market, the Keystone Alliance for Sustainable Agriculture is a consortium that unites producers, agribusinesses, food companies, and conservation organizations seeking to create sustainable outcomes for agriculture. It should be noted that, in the U.S., cotton is regulated as a food crop.

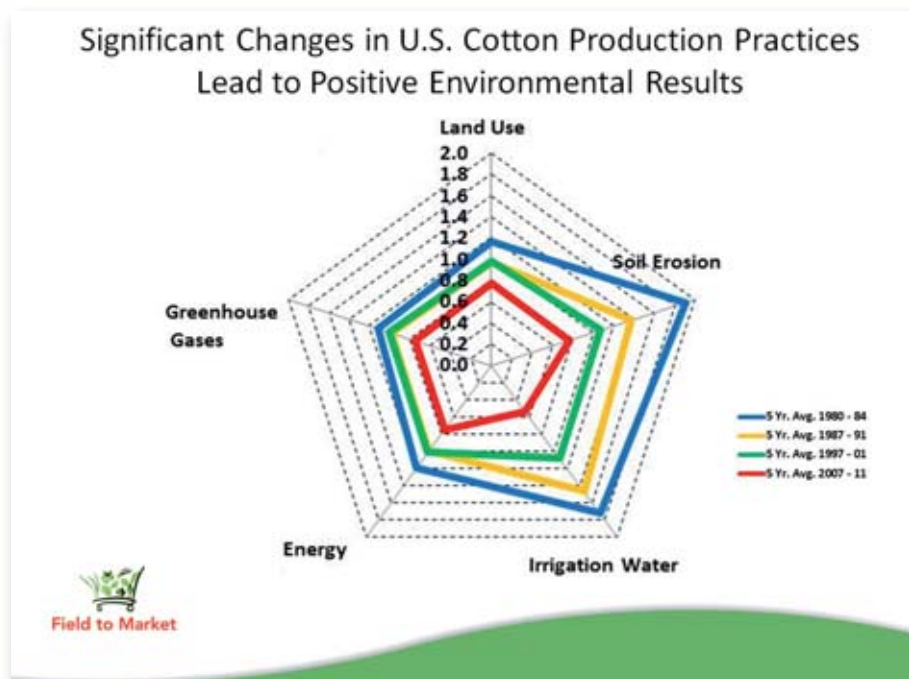
Agricultural production data from Cotton's Life Cycle Inventory were incorporated into the recent Field to Market National Report on Agricultural Sustainability. The report found that U.S. agriculture (corn, wheat, soybeans, cotton, rice, and potatoes) demonstrated measurable improvement in sustainability metrics over the past 30 years. Cotton, in particular, was shown to have improved on all measures of resource efficiency with decreases in:

- Per-pound lint land use (-30%),
- Soil erosion (-68%),
- Irrigation water applied (-75%),
- Energy use (-36%), and
- Greenhouse gas emissions (-30%).

The Sustainable Apparel Coalition is another highly-visible sustainable organization in which Cotton Incorporated is active. It is a group of sustainability leaders from global apparel and footwear

completion of the Coalition's highly-anticipated Higg Index. As with the Field to Market report, the Higg Index revealed cotton to be one of the top sustainable fiber choices, from a raw materials point of view.

The accurate depiction of cotton in these two indicators illustrates the value of the LCI as a series of data sets; but our actions based on what these data tell us will advance cotton's environmental gains and elevate us above the limited vision of numerous competitors. Cotton's rival fibers, both synthetic and natural, have a narrow and static approach to sustainability. For example, the majority of competitive environmental assessments typically end at the production phase, the delivery of the fiber. Even if all such assessments drew on current data and a peer-review process - most do not - they are presenting only a partial view of the fiber's environmental impact. Regardless of how few inputs are used, or how laudable the chemical conversion processes might be, this narrowly



companies who realize that addressing current social and environmental challenges are both a business imperative and an opportunity. The cotton LCI data played an important part in the

segmented view of environmental performance fails to consider downstream supply chain impacts of the fiber, fails to consider consumer use and disposal factors and, ultimately, fails to be of any



real value to the textile industry or the advancement of sustainability.

A look at the marketing tactics of some competitive fibers adds stasis to an already short-sighted and segmented view of sustainability. Competitive fiber marketers frequently position their own sustainability in comparison to cotton, seizing upon one environmental area in which they appear to have an environmental advantage. Often, these comparisons present current data for the competitive fiber alongside cotton data that are decades old. The incorporation of Cotton's Life Cycle Inventory into the most widely used sustainability databases will help neutralize such inaccurate characterizations. As a tactic, these comparisons suggest that the sustainable strategy for the competition begins and ends with being better than cotton on any one point of production. Rarely does a competitive fiber state its environmental gains over time, or its vision for additional improvement moving forward. It is on this higher plane that cotton can distinguish itself.

Along with advancing true and enduring sustainable gains and creating a competitive point of difference, embracing a comprehensive approach to sustainability has practical advantages to the industry. Much of the sustainability-focused research and inquiry at Cotton Incorporated uncovers new technologies and techniques that not only reduce environmental impact, but reduce input costs and maximize production efficiencies at the same time. As a resource to the industry, Cotton Incorporated shares its findings through conferences, workshops, one-on-one meetings with cotton businesses around the world.

The good news for the cotton industry is that new advances in agriculture, textile processing and new uses for the cotton plant are occurring every day. One such advancement is The Cotton Genome Project. This map of the

cotton genome represents 20 years of collaborative research by 74 international scientists. It is noteworthy on new levels. First, the genomic map is a tool box that will expedite the genetic and conventional breeding of new cotton varieties; varieties with enhanced disease resistance, and drought and heat tolerance, and other desirable traits. Second, it is a prime example of how the cotton industry consistently strives to improve itself. Our approach to sustainability presents a similar opportunity.

The intended use of the cotton LCI and LCA is also a road map, a competitively visionary approach to cotton's sustainability and to

sustaining cotton's future. Through self-assessment and informed action, cotton can continue its already significant environmental gains at the production level and along every link of the supply chain. This is a long-term view and one that the cotton industry is uniquely able to accomplish because of its maturity and tight integration. Along with advancing true and enduring sustainability and a competitive point of difference, such a comprehensive approach also provides practical value for the industry. As has often been said, sustainability is a marathon, not a sprint. All things considered, cotton is in excellent condition to continue making great strides.

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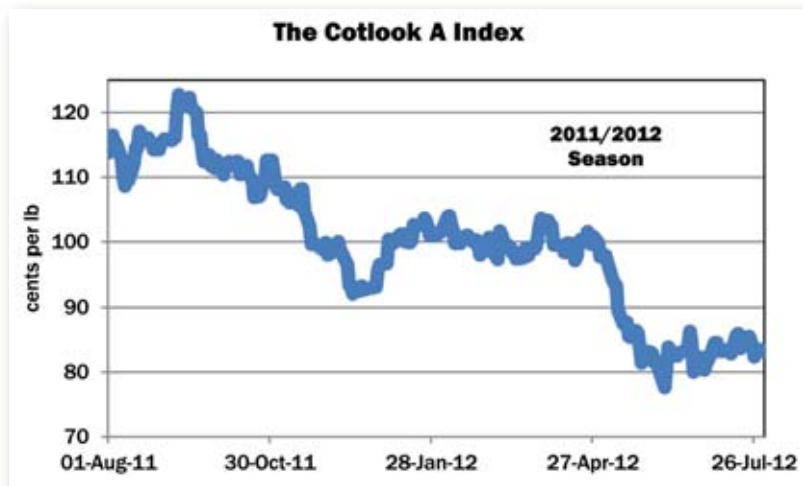
## A Market in Decline

By Mike Edwards,  
Cotton Outlook



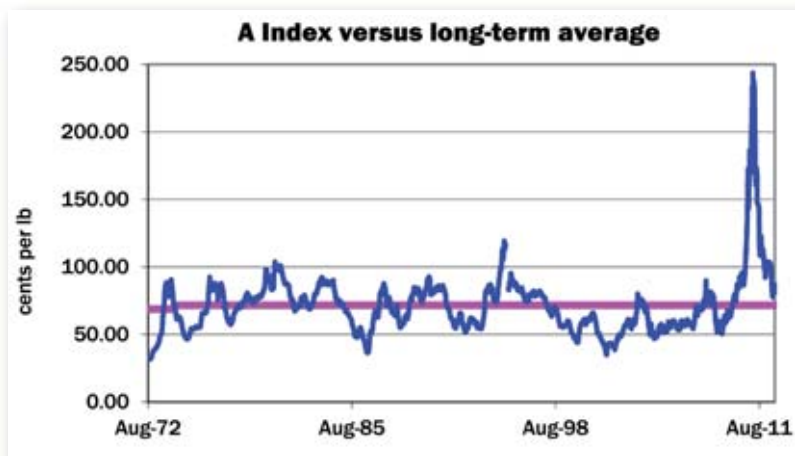
At the time of the last ICAC Plenary, in September 2011, the Cotlook A Index remained comfortably above the dollar mark, a level previously exceeded only twice since its creation in the 1960s. However, the market's downward direction of travel was clear. Prices had collapsed precipitately from the unprecedented height reached in March 2011, in face of a sharp contraction of mill demand, and a rapid shift in supply and demand fundamentals.

The high point of the season<sup>1</sup> was reached just as proceedings in Buenos Aires were brought to a close in early September, with an A Index value of 122.75. There



followed a steady decline until mid-December, followed by a moderate (and unexpected) recovery, then a period of relative stability. Between

December and May, the A Index hovered around the one dollar per lb level, still a historically high price in nominal terms. A further sharp decline was initiated in May, as the market's bearish fundamentals began to reassert themselves. During the course of that month, the Index lost over 18 percent of its value, before entering a further period of range-bound fluctuation that persisted until the end of the season. By the time of its expiry at the end of July, the 2011/12 A Index had declined by more than 28 percent since the start of the season. The lowest point was reached on June 6, when the value dipped below the 80.00 cent threshold for one day only.



<sup>1</sup> By convention, the international cotton season stretches from August to July





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The same trading range has remained intact during the early stages of the 2012/13 season. World prices have thus returned to more familiar territory, the Index being quoted at the time of writing in the low to mid 80s cents per lb cents per lb, still above its nominal, long-term average, which (over a 40-year period) is just above 70.00 cents per lb.

### Global supply and demand

Recent shifts in global supply and demand provide ample justification for the market's bearish trend since ICAC met in Buenos Aires. Based on Cotton Outlook's estimates at the end of August, the 2011/12 season saw an increase in

unprecedented bull run that lay ahead - it had then seemed probable that the restoration of world supply would be a more orderly affair. A very modest increase in world stocks in 2010/11 would be followed by a more substantial, but still partial, recovery in 2011/12. In the event, the surplus in 2010/11 exceeded expectations, at over one million tonnes, mainly by virtue of higher production.

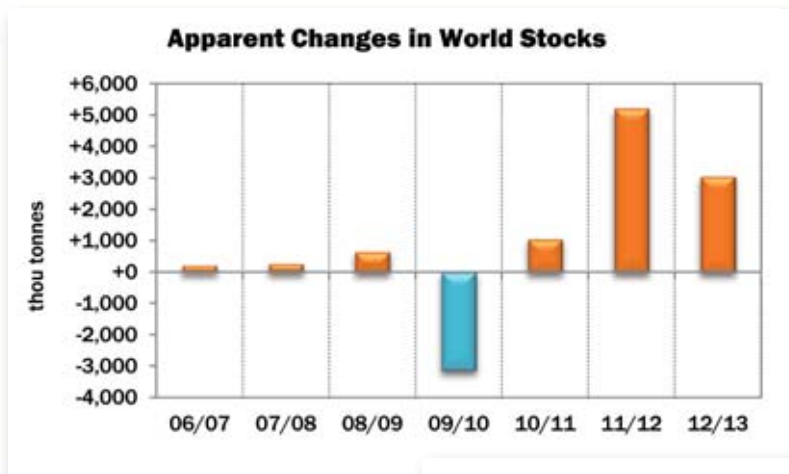
The shift of the 2011/12 supply and demand dynamic was far more dramatic, and arose principally from a sharp fall in raw cotton consumption.

The chart below compares Cotton Outlook's estimates of production and consumption during 2011/12, at the time of last year's

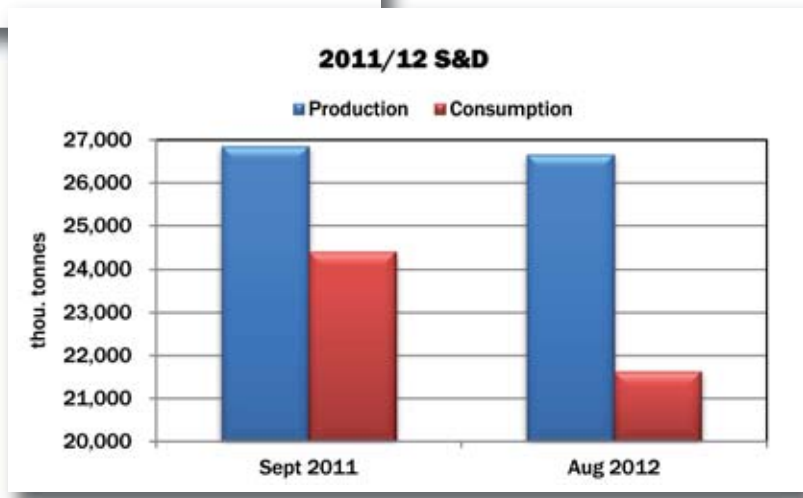
defining feature of global supply and demand.

The anticipated level of consumption during the 2012/13 season is well below the peak of over 26 million tonnes recorded in 2006/07. Prior to 2010/11, the long-term pattern of growth in consumption had seen average, annual increases of 2.2 percent. A sharp downturn was experienced in 2008/09, in face of the global financial crisis, but the subsequent recovery was swifter and more robust than anyone had foreseen. This, of course, was one of the elements that contributed to the exceptional bull market experienced during that season. The recovery that has followed the damaging fall in consumption recorded over the 2010/11 and 2011/12 seasons has, in contrast, proved slow and faltering.

Whether the demand destruction that resulted from high prices and, perhaps more crucially, from market volatility represents a temporary setback or a more durable challenge for the cotton sector remains to be seen. Cotton has been losing market share to synthetic fibres for several decades now, but has nonetheless managed to sustain a moderate rate of



world stocks of a staggering 5,000,000 tonnes plus, and a further three million tonnes will be added during the course of 2012/13. Although production is set to decline and consumption to rise in 2012/13, on present evidence, the decline in output will not nearly be deep enough, nor will the recovery of consumption be sufficiently dynamic, to bring about a correction in the current global oversupply, at least before the end of the current season.



### Shifting perceptions

At the time of the last Plenary, the outlook for supply and demand had appeared substantially different. Following the sharp reduction in world stocks during 2009/10 – the catalyst for the

Plenary, with those in force in August 2012

The severity and durability of the downturn in consumption - the major consequence of the period of extreme volatility experienced during 2010 and 2011 - remains the

growth in absolute terms. Indeed, in less turbulent times, during which consumption was a more stable element in the global supply and demand equation, shifts in the supply side of the market were more frequently identified as the driver of major price trends.



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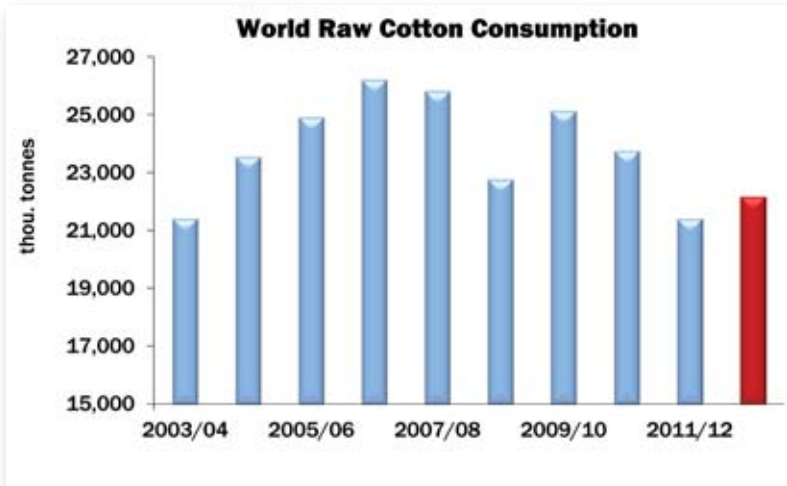
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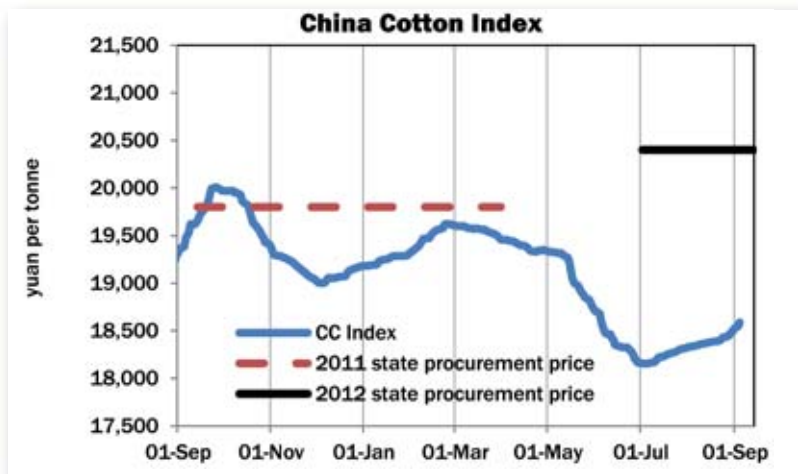
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**China: policy decisions and unintended consequences**

The importance of China (the world’s largest producer, consumer and importer of raw cotton) to global market dynamics has rarely been underestimated, but has perhaps never been greater than today. In March 2011 – when cotton prices were well over two dollars per lb – the government announced a new policy departure that would come into force during the following (2011/12) season, and today creates some major uncertainties for those endeavouring to analyse the dynamics of global supply and demand. Between September and March, the government committed itself to purchase raw cotton from the domestic crop at a fixed price of 19,800 yuan per tonne (roughly 130.00 cents per lb), should market values remain below that level. The initiative was intended primarily to impart stability and predictability to the market, and to forestall a major abandonment of cotton cultivation by China’s farmers.

Following the collapse of prices initiated just as the announcement was made, the state reserves organisation duly fulfilled its pledge, and procured an astonishing 3.1 million tonnes from the domestic crop during the seven-month



period. The same body was also active in the international market, and is credited with import purchases estimated at close to one million tonnes. Thus, of the aforementioned global surplus of over five million tonnes, estimated

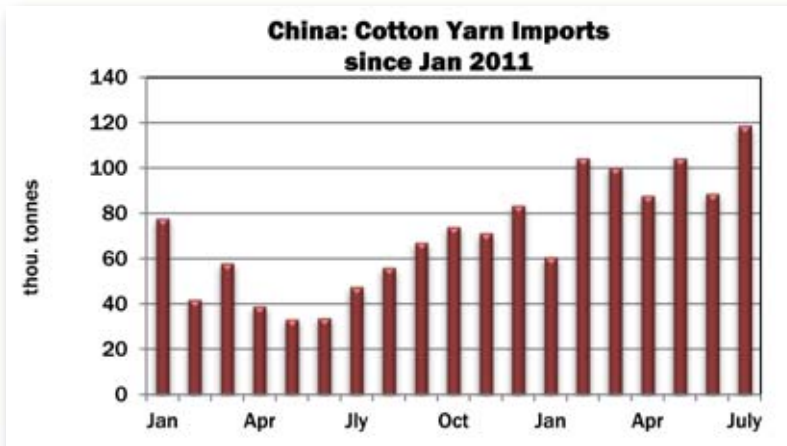
to have accrued during 2011/12, the lion’s share is effectively in the control of the Chinese government.

However, one doubtless unintended consequence of the state reserves policy has been to place Chinese spinners at a considerable disadvantage vis-à-vis their counterparts in the rest of the world, who purchase cotton either at the international price or have domestic crops on which to draw, often at still more advantageous prices. Widespread curtailment of output by China’s mills has resulted, and estimates of the country’s raw cotton consumption have been revised downward. Conversely, imports of cotton yarn (which, unlike raw cotton, are unconstrained by quota) have risen strongly. If the current pace is

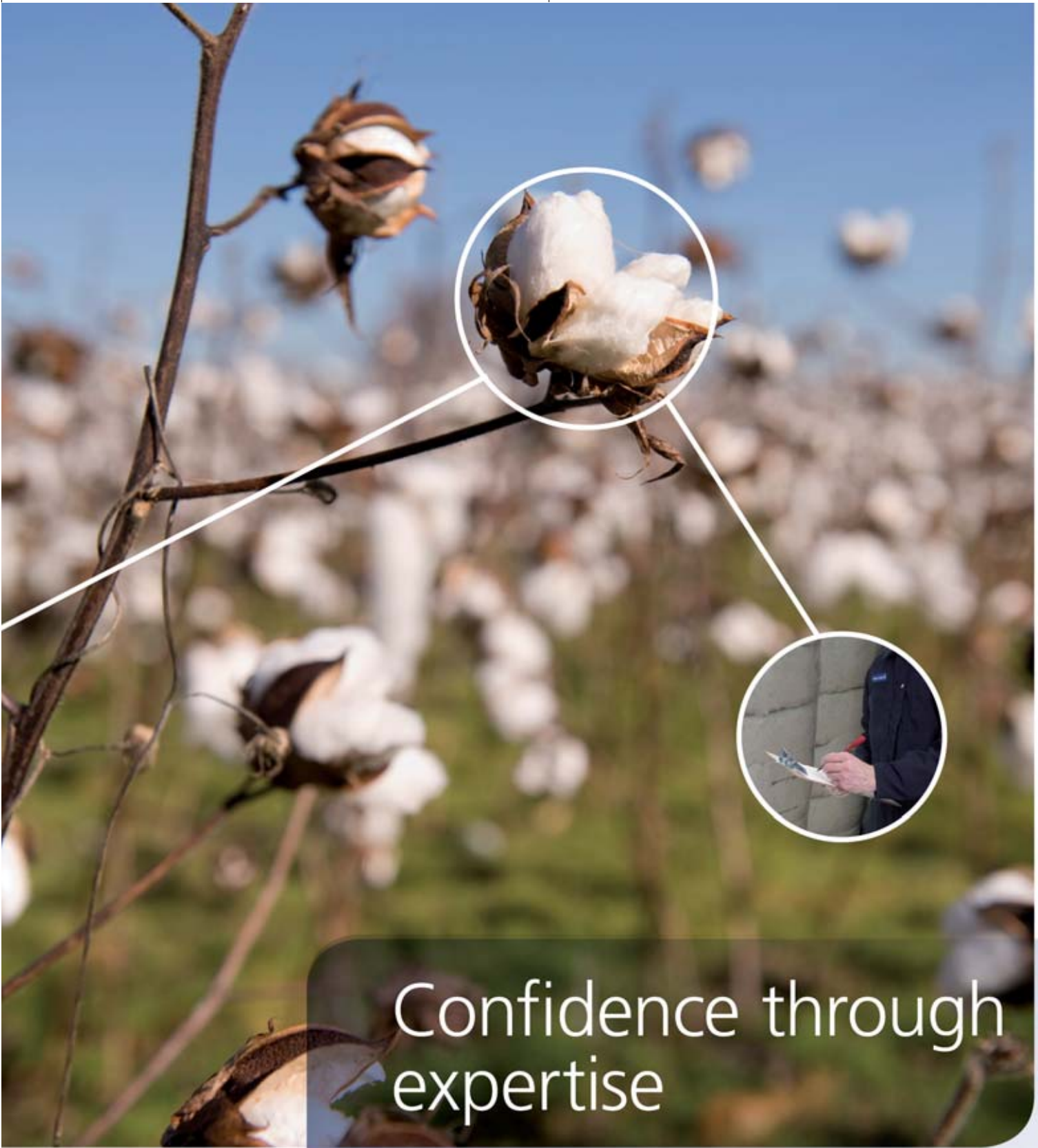
sustained, China may well import more than one million tonnes of cotton yarn during 2012.

Throughout July and August, speculation was rife as to the intentions of the Chinese government with regard to cotton policy, most notably the possibility that some cotton from the state reserve would be released back onto the market, and/or that fresh import quota would be sanctioned. However, none of the options open to Beijing seemed to be without considerable drawbacks or cost implications, which no doubt contributed to the protracted decision-making process.

By late August, a limited raw cotton import quota, understood to amount to 400,000 tonnes, was







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In addition, although last season's intervention price was some seven percent above the local market, as measured by the China Cotton Index, the authorities finally designated an initial tranche of 300,000 tonnes of cotton held in the state reserve for release onto the market. Given the price disparity alluded to above, the action to relieve the plight of the domestic spinning sector implies a loss to the exchequer that will escalate, if the government sees fit to release further substantial quantities. The disparity between the local and international market is still more impressive, at well over 20 percent, with the result that the recent issuance of new import quota may risk further undermining domestic prices.

Moreover, an intervention price has already been set for the 2012/13 season that is still higher (at 20,400 yuan per tonne) than that in force during 2011/12. By the time delegates arrive for the Plenary in Interlaken, government purchasing should be well under way. As in 2011/12, official statements imply that no ceiling has been set on the quantity that the state reserve is prepared to procure. The open-ended commitment may thus result in an additional, perhaps substantial increase in the size of China's already massive state reserve stocks.

These complexities no doubt represent the unintended consequences of a policy designed to impart stability and firmness to Chinese prices. One interpretation of Beijing's strategic thinking is that the country is seeking to create and control a quantity of raw cotton sufficient in magnitude to influence not only local prices but also the behaviour of the international market. The concept of such a 'buffer stock' is not dissimilar to the rationale that in the past underpinned various international

commodity agreements, which today are largely discredited. Despite lengthy discussions in the early decades of the ICAC's existence, no such agreement has ever been implemented for cotton.<sup>2</sup>

The location and ownership of the country's reserve stocks do not, of course, permanently remove the supplies in question from cotton's global balance sheet, but Beijing's actions will clearly be of huge significance in determining when and how the supply influences local and international prices. In the absence of clarity in this regard, many analysts have adopted the practice of separating their supply and demand numbers into China and 'rest of the world'. If one accepts the wisdom of such an approach, it is possible to take a less bearish view of the outlook for prices, since the net addition to supply outside China, over 2011/12 and 2012/13, amounts to a rather less daunting 2.1 million tonnes.

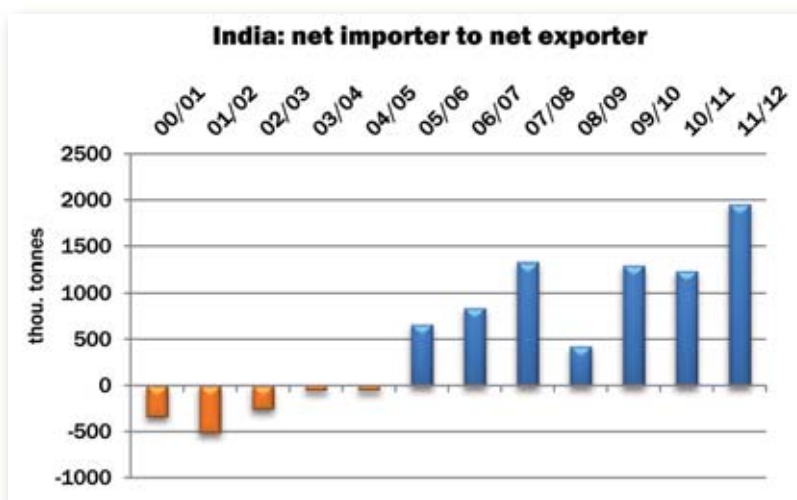
One more predictable consequence of the present supply and demand situation is that China's raw cotton imports are likely to fall quite dramatically from the record volume shipped in 2011/12. Put simply, the more cotton is released from the state reserve, the less will be imported. It will be recalled that an annual tariff-rated quota of 894,000 tonnes (attracting duty at one percent) was enshrined in the terms under which the country

joined the World Trade Organisation over a decade ago. Import quotas over and above that quantity are at the sole discretion of the Chinese authorities.

### Indian export policy in doubt

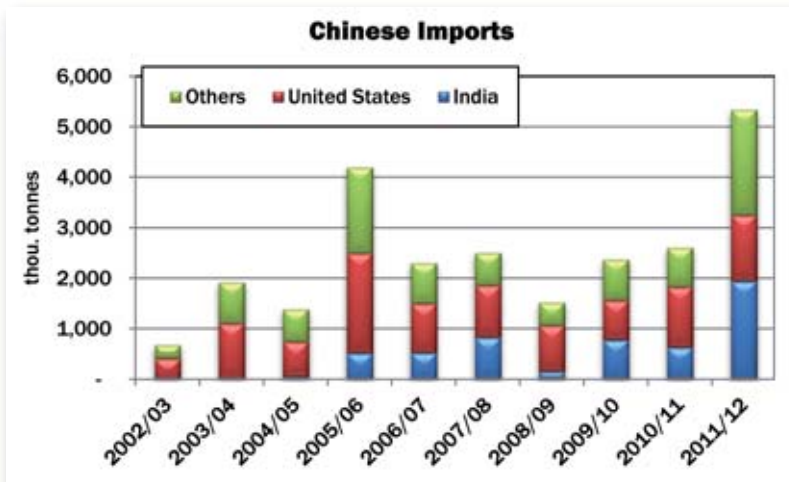
One other major source of uncertainty with regard to the pattern of international raw cotton trade during the months ahead concerns India.

The country's transition from modest net importer until around the middle of the last decade, to major exporter in subsequent seasons, has been one of the major structural changes in the international market in recent years. For long periods, asking prices for Indian cotton have effectively provided the benchmark against which offers for competing growths are measured. The Indian component has thus often figured as the cheapest from which the Cotlook A Index is calculated. Assisted by relatively inexpensive freight rates and short transit times, Indian cotton has made major inroads into the Chinese market. During the 2011/12 season, India was the largest supplier (having shipped a record volume of over 1.9 million tonnes to the Chinese market – 36 percent of all imports, which, as already stated, broke all records during the marketing year in question).




<sup>2</sup> International commodity agreements in a cotton context are discussed in a report prepared by the ICAC Secretariat in February 2011: "A brief history of government efforts to reduce volatility in cotton and other agricultural commodity prices through international agreements."






However, over the past two or three seasons, a new element has come to the fore in the form of more active, and often unpredictable, government intervention in the cotton sector. The first such intervention occurred in April 2010, when a suspension of exports was introduced, in an endeavour to stem the rising tide of domestic raw cotton prices, and ensure continuity of supply for the local textile industry. The measure not only added fuel to the fire of an already strongly rising world market, but



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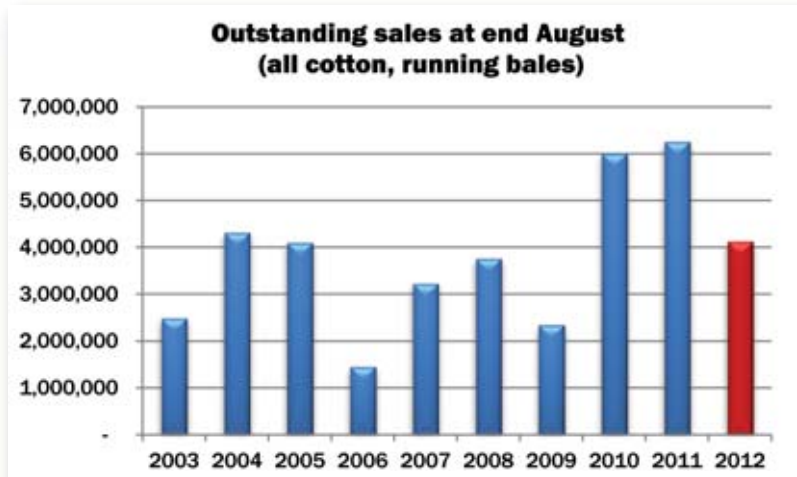
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also, to the consternation of local and international traders, by virtue of its retrospective nature, severely disrupted the proper execution of existing contracts

Since that first embargo, a succession of policy decisions has been taken to restrict or regulate the flow of exports, in which a coherent, guiding principle has been difficult to discern. This season, uncertainty with regard to official intentions has been accentuated by an irregular monsoon season. Several important cotton-producing regions, most notably Saurashtra and Kutch in the state of Gujarat, have received deficient rainfall. As a result, production forecasts are widely divergent. Meeting in late August, the Cotton Advisory Board opted to defer its initial forecast of production from the 2012/13 crop, until a more definitive view could be taken of final planted area. In the circumstances, the framing of a clear and predictable export policy, never an easy task, given the competing interests in play, may this season prove especially difficult.

In June, the government announced a substantial rise in the Minimum Support Prices for various commodities, including seed cotton, for which the values were increased by between 18 and 28.5 percent,



depending on the variety. Since the treatment of most agricultural commodities was broadly similar, the hike in the cotton MSP is not credited with having influenced farmers' choice of crop to any significant degree. However, the decision may be of some significance in respect of the level at which Indian cotton is available to the international market. Always assuming that the government endows the Cotton Corporation of India with sufficient funds to intervene effectively in the market in defence of the MSP, its level should place a floor below which Indian export offers should not fall, and thus (given India's importance as an exporter) be supportive of international prices generally.

### United States cotton policy

In contrast to the rather *ad-hoc* nature of decisions in India, and the season-by-season approach recently adopted by China, US cotton policy is usually enshrined in law over a five-year period. The Congress has thus been working on new farm legislation that should determine the cotton support programme from 2013/14, up to and including the 2017/18 season. There been pressure on legislators to make changes to the law in force since 2008 on budgetary considerations. On the political front, although international criticism of US cotton policy has understandably become less strident during the recent period of high world prices, it has not dissipated altogether. An outstanding judgement against the US cotton programme by the World Trade Organisation's Dispute Settlement Body, in response to a case brought by Brazil, is doubtless a source of discomfort both to the administration and to the industry.

The Doha round of trade negotiations (which, according to the original timetable, should have been concluded three years before the last Farm Bill was passed in 2008) has become a protracted affair, whose outcome is at best uncertain. However, cotton retains a privileged position within the talks. The text adopted in mid-2004 states that cotton should be dealt with, within the agricultural negotiations that constitute part of the round, *ambitiously, expeditiously and specifically*.





As for the specifics of what has already been framed in the draft law passed by the full Senate, and by the version approved by the House of Representatives Agriculture Committee (but not yet by the full House), the main innovation would appear to be the replacement of the Direct and Counter-Cyclical Payments, to which producers are entitled under the existing programme, with an insurance-based revenue protection scheme, known as the Stacked Income Protection Plan (STAX). Such a system may be more palatable to some critics of the cotton programme, but until it is tested, one cannot predict how tangible will be the influence of STAX on producers' planting decisions.

Some key elements of the cotton programme, moreover, are likely to be left intact, albeit with some adjustments. These include the Marketing Loan, which is of major potential significance to the international market, since it facilitates the export marketing of US cotton, however depressed world prices may become. Essentially, the mechanism, introduced as far back as 1986, allows for a marketing subsidy, based on the difference between the US loan rate and the world price, should the latter fall below the former. That condition has not been met for some years, and would require a substantial further decline of world prices to be triggered.

At the time of writing, the fate of the legislative proposals described above is uncertain, owing to a shortage of space in the legislative timetable. A distinct possibility is that the current legislation will be extended for a further year.

For US cotton farmers, the vagaries of the weather have no doubt been a more immediate preoccupation. Although West Texas has been far drier than farmers would have wished, the region has not experienced conditions quite like last season's record drought, with the result that

abandonment should fall, and a larger crop appears in prospect.

US shippers have already committed a fair volume of cotton for shipment during the 2012/13 season. By late August, over four million running bales had been placed with foreign buyers. That figure is well below the six million or so sold at the same point of the past two exceptional seasons. However, forward sales do not compare unfavourably with those concluded in previous seasons. Nonetheless, if China is not an active buyer in 2012/13, selling pressure from the US and elsewhere could intensify, once cotton from the Northern Hemisphere crops becomes available in volume, towards the end of the year.

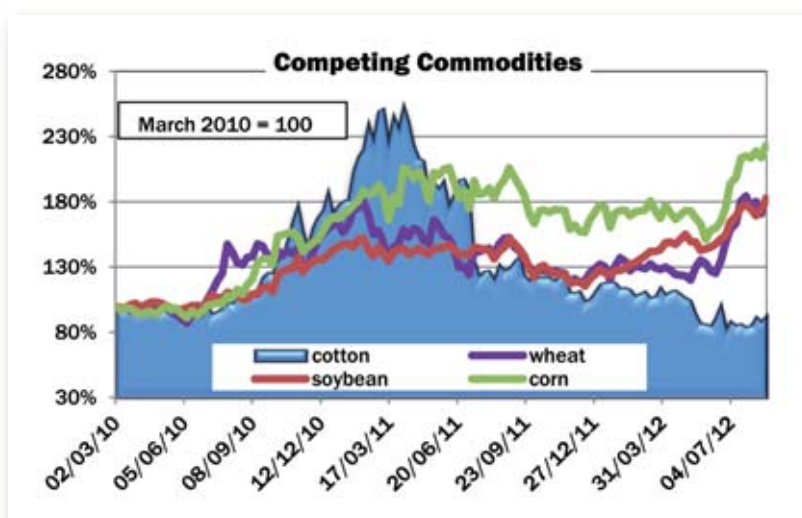
### Looking forward

What next for prices? In the context of the prevailing, global oversupply, the balance of probability would seem to suggest downward pressure in the months ahead, even if the orientation of policy in Beijing and New Delhi will have a bearing on the supply side of the market. In addition to the present glut of cotton, the economic portents are far from encouraging, suggesting that the road to recovery may be long and arduous.

To construct a bullish case from today's cotton fundamentals would thus require a leap of faith that for the time being appears beyond

most market participants. However, recent history teaches us that market dynamics can evolve rapidly, and of course the cotton market is well known for confounding expectations.

Are there any reasons to be bullish? If there are, their origins are probably to be found in markets other than cotton. A conjunction of some well-documented structural factors (rising demand from a growing and more affluent population, limited arable land) and more short-term, weather-related setbacks, has sent prices for various grain and oilseed crops sharply higher. The potential influence on cotton may be two-fold. Firstly, cotton is likely to lose area to competing crops, such as corn and soybeans, when the Northern Hemisphere 2013/14 crops are planted next spring; in the Southern Hemisphere, it is already apparent that Brazil will sharply reduce cotton plantings in favour of soybeans, though any reduction by Australian producers, who have fewer options, will be less pronounced. Secondly, and more immediately, the bullish mood of grain markets has restored the attraction to fund buyers and others of soft commodity futures as an asset class, with the result that, despite its own very different price outlook, cotton has gained support from the grains and oilseed complex. Whether such external factors will prove more influential over the coming months than cotton's own supply and demand fundamentals remains to be seen.



# The Last Year in Polyester Fibre

By Darrel Collier,  
Business Manager - Synthetic Fibres & Intermediates Tecnon Orbichem



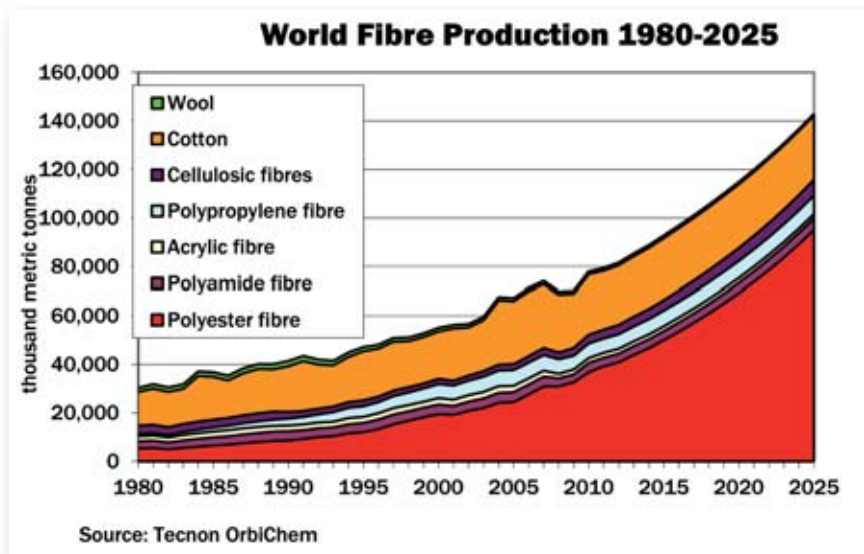
The last twelve months have been more tranquil than the previous year for global polyester staple markets. Staple price movements during the year followed historical volatility patterns, and the extreme spikes that occurred in Q4 2010 and Q1 2011, when cotton pricing drove polyester staple volumes and prices to unprecedented levels, were absent.

Global production of polyester staple in 2011 was 15.3 million metric tons, a 7% increase over 2010. This growth was above the 10-year average rate of 5.4% and follows 10% growth in 2010. It is not surprising 2010 and 2011 were above trend, as they followed below-historical production growth levels during the global recession years of 2008 and 2009. Besides normal recovery from the recession years, production in both 2010 and 2011 was boosted by polyester substitution for high-priced cotton late in 2010 and early in 2011. Polyester staple production growth is slowing in 2012, as weak global economic conditions are intensified by

slowing growth in China, the largest polyester staple consumer. Based on available statistics from the first four months of the year, we are expecting 2012 growth for polyester staple once again to fall below trend, and come in at 2-4% for the year.

In following polyester staple markets, it is important to observe trends in polyester filament and PET packaging resin businesses, in order to understand impacts on polyester raw materials. In fact, these markets are much larger than staple, as production of polyester filament and PET packaging resin in 2011

were 23.9 and 17.0 million metric tons respectively. Although 10-year growth trends for both filament and PET resin have been higher than for staple, 2011 production increased by 6.6% for polyester filament and by 5.5% for PET resin, only modestly better than staple for the year. Polyester raw material production must support the growth of these main polyester products, along with smaller film and derivative polymer markets. Investment decisions for polyester raw materials coming on stream in the last year were made prior to the global recession in 2008, when growth for filament and

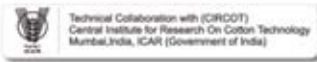




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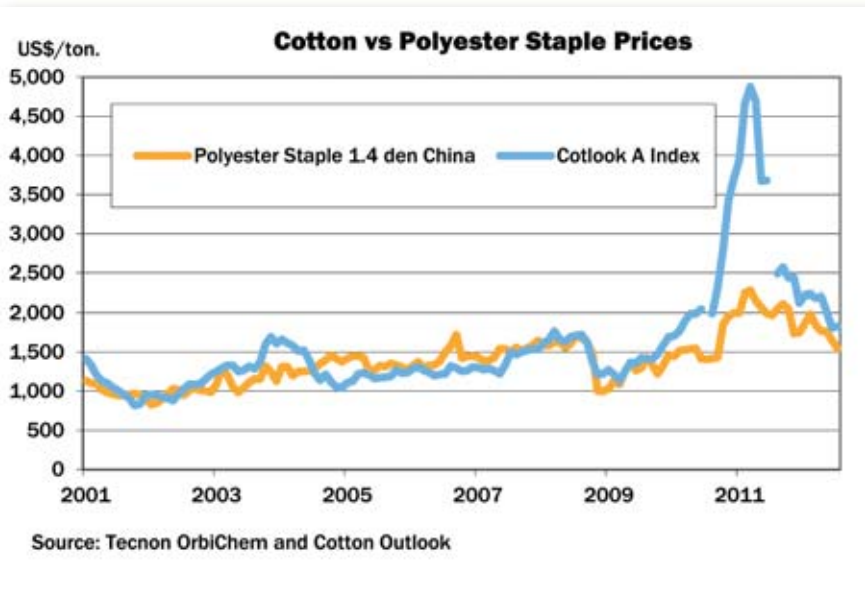
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PET packaging resin was 7-10%. Purified terephthalic acid (PTA) production, particularly in China, has experienced a surge in new capacity in just the last year, based on pre-recession growth rates of final products and earlier profitability of this material in the polyester chain. New capacity, coupled with slower growth in final markets, has led to reduced margins and low utilisation rates for PTA facilities in Asia over the past year.

Weak, market-priced PTA margins over paraxylene (PX) in Asia have resulted in an improved competitive position for Asian polyester staple against staple produced in other parts of the world. In the US, where PTA margins over PX are set in a formula-based model, staple imports have increased 10% during the year to date. US import growth in other polyester products, including filament (26.3%) and packaging resin (48.5%) has been greater. Other dollar-based, open economies outside Asia are reporting similar problems with imported Asian polyester products. However, Asian imports into Western Europe have been muted, as the weak euro, combined with poor final consumption, has slowed import growth.

Our projection of below trend 2012 growth in polyester staple production is based on normal cyclical patterns following above

trend rates in 2011 and 2012, weakening consumption in the developed world (particularly Europe) and slower final demand in China. Because China has historically been considered primarily an export platform to the developed world, its recent importance as a final consumer of polyester products is often significantly underestimated. Since the Lunar New Year holiday this year, polyester staple demand has been below expectations every month. Historical, seasonal patterns have not been experienced and, with half the year spent, yarn spinners continue to report excessive yarn inventory slowing their intake of staple fibre. Although the Chinese government is once again easing monetary supply, there has been little impact on domestic consumption of apparel as yet. In addition, growth in exports of textile and apparel was significantly below trend, at 1.6%, in the first half of the year.

A recent trend of polyester filament substitution for polyester staple has mostly played out. This was primarily a US carpet market phenomenon. Over the past 5-7 years, polyester filament products have almost completely replaced polyester staple spun yarns in carpet production. Polyester staple use in US carpet markets has essentially disappeared over that period. In niche apparel markets, polyester filament continues

modest displacement of spun yarns including cotton and cotton/polyester blends. This has been occurring primarily in activewear markets where moisture transport is a critical attribute. Direct substitution of polyester staple for cotton, which took place a year and a half ago due to the surge in cotton pricing, is no longer occurring, with minor exceptions where major brand houses have made modest moves to polyester-rich products because they are looking to lessen their exposure to volatile cotton pricing.

Another important trend in polyester staple markets is the growing use of recycled and/or bio-based products. Although recycled polyester has long been present in staple markets, its historical use has been primarily as a low-cost substitute for virgin polymer. Many producers in China have the ability to switch between virgin and recycled polyester, based on relative economics. What is changing in recycled markets is the marketing of these products due to customer demands. In many cases, the market is now paying higher prices for recycled polyester than virgin because of a consumer pull, generated by the marketing efforts of producers and brand houses. Bio-based polyester products are experiencing similar consumer demand, although from a much smaller base. Bio-based polyester developments started with bio-based ethanol in the production of monoethylene glycol (MEG). The largest commercial success for bio-MEG polyester is in packaging resin where Coke (and others) is marketing the 'plant bottle'. Most of the work in fibre has been in Japan, where several programs, including use in automotive interiors, are commercial. Although there are no commercial programs using a bio-based PTA molecule, significant and varied development programs soon to reach pilot-stage are under way.





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