Cotton Outlook

Greece 2014

ICAC | 73rd Plenary Meeting | Thessaloniki | Greece

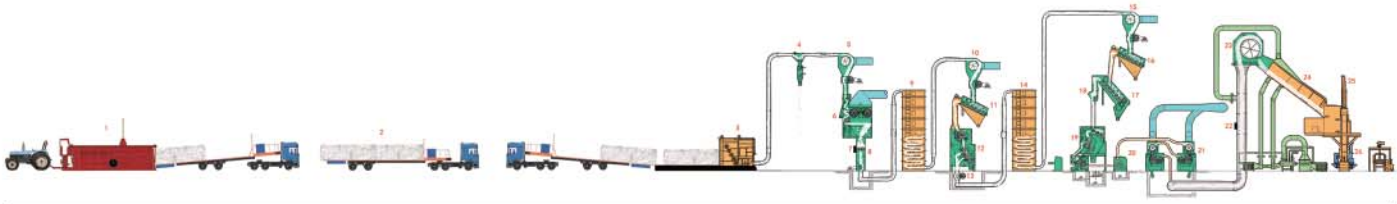
Excellent Quality From World First Class Factory


Complete Set of Cottonseed Delinting Equipment


Complete Set of Saw Gin Equipment


Complete Set of Bale Press


Cotton Quality On-line Intelligent Testing Control Systerm



Shandong Swan Cotton Industrial Machinery Stock Co.,Ltd.

SDMJ main product series include cotton picker , storage and transportation system after cotton is picked , seed cotton cleaning ,ginning , lint cleaning , baling , auto-strapping , cotton seed delinting ,etc. As the only manufacturer in China to realize "One-Station Type Supply , One-Station Type Service" for processing mechanization ,SDMJ has become the first brand in China cotton machinery industry .


Swan Building


Jinan Industrial Park


Wujiaqu Industrial Park


Swan Branch Company In U.S.A.

Add: No.99, East Road of Dawei Village , Tianqiao District , Jinan City , China.250032
Foreign Trade Company Tel: 0086-531-58675820 (Fax) Website: www.sdmj.com.cn E-mail: sdswan@sdmj.com.cn

Contents

Page design and layout by
Pam Jones, Cotton Outlook.

Published by :
Cotlook Limited
Outlook House
458 New Chester Road
Rock Ferry
Birkenhead
Merseyside
CH42 2AE
United Kingdom

Tel : 44 (151) 644 6400
Fax : 44 (151) 644 8550
E-Mail : editor@cotlook.com
www.cotlook.com

A New Phase in the International Market

Mike Edwards,
Cotton Outlook

As always, the dual intention of Cotton Outlook's ICAC Plenary Special Edition is to shed light on the particular characteristics of the cotton industry in the host country, and to offer an analysis of the latest developments in the world cotton market.

Greece's cotton sector has had to adapt to many changes in recent years. Structural adjustments to the European Union's support policy have been made to reflect both environmental imperatives and international pressure in the arena of trade politics (cotton has gained a profile unprecedented for an agricultural commodity within the now stalled Doha round of trade negotiations). The past fifteen years have seen the decimation of a domestic spinning industry that was absorbing close to 150,000 tonnes at the beginning of this century, but which now consumes little more than 20,000, leaving cotton an export crop, dependant on international demand and thus vulnerable to the vagaries of a sometimes unstable world market. Greece did not escape the fall-out from the extreme price volatility of 2010/11, and during the 2012/13 season also had to contend with an import ban imposed by one of its major markets, Egypt. The country's acute financial crisis of recent years has likewise posed major challenges for the entire supply chain. That Greece is still producing and exporting some 300,000 tonnes of raw cotton in 2014/15 is testament to the resilience of the sector, and all its constituent parts.

As in other exporting countries, these qualities will be put to the test by the advent of a new phase in the evolution of the international market. Far-reaching change in China is under way, which promises to reduce international demand sharply during the current season, and to intensify competition for business. Those vying for a share of a sharply contracted market will need to maximise any available competitive advantages: fibre quality, logistics, reliability and, last but not least, price. The bearish international price outlook will also bring greater scrutiny of the diverse systems of support that exist in most producing countries, and which on occasion have had unintended, and even perverse consequences. Of no less importance for the health of the global market will be the progress of cotton's continuing struggle to regain the market share lost in recent seasons to synthetic fibres: world consumption remains some two million tonnes below its peak less than a decade ago.

Thessaloniki, with its rich history of trading enterprise and cultural diversity, seems an eminently appropriate venue for delegates from all parts of the cotton world to debate the daunting issues that confront today's international market.

DCT
TRADING

Keresteciler Sitesi Fatih Cad. No:22 Palmiye İş Merkezi B Blok Kat:2 34010 Merter / İSTANBUL
Phone: +90 212 637 50 35 pbx Fax: +90 212 637 50 89 E-mail: info@dcttrading.com.tr

Production & Policy Issues

Vasileios Mereas, Ioulia Drossinou and Vasiliki Laina
Directorate of Arable Crops & Industrial Plants Production, Greek Ministry of Rural Development & Food

Greece is a hilly and mountainous country, with flat land generally restricted to many small coastal plains. With the exception of the regions of Central Macedonia, Thessaly and Thraki where there are large plains, the terrain in the remaining regions is to a great extent semi-mountainous and mountainous. Therefore, large-scale agriculture is centered in these three regions, where mainly corn, wheat, barley, cotton, sugar beets and tobacco are harvested.

Greece is a typical Mediterranean country and, as such, climatic conditions are generally favourable for agricultural practices, especially plant cultivation. Olive oil, vegetables, grapes and wine, as well as fruits, are also important agricultural products of the country. Although the climate is temperate and mild, with wet winters and hot summers, the hilly and mountainous terrain, along with the insufficient water resources, poses a serious burden for domestic agriculture, in terms of production costs and overall efficiency.

The contribution of agriculture to the country's economy has been constantly declining during the last decades. Nevertheless, it still plays an important role, accounting for roughly one fourth of all exports and 12.4% of the working population. The processing industry of agricultural products (food, drinks and industrial plants) remains a vital component of the Greek economy and the largest processing sector.

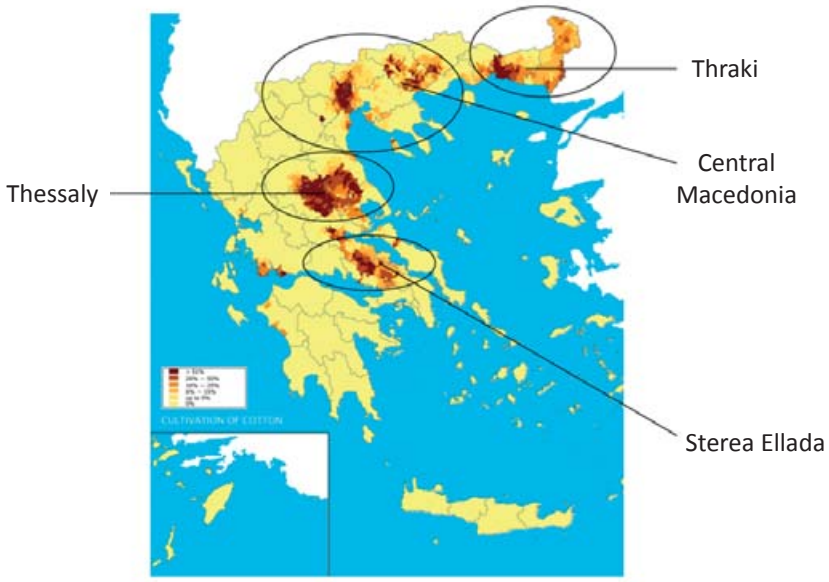
Cotton production

Cotton used to be, and is still regarded in Greece, as a national product and in this aspect great attention has been given, starting from the first step of production till the final product. This major agricultural crop, with a long tradition, accounts for almost 10% of total agricultural land and occupies more than 55,000 cotton farmers in the country.

The plains where cotton is cultivated have mostly alluvial soil, which is suitable for cotton. Several non-biotech varieties of *Gossypium hirsutum* (Malvaceae) are successfully grown in Greece.

Almost all cotton areas are irrigated and only a very small percentage of less than 5% is grown under dryland conditions. Cotton is grown mostly between 35^0N and 38^0N latitude. The main cotton production regions in Greece are Thessaly, Central Macedonia, Thraki and Sterea Ellada.

Cotton cultivation areas in Greece

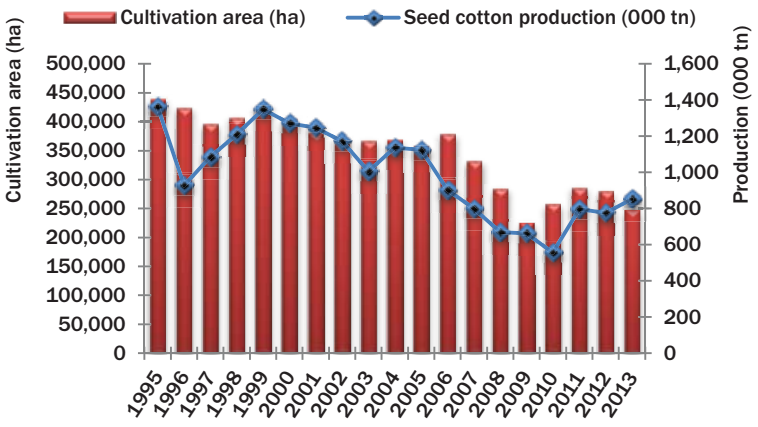


Source: Greek Ministry of Rural Development & Food

The average size of cotton farms is small but bigger than the average farm size in Greece. In the last decades of the 20th century, though, and after the establishment of mechanical harvesting, cotton farm size has slightly increased, as farmers are willing to rent more land. Nowadays, the cotton sector in Greece is characterized by small, highly specialized farms. In 2012, the average size of the 53,719 cotton farms was 5.3 hectares.

After a considerable reduction in the cultivated area during the last decades, cotton area stabilized at around 280,000 hectares. Annual seed cotton production is estimated at around 780,000 tones and average yield in lint cotton around 900 kgs/ha, with a lint outturn ranging between 32-33% of seed cotton.

Cultivation area and seed cotton production in Greece



Source: Payment & Control Agency for Guidance & Guarantee Community Aid (OPEKEPE), 2013

Cotton production in the European Union (28) has declined about 25% since the 2006 EU reform, and nowadays represents less than 1% of world production, consumption and trade. Although cotton accounts for only 0.5% of EU agricultural output, it is still an important crop for Greece (80%) and Spain (20%) which are the two European countries growing significant amounts of cotton commercially.

Greece is among the world's twelve largest cotton-producing countries, the ten countries with highest yield, and the ten largest cotton exporting countries, along with countries of considerably larger size. (ICAC).

The cotton ginning sector, primarily developed during the 1980s, is a very important subsector of the Greek economy. The number of enterprises involved in cotton ginning differs each year, depending on prevailing conditions in the market. More than 60 ginning mills exist, and most of them belong to the private sector. The majority of them are high capacity ginning units, equipped with the latest technologies, and their total ginning capacity is only slightly above the actual Greek production.

The EU cotton support system

Cotton is not included in Annex I of the Treaty establishing the European Community: in other words, it is not listed among the products covered by the Common Agricultural Policy (CAP). For several years, this did not have any practical consequences, since none of European Community's Member States was a cotton producer.

The accession in 1981 of Greece - for which cotton is a product of major importance - led to the creation of an EC cotton system. In legal terms, this happened by the adoption of Protocol 4 to the Act of Accession of Greece, which recognized the agricultural nature of cotton.

The purpose of the protocol was to support cotton in those Community regions where it was an important part of the

Cotton cultivation in Central Greece

farming economy, securing a fair income for growers, as well as stabilizing the market by structural improvements, whenever necessary.

In 1986, after the accession of Spain and Portugal, of which Spain alone was a cotton producer, Protocol 14 attached to the Act of Accession of these two countries supplemented Protocol 4 to the Act of Accession of Greece. This basic European Union law is still in force.

From 2003, and within the framework of the discussions for the Doha Development Agenda, the European Union's CAP was modified, in order to minimize any distortion of trade and prices. Priority was given to producers' income and not any more to product support. Since then, these main objectives remain. This status will continue in the coming years, according to the new reform of the CAP, decided in 2013.

More precisely:

» Cotton producers are given the decoupled aid which, from 2003, has become the key element of CAP direct payments. Producers are eligible for the aid in return for respecting strict standards of environmental protection, animal welfare and food safety ("Cross-Compliance"), and are free to produce whatever they wish.

» Also, a coupled aid, linked to the area cultivated with cotton, is given to cotton producers. For its implementation, a fixed yield per hectare is established per producing Member State. This, together with a base area requirement (250,000 ha for Greece) and an overall capping of the funds for each Member State, determines the nature of the coupled aid.

The cotton support system in the EU is a mix of non-trade distorting ("green box") and less trading distorting ("blue box") forms of support. No export subsidies are used, and there is duty-free access in the EU market. It is a long-term policy that aims to enhance environmental respect and stabilize income, also reducing the risk that production will be abandoned in certain areas.

The primary sector in Greece remains an important industry for the national economy, and the cotton crop is still regarded as a national product. An overall improvement of cotton quality and better exploitation of cotton sub or by-products, as well as improvement of agricultural practices regarding cotton production, are useful tools to increase profitability and finally to protect cotton cultivation.

Nowadays, Greece is facing radical changes in cotton cultivation and production, mainly because of high costs. Under these circumstances, application of new policy measures would maximize benefits and minimize disadvantages. In more detail, the main targets are to enhance cotton quality, to lower production costs and to better exploit additional or alternative export destinations.

Cotton blooms

BAJAJ STEEL INDUSTRIES LIMITED

BAJAJ CONEAGLE **Saw Gin & Pressing Machinery**

Bajaj-CONEAGLE Saw Gin, Pressing & Automation equipments designed by world leader in the segment, M/S Continental Eagle Corporation, USA, who are serving the industry since 1832, now are manufactured and marketed by **M/s Bajaj Steel Industries Limited,** maintaining highest world quality standards.

BAJAJ-CONEAGLE 9120 FEEDER & 201 SAW GIN

BAJAJ-CONEAGLE INCLINE CLEANER

BAJAJ-CONEAGLE IMPACT CLEANER

BAJAJ-CONEAGLE SUPER STICK III

BAJAJ-CONEAGLE VERTICAL FLOW DRIER

BAJAJ-CONEAGLE 24D LINT CLEANER

BAJAJ-CONEAGLE 9300 PRESS

BAJAJ-CONEAGLE CENTRIFUGAL LINT CLEANER

BAJAJ-CONEAGLE 9500 DOWN PACKING PRESS

BAJAJ CONEAGLE **Delinting & Decorticating Machineries**

DELINTER

ROTARY SEED CLEANER (Patent Applied)

Note: Introducing Rotary Seed Cleaner & Density Separator

SEED CLEANER

HULL BEATER

DECORTICATOR & SEPERATOR

LINTER CLEANER

LINTER PRESS

GUMMER MACHINE

BAJAJ STEEL BUILDINGS DIVISION | BAJAJ STEEL PANEL DIVISION

Superfast Deliveries, International Standard at Affordable Prices

SINCE 1961

BAJAJ STEEL INDUSTRIES LIMITED
Imamabada Road, NAGPUR. Pin: 440018 (MS) India
Tel. : +91-712 - 272 0071- 80 (10 lines) Fax : 272 8050, 272 3068
e-mail : bsi@bajajngp.com Web : www.bajajngp.com

An ISO 9001-2008, 14001: 2004 & & OHSAS 18001:2007 certified company

IN COLLABORATION WITH CONTINENTAL EAGLE CORPORATION SINCE 1832

Aspects of Cultivation

Apostolos Kalyvas and Eleni Tsaliki
Cotton and Industrial Plants Institute,
Hellenic Agricultural Organization DEMETER
(Formerly NAGREF)

One of the characteristics of Greek agriculture is the small farms (average area 5.6 ha) in more than one plot. Cotton is among the most intensively-cultivated species in Greece, which covers more than 250,000 hectares each year (nearly 50% of the irrigated land) and is the most important agricultural export product for the country. Greece is the largest supplier of cotton in the European Union, covering 80% of total European production. The major areas of cultivation in Greece are Thessaly, Thrace, Central Macedonia and Central Greece. Large investment in machinery, water collection, pumping plants and human skills has been devoted to the crop, while its management is fully mechanized. However, reduced prices due to the reform of the Common Agricultural Policy of the European Union and the World Trade Organization agreements are threatening the viability of the crop. Improved management practices are needed to retain the crop area, which offers a good income to farmers and is the basis of a well-developed cotton industry.

Seed varieties

Seed is produced in Greece primarily by private companies and secondly by quasi-government organizations. During the last years, a large number of varieties (approximately 200) were registered in the National Catalogue of Agricultural Plant Varieties, and this has created many problems for growers, in order to select the appropriate variety for their areas. The Ministry of Rural Development and Food funded in the past a national program, in order to evaluate and to identify groups of varieties, which are better adapted for cultivation in areas of the country with different climate and soil characteristics. According to OPEKEPE [Greek Payment Authority of Common Agricultural Policy (C.A.P.)], at least 102 different varieties were cultivated in Greece in 2013.

Climate

Climatic conditions play a critical role in cotton production, and are the major cause of the fluctuation that production from a certain area presents, in different growing seasons. Usually, the planting period starts in the first weeks of April in the southern and warmer parts of Greece, such as Central Greece and Thessaly, and is followed in the last two weeks of April and the first week of May in the northern region of Macedonia and Thrace (Komotini). It should be noted that cotton is irrigated, and a dry summer does not mean water deficiency, but rather higher temperatures and even more water balance for the plants. Cotton is a crop that needs a skilful handling of the water supply, in order to enforce the fruiting stage and to avoid a high vegetative growth.

In the northern areas of the country (Central Macedonia and Thraki), which have a shorter growing season (periods with temperatures higher than 15 ^{0}C), the growing conditions mainly at the start and at the end of the growing season are often unfavorable for normal fruiting and maturity of the cotton plant. This is mainly due to low temperatures during germination and initial growth of cotton plants, as well as to

unexpected weather conditions, with rainfall and low temperatures during maturity and harvesting.

Irrigation

Most areas cultivated with cotton are irrigated, while the non-irrigated areas are less than 8 % in total. Irrigation normally starts in June in southern Greece and goes on until mid-August. Although the major irrigation methods are sprinkler and drip, irrigation by furrows is still in use on a small scale.

Fertilization

Fertilization is based on soil data analysis of the farms or the parcels, which varies in the different regions of the country and is connected with different types of soil. In case such an analysis is not available, compound fertilizers, having as basis elements Nitrogen (N), Phosphorous (P) and Potassium (K), at a ratio of 2-1-1, are often used. These fertilizers sometimes contain in smaller proportions other elements, such as Boron (B), Calcium (Ca), Iron (Fe), Magnesium (Mg), Sulphur (S) and Zinc (Zn). A small part of the fertilizers is added to the soil right after sowing, while the rest is applied in June. Therefore, it can be available later in the summer, when the needs of cotton plants are increased.

Pests

Cotton is attacked by several species of insects, including such harmful species as the boll weevil, pink bollworm, cotton aphid, spider mites (red spiders), *thrips tabaci* and lygus bugs. Limited control of damage by insect pests can be achieved by proper timing of planting and other cultural practices, or by using varieties that have some resistance to insect damage. Chemical insecticides require careful and selective use because of ecological considerations, but appear to be the most effective and efficient means of control.

The boll weevil (*Anthonomus grandis*), the most common cotton pest in Greece, is controlled by appropriate cultivation methods and by the application of biological (*Bacillus thuringiensis*) and non-biological insecticides.

Diseases

As far as diseases are concerned, cultural and host plant resistance are the most used control methods. Practically, the only chemical control method against diseases is seed treatment with fungicides.

Weed control

Chemicals are used for the control of weeds. Herbicides can be applied: before sowing, right after sowing (pre-emerged) and after the emergence of cotton plants (post-emergence). Each method (or a combination of them) is chosen, having regard to the special conditions of each area and also the weather conditions of the year. Also, mechanical destruction of weeds is in use on a large scale.

Harvesting

The cotton harvest starts in late September, and most of the total quantity of unginned cotton is picked by early November. Almost all of the production is collected by machine picking. The picking season usually takes place from mid-September until the end of October. However, adverse weather conditions may extend the picking season up to mid-November.

Typical fiber characteristics

Because of the large number of varieties, the typical fiber characteristics of the cotton cultivated in Greece show a significant variability. The averages, as regards the fiber characteristics, are shown in Table 1.

Table 1.

Basic fiber quality parameters of cotton varieties cultivated in Greece.

	Micronaire	Fiber Length (50%)	Uniformity Index	Strength	Reflectance	Yellowness
	Mic	UHML [mm]	UI [%]	Str g/tex	Rd	+b
Average	4,10	28,99	82,2	30,1	72,1	9,5
Min	3,50	27,39	77,4	26,7	56,1	6,7
Max	4,60	31,60	85,5	33,5	80,9	13,9

Source: Cotton Classification Centre of Karditsa.

Soil environmental issues

In many areas, cotton is mostly grown as a monoculture, as it is more profitable in contrast to other crops like cereals, sugar beets etc. Chemicals like herbicides and pesticides, which are used continuously, can lead to soil and water pollution.

The Ministry of Rural Development and Food works, in collaboration with farmers and other stakeholders, with a view to promoting sustainable agriculture, food safety and security, the viability of the sector and the prosperity of rural areas in Greece. Within this framework, the Ministry has developed and institutionalized “Codes of Best Agricultural Practice”, aimed at the reduction of pesticide use in agricultural activities. However, the most important policy instruments for the promotion of sustainable plant nutrition management in Greece are the

funded agro-environmental measures, which are designed to encourage farmers to protect and enhance the environment on their farmland.

2013/2014 Crop

In 2013, the crop was the most successful over the past ten years for Greece. Favorable weather conditions, throughout the growing and harvesting periods, contributed to both the high quantity and quality in a record-breaking year (Table 2). The quantity of seed cotton reached 852,000 tonnes, from a cultivated area of 248,716 hectares, and average production was 3,430 kilos per hectare. These results, together with the high prices paid to the farmers in 2013, are the reasons that the crop is believed to be increased in 2014 and the sown crop area is estimated to reach 300,000 hectares. However, the new crop planting period was delayed, due to an unusually cold and wet April. Furthermore, the adverse weather conditions, which continued throughout the cultivation period, have led to a delay in cotton plant maturation, and in the completion of the growing season.

Table 2.

Cultivated area and yield of seed cotton in Greece

Year	Cultivated area (ha)	Yield of seed-cotton (1000 tn)
2007	331,901	801,0
2008	284,157	670,0
2009	225,751	662,5
2010	257,180	557,0
2011	285,668	796,5
2012	285,716	775,6
2013	248,716	852,4

Source: OPEKEPE [(Greek Payment Authority of Common Agricultural Policy (C.A.P.) Aid Schemes], which is a private legal entity operating since 2001 for the public interest and is supervised by the Ministry of Rural Development and Food.

We’re hands-on out in the field and at every link in the global supply chain

From sourcing, processing, marketing, transportation to trade finance, Noble Agri can help better your cotton business.

Noble Agri is a member of publicly listed Noble Group Limited (SGX: NOBL), a market leader in managing the supply chain of agricultural, industrial and energy products. Noble Group deals with many of the earth’s natural resources and raw materials such as cotton, grains, coffee, coal, steel, aluminium, clean fuels - among others. We move these products by ground and sea from the world’s production and surplus areas through our owned and operated facilities to where they are needed around the world.

We also supply customers with technical ship management and chartering services, offering both suppliers and buyers structured financial solutions and services.

Noble Agri’s synergy with Noble Group and its reputation for building strong customer relationships means you can depend on our high quality execution in everything we do.

With a worldwide network of over 140 offices in 37 countries we’re not only hands-on out in the field but also at every link in the global supply chain.

Noble Agri
A Member of the Noble Group
2000 West Sam Houston Parkway South - Suite 7750
Houston, TX 77042, USA
Tel +1 713-229-3190
www.nobleagri.com

noble agri
A member of the Noble Group

A Product of Strategic Importance

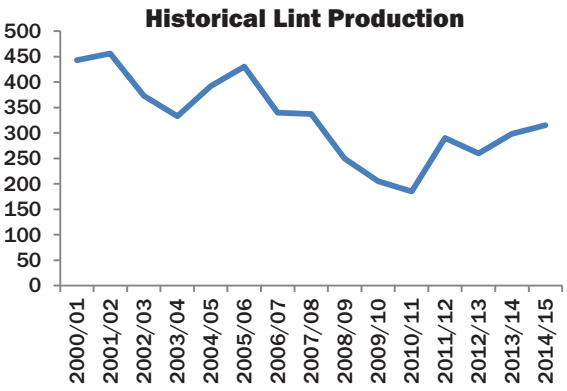
Yiannis Papadogiannis
on behalf of the Hellenic Cotton Association of Ginners & Exporters

Cotton constitutes a product of strategic importance for Greece. For decades, it has been a material source of income for thousands of families, while consistently ranking as a primary export product contributing to the country's trade balance. During the 2013/14 season, Greece was the largest producer/exporter in the EU and the 6th globally, cementing its presence both in the region as well as in the international theatre.

Signs of stability in area and lint production

Cotton cultivation and lint production in Greece have a long history and tradition (more than half a century), and it is estimated that this will remain in force, due to the crop's competitive advantages (soil characteristics, climate, and commercial privileges). Looking at graph No. 1, it can be easily seen that, during the last few years, lint production in Greece shows signs of stability. Greek production reached a low point in the 2010/11 season, owing to the green worm effect and adverse weather conditions during the harvest period. At that time, the crop seemed to be stabilizing at between 250,000 and 300,000 tonnes.

Graph 1.



Taking into consideration that local consumption is recently about 25,000 tonnes, the export volume is ranging between 225,000 to 275,000 tonnes. This results in a 90% or so export-orientated crop.

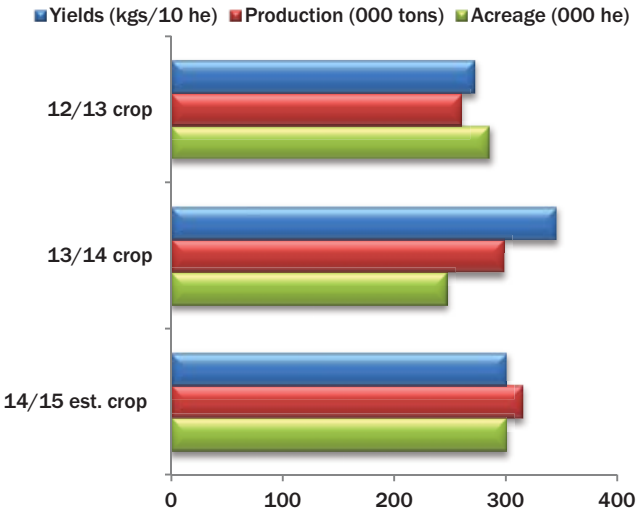
As in many producing countries, Greek cotton, in terms of quantity and quality, depends a lot on weather conditions during all stages of cultivation. Since area in recent seasons has constantly been between 250,000-300,000 hectares, the final lint production depends on how favorable (weather-wise) is the season, and how motivated growers are to pursue high yields.

To be more specific, the 2013/14 season's area was about 40,000 hectares less than the previous one (-18%). However, due to ideal cultivation and weather conditions, yields on the fields were higher than usual (+22%). Also, ginning yields were better, and consequently lint production reached almost 300,000 tonnes, compared with 260,000 tonnes in 2012/13.

Regarding the 2014/15 crop, cotton area is estimated to be slightly less than 300,000 hectares, which is about 20% higher than last season (247,000 hectares in 2013/14). However, it is less likely that the same ideal yields in fields and at ginning mills will be experienced for a second season in a row. Thus, following a conservative view and based on average yields, it is estimated that new crop's production will be between 305,000 and 320,000 tonnes.

On the following graph (No. 2), it is interesting to observe the fluctuations of yields, acreage, and production over the last three seasons.

Graph 2.



Source for crops 12/13& 13/14:OPEKEPE / Greek Payment Authority of Common Agricultural Policy (C.A.P.)

Marketing and exports

Turkey has been the major destination of the Greek crop for many years. Spinners in the neighbouring country consider the Greek market as 'domestic' in terms of lot allocation and quick shipment. Usually, more than one third of the crop is shipped to Turkey (by trucks or containers) giving a reliable and quick alternative to all ginners.

Egypt is the second biggest buyer of the Greek crop. After the termination of the import ban, Egyptian mills bought about 40,000 tonnes of Greek for the 2013/14 marketing year, being very active until the end of the season. Lately, they have been buying forward for the upcoming year, either from merchants or directly from ginners.

Apart from these nearby countries, Greek cotton is also shipped in big volumes to Far Eastern markets. Indonesia, Pakistan, Japan, Vietnam and other countries are familiar with the crop and are constantly using Greek cotton. In addition, during the last three seasons, sizeable amounts from the Greek crop have been shipped to China. The earliness and nice quality of the Greek crop have been matched by good import demand from China, and merchants' need to deliver cotton before the end of the calendar year, in order to avoid the expiration of import quotas.

The Greek crop is the first available from the North Hemisphere ready to get shipped and delivered to mills in late September/beginning October, when demand for Greek picks up. During this delivery period, it competes with Brazilian cotton, while for deliveries after December, the major competitor is the US. Greek cotton is 100 percent machine picked, with a good uniformity ratio, and high quality standards in terms of spinnability (length, strength and Micronaire).

Cotton in Greece

Moreover, Greek cotton is contamination-free, since the process from the very first stage of sowing up to harvesting, ginning, packaging and storing is highly mechanized, with good standards of automation and repeatability. Cotton growers are using mostly very premium cotton seeds, NON GMO, and since they are strongly committed to cotton and very much experienced, they irrigate and fertilize correctly, aiming at the maximum outcome. Consequently, the quality mostly produced is Middling and SLM, frequently with high strength. Last but not least, logistics behind the product are very fast and reliable, ensuring prompt deliveries, according to contract terms, to every destination.

The chart below demonstrates the basic export destinations by country for the 2013/14 season, as announced by the National Statistical Service of Greece.

Ginning sector: a maturing industry

Almost half of the existing ginning mills have been operating for more than 50 years, of course nowadays technologically updated and renovated, giving ginners a lot of experience, expertise and professionalism in their field. The other half comprises ginning mills which were established between 1995 and 2005, and are equipped with the latest machinery and large premises.

There are 35 ginning firms active in the market, which operate 70 ginning mills, located mostly in central and northern Greece, near the areas of cotton cultivation. Ginning mills have great capacity, which makes the ginning period very short. However, this creates a lot of competition, since ginners have to commit the majority of seed cotton in the first months of the new season. The 'hunting' of seed cotton from growers often increases the cost of lint production and squeezes profit margins.

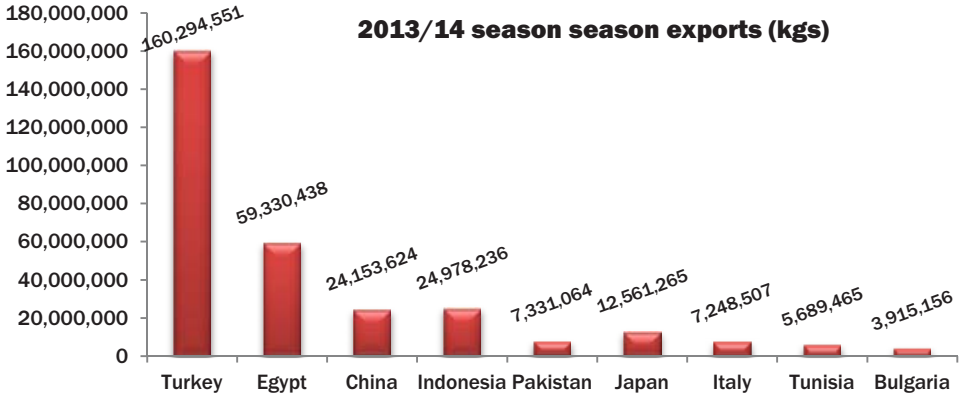
As far as ginners are concerned, in many cases we are going through the second generation and, in a few cases, even the third, which helps this industry mature. The ginning sector keeps shrinking, mostly through consolidation. Credit lines are smaller, and the cost of money has increased a lot, following the Greek debt crisis. Meantime, the sector is being dominated by six or seven ginning groups that are financially strong enough to maintain their profile overseas.

CAP: How does the EU support cotton cultivation?

Cotton farming in Greece is subject to the rules of the European Union's Common Agricultural Policy. Farmers are forced to follow sustainable production techniques that minimize the impact on the environment, ensure proper use of water and soil, and maintain an attractive countryside, respecting the safety of farmers and consumers alike. A public support is assigned to farmers, in order to be able to provide this high level of public service (cross-compliance in land and countryside management). They are allowed to choose for themselves the crop they will produce. The support system is 100% market driven, which allows farmers to take their own decisions each year, according to price and inter-crop competition.

Part of this public support is assigned to cotton farmers as 'coupled' payments, in order a) to bring them in line with the direct support measures used by the major cotton producing countries in the world (level playing field), and b) to ensure the sustainable development of cotton-growing regions, recognising the importance of cultivation to the local communities and the broader economy of the EU. Farmers, in order to be eligible for coupled aid, can grow cotton only on land authorised by the State, using authorised varieties of seed and, under normal growing conditions, resulting in a minimum level of yield per hectare.

The budget for the cotton sector envisages a basic area of 250,000 hectares, meaning that there are no additional budgetary issues for the EU, in case the area cultivated with cotton is more than the basic area. Depending on farmers' cost variations from year to year, and the total area sown to cotton, it could be said that coupled support covers approximately 25-35% of farmers' cost of production.



One thing for sure is that cotton cultivation and lint production in Greece are not still alive by chance, through all these decades. Despite the difficulties, the whole sector (growers, ginners, cotton

agents), with the support of EU's policy, is strongly committed to cotton. Both industry and producers have invested significantly in their equipment, from which a whole new culture of land and countryside management has emerged. The sector offers employment opportunities to more than 100,000 Greek families, including farmers, traders and people working in the production, processing and handling of goods. Moreover, through its export orientation, cotton makes a significant contribution to the country's trading balance, emphasising its strategic importance for the Greek economy.

“Change is a constant thing, nothing endures but change.”

(Heraclitus)

Johnny Psaropoulos,
NICOT

The global cotton industry was hit hard in 2010/11 and it proved to be a lesson for everyone and a huge test of relationships and attitudes. Change was imminent and it is now constant everywhere, even in the small, but significant, Greek market in the cotton industry.

The Greek cotton industry has changed rapidly during the past four years, and it appears to be getting stronger, healthier and more confident for the future. The financial crisis seems to have made everyone more cost effective and changed people’s attitudes to teamwork and economies of scale.

For many years, farmers focused on producing cotton just for the subsidy provided; nowadays, they focus on a good quality-quantity crop to obtain a higher income. They are forming “Farmers’ Groups”, in order to decrease the cost of inputs and increase the price of their crop, by offering volume to the ginner. In this way, they are reducing the rent of farmland, the lease price of a picker and negotiating a better price from the ginner. The days when there were two hectares of cotton next to 2 hectares of wheat or corn are fast disappearing.

Ginners, who are traders on the inputs and the output, are also becoming more efficient, more quality-conscious and more customer-oriented. They are realizing that mistakes have to be minimal, in order not be out of the game or penalised. As margins are tight for them, they are also tight for their customers and nobody has the time or money to battle with a claim.

The ginners who made such mistakes have moved aside and consolidation is taking place within the ginning industry, with more ginning units operated by fewer corporations. As finance is tight and costly, and the margins are even tighter, ginning companies have to act more responsibly. Therefore, seed cotton prices will not fluctuate as much as before and every cent more that is paid to a farmer will cut their profits. In addition, this enlargement of companies is beneficial for cotton production, for the industry’s future and also for the country’s economy.

The volume of cotton concentrated in a few hands makes export diversification even more important and crucial for the industry. Greek cotton needs to reach destinations other than Turkey and Egypt, to focus on and target also the Asian markets with a value added product. Greek cotton has been shipped almost everywhere in the world from East to West, and it has been tried everywhere with success. Therefore, we need to justify to the customers the reason that there is a “Greek price” by providing a stable quality and an adequate supply.

Firstly, this can be done on a government level; there is a modern classification laboratory with several HVI USTER 1000s ready to operate, and it can cover a large volume of the Greek crop. Subsequently, it could help to provide a “Greencard” quality for it. It is important that the Government and the cotton ginning industry realize this. A private HVI is good for a ginner’s own knowledge but a

certified third-party laboratory such as ICA Bremen can add the valuable meaning of a "brand". This laboratory needs to be independent and not to be controlled by a ginner. For the first time, there are steps towards this movement by government funding and it is important that ginners assist with this also. Today, it might seem a burden to them, having a third party sampling 5% of their production, but they will benefit from it in the future.

Secondly, the Hellenic Cotton Association (HCA) has opened its doors to the agents of international merchants/mills, a move which shows that the new generation is open to discussion and ideas for Greek cotton, and an acceptance that buyers and their agents are not opponents but members of a team.

What better chance than at the 2014 ICAC Plenary in Thessaloniki to show teamwork within the industry!

Thirdly, the Greek crop has an advantage over the Northern Hemisphere crops producing "machine picked", "contamination-free" cotton, by being readily available. This is due to LOGISTICS! It is the first one available for shipment. Greece has managed over the last three seasons to supply cotton to China "on time" before the end of the calendar year, which is crucial for the Chinese mills. Once harvest commences, the first bales are available for shipment within 72 hours and can be on a vessel sailing within 48 hours from stuffing the containers. As Greek cotton is always on time, this is a big advantage for mills worldwide.

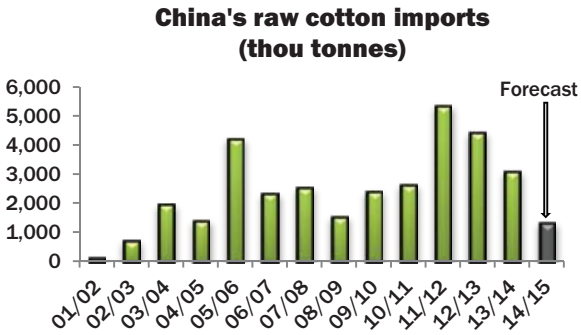
Finally, Greek cotton has been tested by many mills in the world and there is always a remarkable spinning value for it. As long as there is consistency in supply, mills prefer it versus other origins. Its spinnability has a premium for the yarn producers and our main buyers, Turkish and Egyptian mills, have a preference for it, and this is not just because of its proximity. Japanese mills, which represent a high value technical market, are increasing their dependence on Greek cotton also. Apparently, our Spinning Consistency Index (SCI) always produces good values.

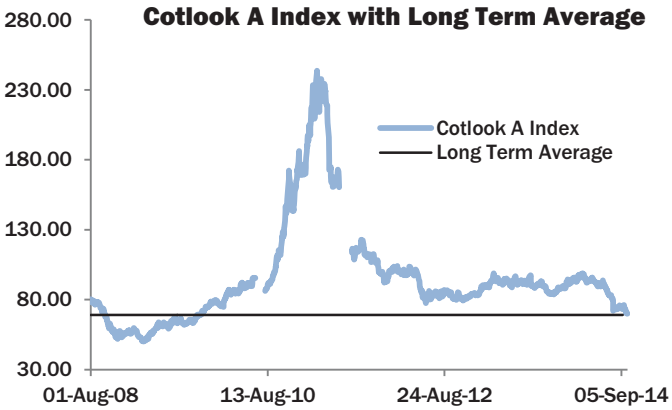
Greek cotton has always been tagged as coming from an expensive origin but it gets sold out easily, and is under constant demand from its usual buyers. As the Greek cotton industry has and is changing internally, it has to focus on external changes, such as marketing, to justify its value versus other origins. It will always have its "niche" markets, Turkey and Egypt, but it also needs to attract attention from additional clientele, and this year's ICAC 2014 is a great opportunity for our industry to promote the brand of Greek cotton.

World Market Review: Cartagena to Thessaloniki World prices in decline, China at a policy crossroads

Mike Edwards,
Cotton Outlook

As delegates departed Colombia's Caribbean coast at the end of ICAC's 72nd Plenary Meeting, the Cotlook A Index – barometer of the international market – remained above 80.00 cents per lb (CFR Far East), well over its long-term average. As delegates make their plans to travel to Thessaloniki for the 73rd Plenary, the Index is far closer to that average (just below 70.00 cents per lb) than at any time since the early stages of the 2009/10 season[1], when prices were embarked on a strong upward trajectory.





For much of the period since the last Plenary, the market presented a firm appearance, as Chinese imports once again maintained a stronger pace than had been predicted. As the season wore on, it became clear that the 2013/14 season would not, after all, prove to be the one in which Beijing would halt or reverse the accumulation of state reserve stocks begun in 2011/12.

In February 2013, Cotton Outlook's initial prediction was that China would import 1,500,000 tonnes of raw cotton in 2013/14. In the event, shipments amounted to more than double that volume. At 3,075,000 tonnes, the season's eventual total marked a second consecutive season of decline, but still represented the fourth largest seasonal total on record.

Thus, although world production exceeded consumption by a margin of 3.1 million tonnes, according to our estimates, almost all of that increase was absorbed by China. Stocks outside China ended the campaign virtually unaltered.

As a result, selling pressure as the Northern Hemisphere harvests came to market proved less intense than might have been feared. Indeed, that period actually saw a strengthening of world prices, under the lead of New York futures. Having fluctuated in the mid-80s during much of November, the A Index staged a significant recovery, surpassing the 90.00 cent mark once again in mid-January and, by early May, was within just over one cent of the dollar mark. 'Dollar cotton' has been witnessed only on relatively few occasions in history.

The strength of world prices during the November/March period was influenced largely by a strong performance of the New York futures

[1] *By convention, the international cotton season runs from August 1 to July 31.*

market, which in turn reacted to a good pace of US export sales, and a generally supportive US supply position. Sustained export demand reduced US stocks at the end of the season to 2.6 million bales (480 lbs), amongst the smallest carryovers of recent seasons. Selling pressure from outside the US – notably from India – was far less intense than had been anticipated.

January saw confirmation from China that, after three seasons, the state reserve policy (discussed in detail elsewhere in this publication) would be abandoned. This development was not unexpected - the simultaneous building of stocks and large-scale import purchasing had long seemed unsustainable - but gave rise to a lengthy period of conjecture with regard to its implications for the world market. The ramifications of a new policy in China remain the major influence on trading sentiment as this publication goes to press.

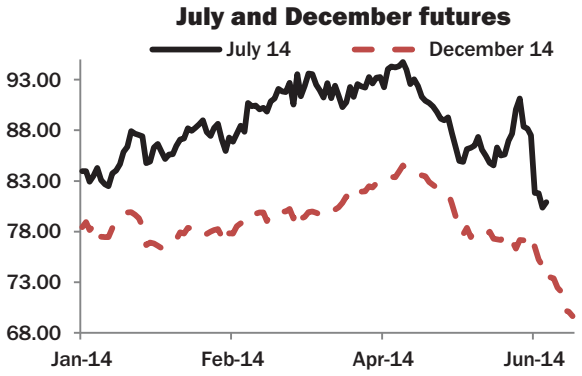
That the impact would be bearish was not in serious doubt, but for several months only a very partial view had emerged of the system that would be adopted in 2014/15. A system to support farmers would be adopted in Xinjiang alone, involving a 'target price' of 19,800 yuan per tonne, the assumption being that the government would make good the difference between that level and prevailing market prices. In other respects, the detailed mechanisms by which the target price system would function were slow to emerge. Outside Xinjiang, clarity in respect of government intentions was lacking until it emerged in July that a 'flat rate' subsidy (in an amount yet to be confirmed, but rumoured to be equal to 2,000 yuan per tonne of lint) would be paid to farmers.

The inference drawn by most observers (and reinforced by remarks attributed to government officials) was that the measures indicated would be accompanied by a more restrictive policy in respect of raw cotton imports. In late September, the severity of that policy became clear, when the National Development and Reform Commission announced that, beyond the 894,000-tonne Tariff-rated Quota to which China committed itself as part of the terms of accession to the World Trade Organisation, no discretionary import quotas were envisaged in 2015. Cotton Outlook's current forecast of imports in 2014/15 is 1,300,000 tonnes, which would be the lowest volume since the 2002/03 season.

The prospect of reduced Chinese import demand was no doubt one of several factors that contributed to a heavily inverted New York futures market, which was primarily of course influenced by the statistical position in the US. During the second half of the season, a tightening nearby supply position in the US served to maintain the 2013/14 crop contracts at a substantial premium over the new crop deliveries: at its peak, the July contract in New York was trading at a premium close to 14 cents per lb, in relation to December. The size of this negative 'spread' provided a powerful motivation for the merchants hedged in New York to liquidate their physical long positions, eventually at the cost of collapsing basis levels for some origins.

On April 4, a Forward (2014/15) A Index was introduced, for shipment no earlier than October/November. The initial value (88.05 cents per lb) represented a discount of 665 cent points under the Current (2013/14) Index.

Not long after Beijing's confirmation of the prospective change in policy, on February 7, President Obama signed into law the Agricultural Act of 2014. The long-delayed Farm Bill was enacted too late for its cotton provisions (which, as discussed elsewhere, include some significant departures from previous policy) to take effect in the 2014/15 season, for which transitional arrangements were established. Farmers in the United States were therefore to formulate their planting intentions within essentially the same policy framework established by the previous legislation.



USDA's March Planting Intentions report indicated that cotton area would rise by 7 percent, to 11.1 million acres (nearly 4.5 million hectares), as producers in the mid-South and Texas diverted more land to cotton. The situation in the latter state, which relies heavily on seasonal, and sometimes erratic, rainfall, is very often the factor that determines the eventual size of the US crop. This phenomenon has been demonstrated quite dramatically in recent months. In early May, USDA forecast the domestic 2014/15 crop at 14.5 million bales (3,157,000 tonnes). As the month wore on, and planting deadlines in West Texas approached, this figure appeared subject to a downward bias, as no sign of an end to the drought already afflicting the region for three years appeared in sight.

However, the situation changed dramatically over the late May Memorial Day weekend, during which some areas of West Texas received record, one-day rainfall. Accumulations from that weekend's

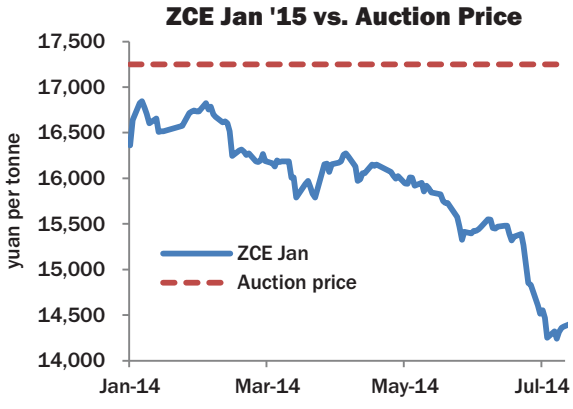
downpours eclipsed all rain received hitherto this year. Assisted by further beneficial rainfall in the ensuing weeks, the transformation of the prospects in West Texas was complete. By August, Washington had added no less than three million bales to its forecast. The new season's exports, however, largely as a result of developments in China, were forecast to increase only modestly from the 10.53 million bales actually exported in 2013/14. In consequence, it is foreseen that last season's low ending stocks – one factor that had supported prices in 2013/14 - will have doubled by the end of the next campaign.

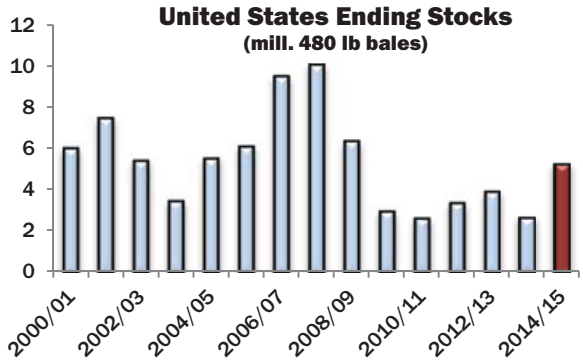
The vastly improved US production outlook also proved the catalyst not only for a sustained fall in the futures market, but also for a more general collapse of the world market. Having closed at a high point in early May of 84.53 cents per lb, the December contract had fallen by more than 21 cents by its close on the last trading day of July.

The combination of change in China, entailing a reduction in import demand, and a bumper US crop, had sent a clear bearish signal to the market. For a time, however, the weight of bearish news was mitigated by uncertainty surrounding the outlook for the cotton crop in India, after the United States the world's second most important exporter.

Meteorologists had for some time raised the possibility that an *El Niño* episode would occur in 2014, an event sometimes associated with a deficient South West monsoon. By the beginning of July, fully a month after the monsoon had made landfall in Kerala on India's southern coast, the prospects for the cotton crop appeared to be seriously compromised. Major non-irrigated cotton-producing tracts had received little or no rainfall, and the area sown nationally was less than half that planted at the same point of the previous season.

By the end of the same month, however, as had been the case in Texas several weeks earlier, abundant rainfall had come to the cotton farmer's rescue, albeit belatedly. Producers pressed ahead with sowing, and the area devoted to cotton, nationwide, eventually exceeded that of the





previous season, the delayed monsoon rains having rendered the planting of some food crops unviable. With confidence in a second successive bumper crop thus restored in India, the bearish mood of the international market deepened.

How far could the market fall, and what remaining supportive elements could be identified? At this stage, attention began to turn to the various mechanisms that exist in most major producing countries to support cotton farmers during periods of depressed prices, the subject of a separate article in this publication.

These reflections coincided with the realisation amongst the trading community that, although the prospective new crop supply would amply exceed spinners' requirements during the season ahead, the volume of cotton available for the early months of the season was already relatively limited.

August thus saw a stabilisation of international values, following their relentless, three-month fall. Several factors helped to support the market. Supplies from the Northern Hemisphere 2013/14 crops were confined to small remnants, and several of the new crops were acknowledged to be late. Farmers might in any event prove reluctant to sell at prevailing prices. If the market were to remain depressed, support mechanisms might thus remove a significant portion of the new crop supply from the market, at least for a time.

Alongside these considerations, uncertainty with regard to China continued to obscure the market outlook. By the end of the 2013/14 (September/March) state procurement campaign, 6.3 million tonnes had been purchased, representing about 90 percent of the crop.

Cotton from the state reserve was made available to domestic spinners at auction between late November 2013 and August 2014 (a reduced price was in force from April of that year). In aggregate, this process reduced government stocks by 2.65 million tonnes, to a still daunting 11.2 million tonnes. Mills approached the auctions in a hand-to-mouth fashion, typically purchasing only a modest proportion of the quantities offered in the daily catalogues.

That caution was no doubt informed not only by bearish global fundamentals, but also by the perception that, with the abandonment of state procurement in favour of a more market-orientated – though still unclear – policy, domestic cotton would be available at cheaper prices in the new season.

The movement of the Zhengzhou cotton futures January contract (in which the bulk of the open interest resides) tended to reinforce that bearish view. The contract in question has been in decline for most of this year, a trend that accelerated during July and, once again, in September. On August 1, it closed at 14,135 yuan per tonne (about 104.00 US cents per lb), some 18 percent below the base price at which mills were able to buy at auction from the state reserve over the previous months. By late September, the contract was trading at well below 13,000 yuan per tonne.

Open interest in ZCE cotton had dwindled during the period dominated by state procurement and sales, but recovered strongly as the 2014/15 season approached, and the futures market appears ready to assume once again its role of facilitating price discovery in the changed policy environment ahead.

It is difficult to escape the conclusion that the summer of 2014 has marked a watershed in the evolution of the market. After the exceptional strength and damaging volatility experienced in 2010/11, three seasons of relative price firmness seem likely to be consigned to history, as China's policy is adjusted, with consequences that are not yet predictable. That uncertainty only serves to deepen the sense of foreboding apparent in producing circles, and amongst some traders. However, prices have already fallen some considerable distance, and support mechanisms are ready to be triggered. What the market lacks is convincing evidence that mill consumption is about to recover with sufficient vigour to reverse the trend of rising world stocks apparent now for several consecutive seasons.

China alone can no longer be relied upon to absorb that excess supply. However, the absence of clarity with regard to the impact of that country's policy has left market participants and analysts struggling to conjure up a clear and plausible narrative of how the market might behave, as it enters a new and uncertain phase.

Cotton: a Heavily Supported Crop

Cotlook Editorial staff

Cotton, more than many other crops, has traditionally benefited from support, from government or their agencies, in many and varied forms. ICAC estimates the value of government support measures in 2013/14 at a far from inconsequential US$6.5 billion. Why does cotton demand such support? One reason no doubt lies in the nature of the crop: it can bring substantial income, and is a major generator of economic activity in rural areas, but is not an easy crop to cultivate. Exacting in terms of inputs, cotton can be vulnerable to adverse weather or insect pressures, and is apt to tie up funds for longer than other products. Ginning and transport infrastructure must be in place. Such is its economic importance, however, that in both developing and in some developed countries, cotton has the capacity to mobilise strong lobbying efforts to secure government support.

More tangibly, the recent history of the cotton market has been intimately bound up with the impact of one government support policy in particular, namely that pursued by China between the 2011/12 and 2013/14 seasons. It would be difficult to overstate the importance of that policy's consequences, of which several were no doubt unintended, not only for the recent past, but also the future behaviour of both domestic and international cotton markets.

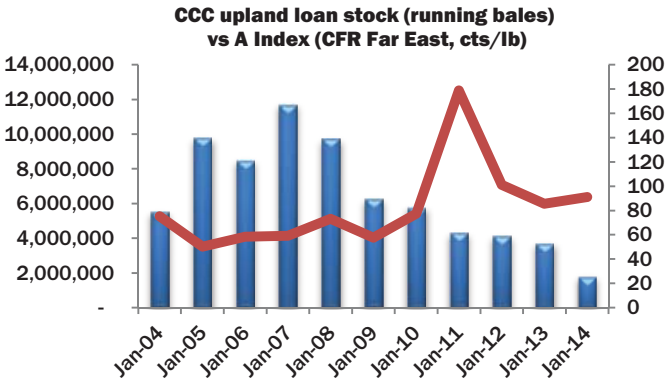
The creation of a state reserve stock, unprecedented in its magnitude, is manifestly the most significant of those outcomes. State reserves were estimated at the end of August, which effectively marked the end of the three-season regime, at approximately 11.2 million tonnes, a volume equal to nearly one and a half times China's annual consumption of raw cotton. The fate of that supply has thus come to represent a market 'fundamental' in its own right, one whose influence may be felt for several seasons to come.

Its creation stems from the conjunction of two major elements of China's policy since 2011/12. Firstly, the government undertook to purchase virtually the entire domestic crop, at prices that proved to be (but were not at the policy's conception, as the accompanying chart illustrates) well above the world market. Secondly, despite having been closer to self-sufficiency in cotton than at any time since the early years of the century, the country continued to sanction the import of quantities far in excess of its apparent shortfall of production. In the early stages, this appetite for imported cotton might be explained by a need to rebuild reserves that had been all but exhausted in a vain attempt to contain the runaway bull market of 2010/11, but the relevance of that justification has long passed. The more recent objective of

large-scale imports seems to have been to mitigate partially the difficulties faced by the domestic spinning industry, whose loss of international competitiveness has represented one of the more glaring, unintended consequences referred to above.

Whatever the rationale for the policy, unexpectedly strong import demand from China has had the effect of absorbing – *sequestering* would no doubt be a more accurate term – the raw cotton surpluses produced outside that country during the three seasons in question. As a result, world prices have remained significantly higher than would be justified by the global imbalance of supply and demand – world stocks rose by an estimated eleven million tonnes or so during the period.

Understandably, therefore, the confirmation from Beijing in January 2014 that the system, which had long seemed unsustainable, would be abandoned for 2014/15, sent a bearish signal to the international market.



The fall in world prices during the final three months of the 2013/14 season was so pronounced that support systems in other countries, neglected during the recent period of historically high prices, once again began to impinge upon market analysis. Of these, the most significant is no doubt the United States loan, created in the 1930s, initially as a temporary measure, as Roosevelt's New Deal sought to drag the US economy out of the Great Depression. The two principal functions of the loan are to ease the farmer's harvest-time cash flow, and thereby to afford an opportunity to market the crop at a more advantageous moment. As the accompanying chart indicates, the loan has not been heavily used during the recent period of strong world prices, but during the middle of the last decade – when world prices were appreciably lower – it was frequently the repository for several million bales, until market circumstances allowed redemption and the movement of cotton into marketing channels.

Over half a century after the loan's creation, a significant departure was the introduction in the 1986 US Farm Bill of the Marketing Loan concept, against a background of rising cotton production outside the United States, depressed world prices and an accumulation of stocks within the US loan.

The Marketing Loan remains intact within the Agricultural Act of 2014 – the latest US Farm Bill, signed by President Obama in February of this year. The system allows the redemption of cotton at a value below the basic Loan Rate (currently 52.00 cents per lb), when world prices, as measured by the Adjusted World Price[1], fall below that level. Growers, domestic mill consumers and exporters of the crop thus stand to gain from the subsidised redemption rate. But since US mill consumption is much reduced (over 40 percent lower than in 1985/86) and US cotton is today essentially an export crop, the major potential influence of the Marketing Loan today is on the world raw cotton market.

Its probable impact, however, may have been blunted with the passage of time. The basic upland loan rate has barely altered over the past thirty years or so, and has not been adjusted to take account either of general inflation or the rising costs of cotton production. In recent years, budgetary considerations have exerted considerable pressure on agricultural spending in the US. Indeed, the new farm legislation provides for an eventual decline in the loan rate, to a minimum of 45.00 cents per lb, should world prices fall. In its present incarnation, it could be argued, the US loan has reverted to a role closer to the 'safety net' envisaged in the 1930s, than the marketing mechanism established under the 1986 legislation.

Whereas the loan has been the element of the US support system to have attracted the most attention during the early stages of the current season, for the longer term, the new cotton programme comprises some innovations that may also prove of considerable significance for future production trends.

[1] The Adjusted World Price is calculated from a five-day average of the cheapest five CFR Far Eastern quotations, adjusted for location and quality.

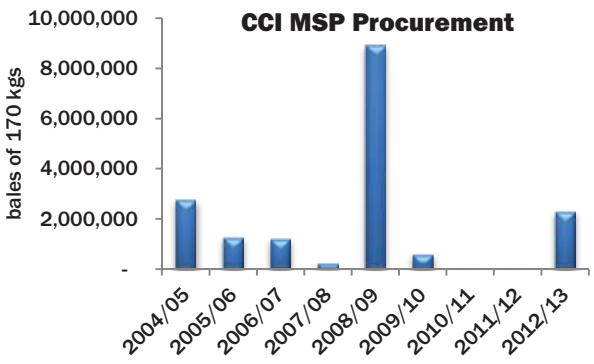
The most noteworthy of these has been the replacement of Direct and Counter-Cyclical Payments (though these essentially remain in place under transitional arrangements for 2014/15) with an insurance-based system, known as STAX (Stacked Income Protection Plan). Farmers' incomes continue to receive some government-subsidised protection under the system. However, a new and significant element of the mechanism is the link established between the income against which farmers can insure, and the prevailing market, specifically the level of New York futures prior to planting. In simple terms, the system does not afford the producer the possibility to 'beat the market'. In addition, more stringent payment limitations restrict the benefits that can accrue to individual producers or entities under the Marketing Loan.

The new arrangements should render cotton area more responsive to market signals, and may thus serve to blunt some of the criticism attracted in the past by the US cotton programme. A successful case was brought against US cotton by Brazil, a WTO panel having agreed that the programme was trade-distorting.

Cotton support functions in a rather different manner in India, where the government each year establishes Minimum Support Prices (MSPs) for seed cotton (and for other crops). The cotton MSP represents the level at which the Cotton Corporation of India, directed by the government, will enter the market to purchase seed cotton, in order to stabilise prices and thereby defend the interests of farmers. CCI can then market lint on domestic and/or export markets, at a time of its own choosing. In addition to its MSP-related, price support role, the Corporation undertakes commercial operations at its own risk.

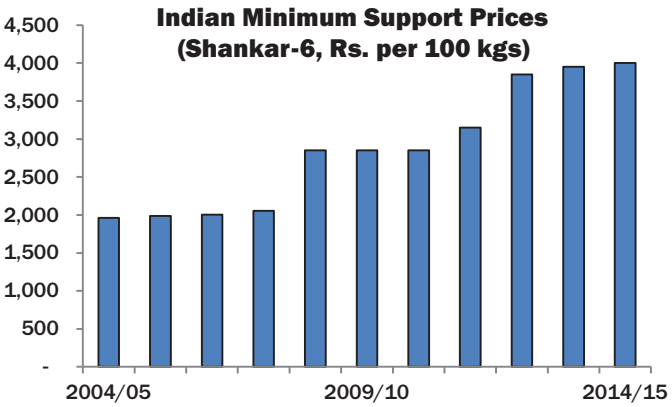
By the end of the 2008/09 season, during which the A Index slumped to a low point just over 50.00 cents per lb, CCI had purchased seed cotton equivalent to some 8.9 million bales under its price support operations, representing about 40 percent of that season's crop.

Minimum Support Prices for cotton were raised significantly for the 2012/13 season, since when upward adjustments have been modest. Based on our understanding of current ginning costs and the income potentially recouped by sales of cotton seed, this season's MSP for Shankar-6 might, at the current exchange rate, equate to a 'break-even' export value in the low 70s cents per lb (CFR Far East). By



mid-September, Cotlook's Indian export quotation for the style of cotton in question was only modestly above that level.

Prior to this season, the authorities in Pakistan had not established a minimum support price for cotton for a number of years, but the recent fall of prices has generated pressure from growers to do so. In early October, the government declared a support price of Rs. 3,000 per 40 kgs of seed cotton, and instructed the Trading Corporation of Pakistan, the agency charged to intervene in the domestic market, to purchase one million bales of lint. TCP intervention last took place during the 2008/09 season.



Brazilian farmers have recently been lobbying actively for the establishment of a government price support programme, on the premise that market values have fallen below the indicative minimum price R$54.90, ex-farm, per arroba of 15 kilos (roughly 74.50 US cents per lb, at the prevailing exchange rate). Known as PEPRO, the programme involves the allocation by the government of a finite sum of money, a share of which producers must bid for at auction. In September, the government announced the allocation of R$250 million (roughly US$103 million) for PEPRO.

In the major Central Asian producing countries, producers are not affected by fluctuations in world prices, since they plant cotton according to a state plan, which tends not to vary significantly from season to season. Governments are heavily implicated in the ginning and marketing of lint, under pre-ordained mechanisms. It has not been uncommon for large quantities of cotton to be carried over from one season to the next.

African producing countries lack the resources to support a comprehensive safety net. In the Franc Zone, in order to provide smallholder farmers with at least a degree of reassurance, a seed cotton price is fixed, often prior to the sowing period. Governments may also subsidise the price at which inputs are made available to the producer. Under these arrangements, the market risk is borne principally by the ginner-exporter, who is vulnerable to a decline in the market between sowing (or pre-sowing) period and that during which the bulk of the crop comes to market.

In East and Southern Africa, the process of price formation is more frequently dependent on supply and demand, though some countries establish an indicative minimum price for seed cotton, which is usually without statutory force. Farmers may thus feel more directly the impact of falling world prices, though ginners' tendency to compete for supplies, and thereby maximise throughput in order to reduce costs, on occasion mitigates, partially at least, the adverse movement of export prices for lint. Domestic mill consumption has long stagnated in Africa, with the result that virtually all of the continent's producing countries are essentially dependent on the export market.

As noted by other contributors to this publication, the European Union's aid regime today involves payments that are largely 'decoupled' from the volume of production, and which require adherence to various yield and environmental stipulations.

Australia is the only major cotton producing and exporting country in which state involvement is minimal. In that country, government support is confined to the provision of funding for cotton research that complements income generated by a per-bale levy on producers. The results are manifested in some of the most desirable upland fibre available to spinners, as well as yields amongst the highest in the world.

The World Cotton Contract

Interview with Mr. Antonio Esteve

COTTON OUTLOOK: In your capacity as Chair of the relevant Working Group, you have been closely involved in the formative stages of the new World Cotton Contract. Where did the initiative come from to create a new futures market?

***Antonio Esteve**: This is an old discussion. Many years ago there was an attempt for a foreign growth contract, but it was an Index contract, based on Cotlook´s A Index, and the contract failed. In recent years, like 2008 and 2011, we have seen significant distortions in New York futures prices versus International Prices. This is only natural, since New York represents only US cotton, and US cotton production is only 10 to 15% of world production. As a reaction to the price distortions in 2011, in January 2012, at the Beltwide Conference held in Miami that year, ACSA formed a committee to study the issue, but which was inconclusive. Consequently, later that year, as President of the ICA, I proposed then that the ICA as well make an effort to study the possibility of a World Cotton Contract. Eventually, ACSA and ICA were able to come together and put together a consensus contract format that contemplated the interests of the industry in the US and around the world, which was fantastic, a very significant achievement.*

CO: What is the problem to which the World Cotton Contract seeks to provide a solution? What risk management needs are not met by the existing No. 2 contract?

***AE:** It´s an issue of relative Supply & Demand. When US cotton is in plentiful supply, with significant export surpluses, US prices are aligned with international prices. However, when US is sold out, or oversold, but export surpluses exist around the world in other countries, then New York futures represent the Supply & Demand of the US only, and do not reflect the surplus supplies around the world. In these circumstances, there is no instrument available to hedge the widening of prices between the US and foreign growths.*

CO: How do you envisage the relationship between the World and No. 2 contracts? Will they be competing for the same clientele, or can we envisage a net increase in aggregate turnover in the two contracts?

***AE:** My personal opinion is that one contract will feed on the other. There will be fantastic arbitrage opportunities. For example, you can trade the forward foreign growth basis without the counterparty risk. Secondly, you will have the quality arbitrage, since the World Cotton Contract will represent better quality cotton than the NY contract. Third, many members of the trade, especially outside the US, are avoiding New York futures due to the distortions in recent years; we could attract these players back to the futures market. And lastly, being a contract based in the Far East, I think we could attract new players from that region, both from the trade and speculative communities, to participate in this new contract. Asians are known to have a speculative vein. So my view is that the aggregate turnover will grow significantly.*

CO: Why is now the right time to create this new instrument?

***AE:** I guess there is no right time. In fact, my preference is that it would have been in place a long time ago. So my point of view: the sooner the better.*

CO: We know from experience that the successful launch of a new contract cannot be taken for granted. What, in your view, are the particular difficulties that the World Cotton Contract will need to overcome? There seems to be broad-based support for the WC from within the trade, but speculative money will also be needed to provide liquidity. Are you confident this can be attracted?

AE: *Well, the obvious hurdle is to get traction, to get sufficient liquidity to attract the speculators. So it is really up to the trade to be committed and to make it work initially. If the trade is sold on the idea, as it seems to be, and supports the contract, it will take off. I am an optimist by nature, so I think it will work.*

CO: Can you summarise some of the practical aspects of the contract, as far as quality, trading hours and so forth are concerned?

AE: *The contract is a delivery contract, not an Index contract, which is a key factor to gain credibility and get price convergence. The quality standards are superior to the current New York No. 2 contract, so as I mentioned contemplate a quality arbitrage versus the NY contract. The price is in-store warehouse in main Malaysia ports. The growths that can be delivered against the contract are US, Australia, Brazil, India, Mali, Ivory Coast, Cameroon, Burkina Faso and Benin. The US will be able to deliver in the US, in the current cert warehouses, with the corresponding discount for the location of delivery. Australia will be able to deliver in their main ports as well, with a location difference/discount. The other seven growths will be deliverable in Malaysian warehouses with no location differences. The Base growth will be the US, and for the other growths there will be fixed growth differentials as for example exist with the New York coffee "C" contract.*

CO: What were the thought processes that informed the choice of deliverable origins?

AE: *In fact, the selected growths are the ones generally appearing as the five cheapest A Index growths, meaning they are generally the most available origins in the international trade. The selected growths represent 50% of world cotton production and 75% of world exports. These numbers are more than enough to guarantee that the World Cotton Contract price will reflect international prices. At the same time, we had to keep the contract simple enough so that it would work, so we could not contemplate all origins.*

CO: How will the delivery process work?

AE: *This is being worked out by ICE, but should be fairly similar to the process utilized for their New York No. 2 contract. However, the contract foresees deliveries in lots of 55,000 lbs to accommodate the tonnage of containers for those growths to be delivered in Malaysia.*

CO: When can we expect the new contract to be launched?

AE: *There are some issues that are still being worked out, but hopefully it will be launched in the first half of 2015.*

The Law of Unintended Consequences and a Time of Transition

José Sette, Executive Director, ICAC

The world cotton sector is passing through a time of transition, with major impacts on how we go about our business. Cotton faces many challenges, including communication with consumers, meeting the needs of spinners and producing cotton in a sustainable manner, while simultaneously improving the profitability of producers in a time of rising costs, stricter standards and stagnant yields. The 73rd Plenary Meeting of the International Cotton Advisory Committee will examine many subjects of relevance to this changing scenario: the improvement of production practices, the impact of climate change, value addition through the strengthening of domestic textile industries, logistics, cotton classification, contract sanctity and, above all, ways in which to promote the demand for cotton. Participants will also receive information on the latest supply and demand trends and on government measures that affect the cotton sector.

The most important factor in the international cotton market in recent years has been massive market intervention by China, the world's largest cotton producing and consuming country. Although intended to provide support to domestic growers, this intervention has had important impacts that transcend national frontiers and affect all those whose livelihoods depend on cotton. These effects are manifestations of the Law of Unintended Consequences; in other words, the idea that intervention in a complex system tends to create unanticipated, and often undesirable, outcomes.

In a very narrow sense, this policy accomplished its objective: the price of cotton has remained consistently high for the last five years. So, growers in general, and especially those in China, have benefited. A further advantage has been a dampening of the volatility of cotton prices, which caused turmoil in the world market from 2010 to 2011. However, these benefits are outweighed by unintended negative consequences.

First, as a consequence of artificially high prices, we are now in the fifth consecutive season in which output exceeds consumption.

Second, as a result of the inability of the market to absorb high production, world cotton stocks have risen sharply. At the end of the 2013/14 season, stocks exceeded 20.5 million tons and the world stock-to-use ratio was 0.88. Reserves are now available to cover more than ten months of world cotton consumption, the highest proportion since 1945/46.

We have now entered a time of transition, as China has announced a move to a system of direct subsidies, although details of how new support measures will function continue to emerge on an almost daily basis. Predictably, prices are falling and the temptation for more widespread market intervention to defend prices to growers in other countries is on the rise. Whatever short-term relief such measures may bring, in the longer run they delay adjustments to a changed market environment and cause even greater pain. In this regard, the ICAC's annual report on "Production and Trade Policies Affecting the Cotton Industry" provides members with invaluable and objective information for evaluating the role of public assistance to the cotton sector and making informed policy decisions.

The third, and most important, unintended consequence of the recent period of artificial support for prices is a decline in the competitiveness of cotton vis-à-vis other fibers. As a result, overall consumption of cotton remains below the level registered in 2010-11.

Although many consumers value cotton for its sensory appeal, we cannot take for granted that

their support will persist. Therefore, one of our main concerns must be to continue and expand promotional efforts that build a positive image of cotton among consumers. The ICAC will carry on working with the International Forum for Cotton Promotion (IFCP) to raise awareness among member governments about existing promotion initiatives, to collaborate with national associations and to encourage increased consumer demand for cotton through domestically focused and domestically funded national cotton demand enhancement programs that can be implemented and replicated around the world. Demand promotion and how ICAC member governments can support these efforts will play a prominent role in the Plenary.

Increasing Yields

Increasing yields is an imperative of modern agriculture, given the competition among crops, limited amount of arable land and concerns about sustainability. Cotton yields have shown impressive progress in the last sixty years but progress in recent years has slowed. Since 2004/05, cotton yields have remained essentially unchanged. This stagnation can be overcome by the introduction of new technology and better use of existing production methods. New technologies, including new varieties, are being developed, but their widespread diffusion requires time. Meanwhile, much can be accomplished by optimizing the use of inputs, which is the theme of this year's Technical Seminar. Previous heavy reliance on input applications, especially fertilizer and pesticides, must be reduced in favor of optimizing input use and understanding interactions among inputs.

Sustainability

Awareness of the need for sustainable practices throughout agricultural value chains has grown in the past two decades. The ICAC established its Expert Panel on the Social Environmental and Economic Performance of Cotton Production (SEEP) to collect and review independent, science-based information on the social, environmental and economic aspects of global cotton production, as well as to make recommendations to improve the performance of the cotton sector. In 2013, the SEEP released the executive summary of a

report on "Measuring sustainability in cotton farming systems: Towards a guidance framework", which provides an overview of sustainability issues in cotton and evaluates indicators used to measure sustainability. This report has been refined during the current year, so as to provide an agreed set of indicators for the definition and measurement of "sustainable" cotton production.

Involving the Private Sector

Governments used to intervene heavily in agriculture, a sector that is traditionally associated with public goods and large numbers of small-scale farmers who are seen as dependent on assistance from the state. However, the role of the private sector has grown in the wake of economic liberalization. In recognition of the importance of integrating the private sector in the work of the ICAC, the Private Sector Advisory Panel (PSAP) was formed in 1999 to provide advice on issues of practical relevance to cotton. Over the years, the PSAP has provided valuable advice to the ICAC, especially in issues linked to the reduction of "trade friction", i.e. improving the efficiency of the cotton trade. For example, the PSAP is currently studying ways in which to ensure that courier services do not treat samples of cotton as hazardous cargo.

Another way to reduce "trade friction" is to reduce the subjective elements involved in the commercialization of cotton, especially with regard to quality. Substantial progress has been made in using standardized instrument testing in place of grades and types, and the objective measurement of quality enhances efficiency and lowers costs. To help achieve this objective, the ICAC established the Task Force on Commercial Standardization of Instrument Testing of Cotton (CSITC) in 2003. This body was tasked with developing mechanisms to standardize High Volume Instrument (HVI) results on an international basis, so as to create a level playing field and raise the confidence of the cotton industry in the reliability of test results. The results of the work of the CSITC show a marked improvement in the comparability of results among HVI laboratories, which gives users of standardized tests confidence in their consistency.

The most contentious issue facing the cotton trade in the recent past has been contract sanctity. The increased volatility of cotton prices during the 2010/11 season led to serious disruption in normal trade flows due to increased defaults. Volatility and, consequently, defaults have decreased since then, primarily as a result of the Chinese reserve policy, which has maintained prices at an artificially high level and dampened price swings. As China implements its new cotton policy, risks linked to volatility are likely to reemerge. Therefore, in order to draw attention of ICAC members to the systemic risks involved and the role governments can play in enforcing arbitral awards, a session on contract sanctity has been included in the program of the 73rd Plenary.

Task Force on Cotton Identity Programs

The Task Force on Cotton Identity Programs was established in 2012 with the objective of providing information on: the goals of identity cotton production initiatives and their performance; the cost and benefits for participants; the challenges faced by each initiative; and how the initiatives are financed. The first report of the TFCIP was issued last year and was an important step in bringing together information on a variety of programs. I look forward to receiving the second edition of the Task Force's report during the 73rd Plenary, which will include more detailed information as well as an expanded coverage.

The ICAC: A Unique Instrument for International Collaboration

In conclusion, the ICAC continues to perform a unique function in the world economy by helping governments to create an enabling environment for cotton in challenging times. The capacity to adapt to the changing needs of its membership and of the world cotton sector demonstrates the power of the ICAC as a tool not only for decision-makers in government, the organization's primary stakeholders, but also for non-governmental organizations, trade associations, the private sector, and all those with an interest in cotton.




















KHOYOUTMARKETING

THE BEST EGYPTIAN COTTON

MODERN NILE COTTON
68 Gameat Al Dowal Al Arabia street
Al Mohandessin - Giza 12311 - Egypt
Tel: +20 2 3336 1516
Fax: +20 2 3336 1481
Email: info@modernnile.com

BCI: The Road to Achieving Scale and Impact

Patrick Laine, CEO, Better Cotton Initiative

Core Principles

The visionary founders of the Better Cotton Initiative (BCI) had a mission: make the growing of cotton better for the people who produce it, better for the environment, and better for the sector's future. That noble mission had to confront a stark reality. How do you achieve scale and impact with a new initiative in a world where there are already more than 450 responsible sourcing initiatives/ eco labels of varying nature and quality?

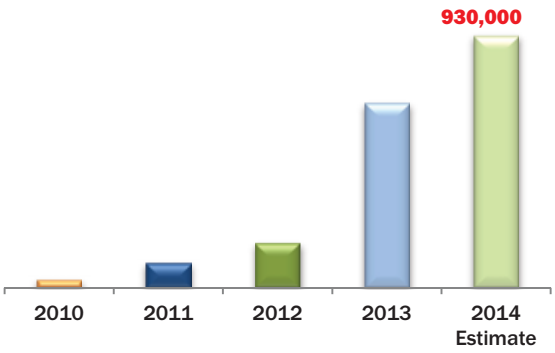
The founders realised that, if they were to be successful, they needed to adopt some core principles and practices that would lead to widespread adoption of the program. Firstly, the initiative would have to be multi-stakeholder in nature, i.e., neither a trade association marketing program nor an environmental activist campaign. Today's Board (the BCI Council) includes brands and retailers, NGOs, farmer producer groups, and merchants/suppliers/manufacturers, as well as external independent specialists. Building consensus within this group of varying interests is often challenging, but the end result carries a legitimacy that others can only aspire to.

The initiative would also need to structure every aspect of participation in such a way as to be appropriate for mainstream adoption by the large mass of cotton producers around the globe. This nice-sounding principle has profound implications for the policies and practices of BCI. For example, commodity certification programs typically set lofty objectives that are often very difficult, costly or time consuming to comply with by mainstream producers. Thus, the BCI program is NOT a certification standard. Instead, BCI requires compliance with some basic, fundamental principles of environmental stewardship and Decent Work, but the core of the initiative is a structured, verifiable, continuous improvement program. The continuous improvement priorities are selected by the local producers themselves, so as to be directly relevant to their local context. BCI provides the framework, verification, and reporting structure necessary to ensure credibility.

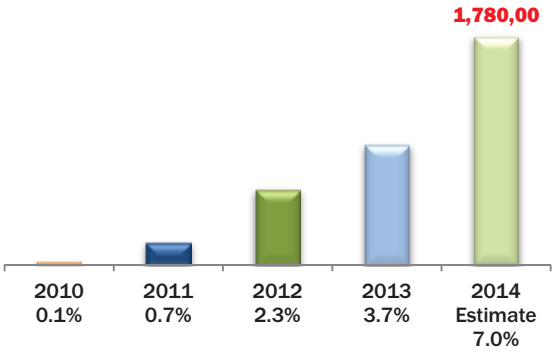
The requirement to be 'mainstream' also led to a focus on productivity as the business case driving improvement, rather than price premiums. Accordingly, farmers adopt practices that reduce/ optimize the use of costly synthetic inputs, while at the same time enhancing yield. The incentive for farmers to participate is self-evident: lower costs, higher yield, more profit. The cost of training the farmers is incurred at the very end of the value chain by the brands and retailers (to avoid incurring unjustified cost escalation in the intermediate supply chain). Brands and retailers are willing to pay for this (with generous match funding received from numerous foundations and development agencies who support BCI) because it provides them additional supply chain security, reduces reputation risk, strengthens their license to operate in difficult market contexts, and makes their employees proud of their products and company.

Another core principle of the initiative is recognition of other responsible production programs wherever this can be done with credibility and legitimacy, rather than duplicating or competing with existing standards. This is accomplished by 'benchmarking' the Better Cotton Standard System against the local standard to identify any gaps, and then establishing a process to address those gaps. This methodology has enabled BCI to recognise other standards around the globe as being equivalent. These include Cotton made in Africa, myBMP in Australia, and ABR in Brazil.

Number of Farmers Engaged



MT Better Cotton Lint Produced



% share of global production

How are we doing?

Cotton produced to the BCI recognised Standard is now grown in 15 countries around the globe. As seen in the charts above, it is starting to affect the well-being of a large number of people, and is beginning to attract the attention of industry leaders throughout the value chain, as well as government-sponsored agricultural programs.

BCI's 'Impact'

In the field of development and environmental science, it is important to use the word 'impact' with great care. For example, if a farmer earns 20% more income due to better crop yields and reduced cost of inputs, can we say that the program has had a favourable 'impact' on his well-being? Not necessarily. What if he uses his increased income to purchase alcohol?

To speak of 'impact' of a program, a rigorous scientific analysis must be completed by experts trained to measure and quantify the benefits and disadvantages of interventions. It usually takes 3-5 years of data collection to provide the necessary degree of confidence in the statistical analysis.

Thus, BCI does not (yet) speak of 'impact', but rather of 'results'. We can say with confidence (for example) that X farmers in Region A used 30% less pesticides than a comparison group of farmers in the same region who were not using our methodology. Reputable independent bodies have studied our 'results' and concluded that they indeed reflect reality in the field, and that they are of sufficient depth and granularity to allow for reliable 'impact assessments' to be conducted in the relatively near future.

Photo courtesy of BCI

Although we are confident that people and planet are much better off due to the Better Cotton Initiative, we will say so in muted, factual terms until scientifically-conducted impact assessments allow us to shout it from the rooftops.

BCI 'Results' 2012-2013

Example statistic taken from the chart below: Farmers in India in 2013 adopting the Better Cotton Standard System achieved 18% greater yield than control groups of Indian farmers not using the BCI methodology.

2013 BCI farmer results v comparison groups

	India	Pakistan	Mali	China	Turkey
Yield	↑ 18%	↑ 15%	↑ 8%	↑ 11%	→ -1%
Water	↓ 14%	↓ 14%	Rain-Fed	↓ 23%	—
Pesticides	↓ 23%	↓ 24%	↓ 55%	↓ 10%	↓ 9%
Synthetic Fertilizers	↓ 28%	↓ 17%	→ -2%	→ -1%	↓ 18%
Organic Fertilizers	↑ 22%	↑ 85%	↑ 46%	↑ 42%	—
Profits	↑ 44%	↑ 42%	↑ 14%	↑ 37%	→ +2%

New Developments

In 2014, BCI established a presence in the USA. We are doing this for two reasons. It is essential to the success of the program that brands and retailers become members and specify Better Cotton when procuring from their supply chains. An ambitious program has been launched to invite new brands to join existing American members such as Levi Strauss & Co., VF Group, Carter's, Walmart, and Nike among others.

We are also piloting a farm level program in the USA, with a view to better understanding what processes, reporting and metrics are already in place across the various cotton-producing states. This may be surprising, as many would acknowledge that American farmers are among the most responsible and most productive on the planet. That said, BCI is above all a continuous improvement program, and even the best benefit from a disciplined, verifiable framework to document progress. BCI can provide this service very cost effectively. Of equal importance is the opportunity that engaging with American farmers will provide to share learnings, best practices, and governance and reporting models with other producers around the world. BCI looks forward to facilitating these exchanges for the benefit of the global cotton industry.

Another key development for BCI in 2014 was recognition by ISEAL, the international sustainability standards oversight association, whose Credibility Principles and Codes of Good Practice provide external assurance of the credibility of BCI's processes.

Challenge

Cotton is currently produced in accordance with the BCI production system in 15 countries. BCI has received requests from producer groups, government agencies, or global brands to launch the program in another 20 countries. This presents an obvious cost and capacity challenge that our Council must consider. A rigorous methodology has been developed to guide entrance into new territories while minimizing the risk of diluting our effectiveness where we are already established.

Where is this leading to?

It may surprise some readers, but BCI's objective is not to convert the world's farmers into advocates of organic farming. As stated above, BCI is a mainstream program whose primary objective is rigorously applied continuous improvement from practices currently being used. We will supply farmers with the knowledge they need to make informed decisions about use of pesticides, IPM, resistance management, water stewardship, habitat protection, measures to improve the quality of their cotton, Decent Work practices, etc. If that path of continuous improvement leads them in the direction of organic production, fine. If their preference is in the direction of biotechnology, we will provide them the tools they need to do this in a manner that is beneficial to planet and people.

Thus, our objective is not to promote one system of farming over another. Instead, our ultimate measure of success is the number of governments, national trade associations or national producer groups who see value and benefit in our methodology, and adopt this program as their national standard in cotton production. That is our exit strategy.

There is already movement in this direction. We were delighted when IAM, the cotton oversight agency of the government of Mozambique, adopted the BCI Standard and embedded it in their national agriculture policy. Likewise, we signed an agreement in 2014 with a large industry association in Turkey (IPUD) to establish the BCI Standard as their core production standard. Initiatives in Pakistan, India and China along these same lines are in early stages of implementation. If this can occur on a global scale, we will then be out of a job. That will be our ultimate measure of success.

Photo courtesy of BCI

Polyester Fibre Trends 2013-14 and Impacts on Cotton

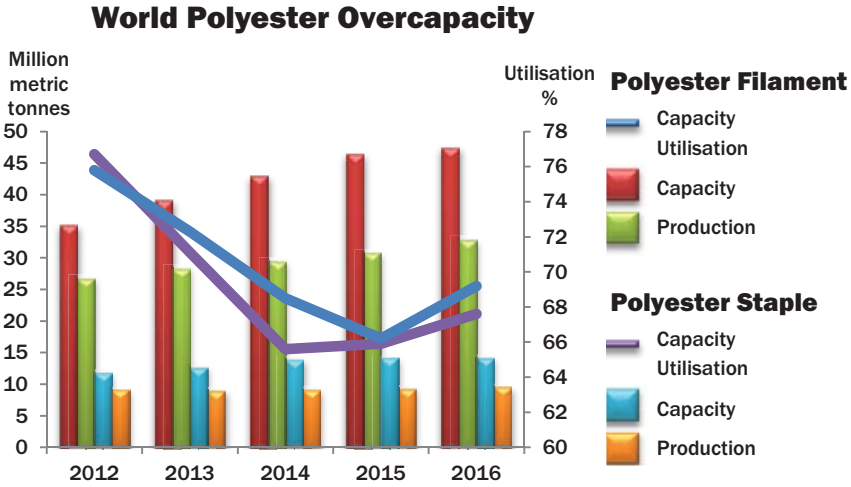
Darrel Collier,
Business Manager, Synthetic Fibres & Intermediates, Tecnon Orbichem

In 2013, global polyester filament production increased by an estimated 8%, modestly below 2012's above-trend growth of 8.9%, but in line with average growth for the last five years. Polyester staple production increases were more modest, registering 2% growth in 2013 as compared to five-year historical growth trends of 5-6%.

This below trend production growth for 2013 is similar to 2012's increase, and is further quantitative evidence of important textile industry changes in play over the last few years. Fabric processing trends are favouring use of filament products as opposed to spun yarns due to costs, fashion trends and advancing technology. In a few sectors, including the carpet industry, increasing use of polyester filament is not impacting cotton consumption because polyester filament is gaining share from other synthetic fibres including polyamide and polypropylene filament, as well as other spun yarn carpet face-fibres including polyester staple. In others, primarily the activewear sector, gains in polyester filament have impacted cotton as well as polyester staple demand, with substitution widely evident in athletic innerwear and golfing markets.

Other global themes for production and consumption of polyester fibres, both staple and filament, varied little from trends established in the last 3-4 years. The dominant theme for polyester fibre continues to be overcapacity. *Tecnon Orbichem* projects that overcapacity is approaching its near-term peak in 2014, as global capacity utilisation for filament and staple is expected to be in the mid-60s despite production growth that exceeds all other fibres. An additional 4 million tonnes of polyester fibre capacity, both filament and staple, is expected to start during 2014.

Fig 1.



Source: Tecnon Orbichem

Overcapacity is not just a dominate theme in fibre extrusion; but also in polyester raw materials. During the past 3-4 years, paraxylene (PX) and purified terephthalic acid (PTA) capacities have moved from balanced to significantly oversupplied. In 2014, global capacity utilisation for both PX and PTA will decline to the mid-60s. Although monoethylene glycol (MEG) supply remains relatively balanced, in the near term, plans to exploit shale gas for ethylene production in the US is likely to lead to oversupply of MEG by 2016/17.

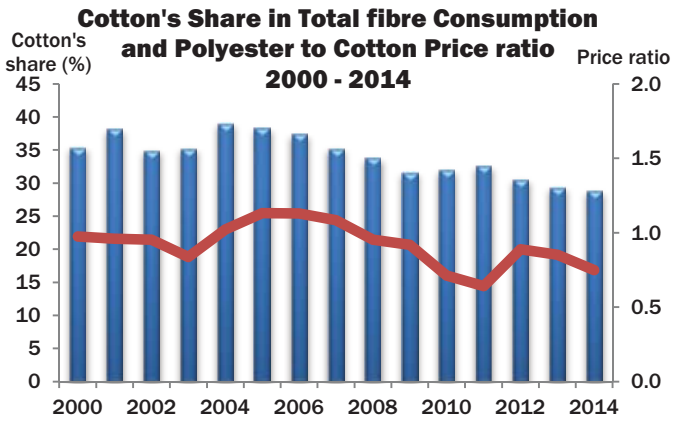
In 2014, polyester overcapacity has effectively removed most, at times all, margin in every step of

the polyester chain. Thin margins are changing how fibre pricing responds to market conditions. Historically, polyester fibre pricing was influenced by market conditions, with cotton pricing having an important impact, in addition to changes in raw material costs. As recently as the cotton price spike in 2010/11, polyester staple prices responded with significant increases, despite limited raw material influence at the time, due to expectations of increasing staple demand and tightening supply.

However, since 2010/11, polyester fibre capacity utilisation has dropped nearly 15 points and is currently in the mid-60s (Figure 1). Excess capacity effectively minimizes market influences in polyester pricing. This means that future cotton price fluctuations, both up and down, will likely have less impact on polyester fibre pricing. Polyester pricing will almost entirely be dictated by raw material movements, principally oil pricing, as PX, PTA and MEG overcapacity minimizes market influences for those products in a similar fashion as fibres.

Although one can speculate on future oil price trends, range-bound $100/bbl pricing has resulted in Chinese polyester staple pricing, the dominant global product, in the low-70s cents per lb range. Polyester staple pricing at this level will require cotton prices to consistently remain in the 60-70 cents per lb range for an extended period, before retailers and brand houses will move to "cotton-rich" products based on their experiences with volatile cotton pricing of the last few years. Even consistently low cotton pricing may not yield cotton substitution for polyester based on recent experience. Although cotton and polyester pricing were essentially the same during 2005 through 2008, cotton's share of total fibre consumption continued to decline (see Figure 2).

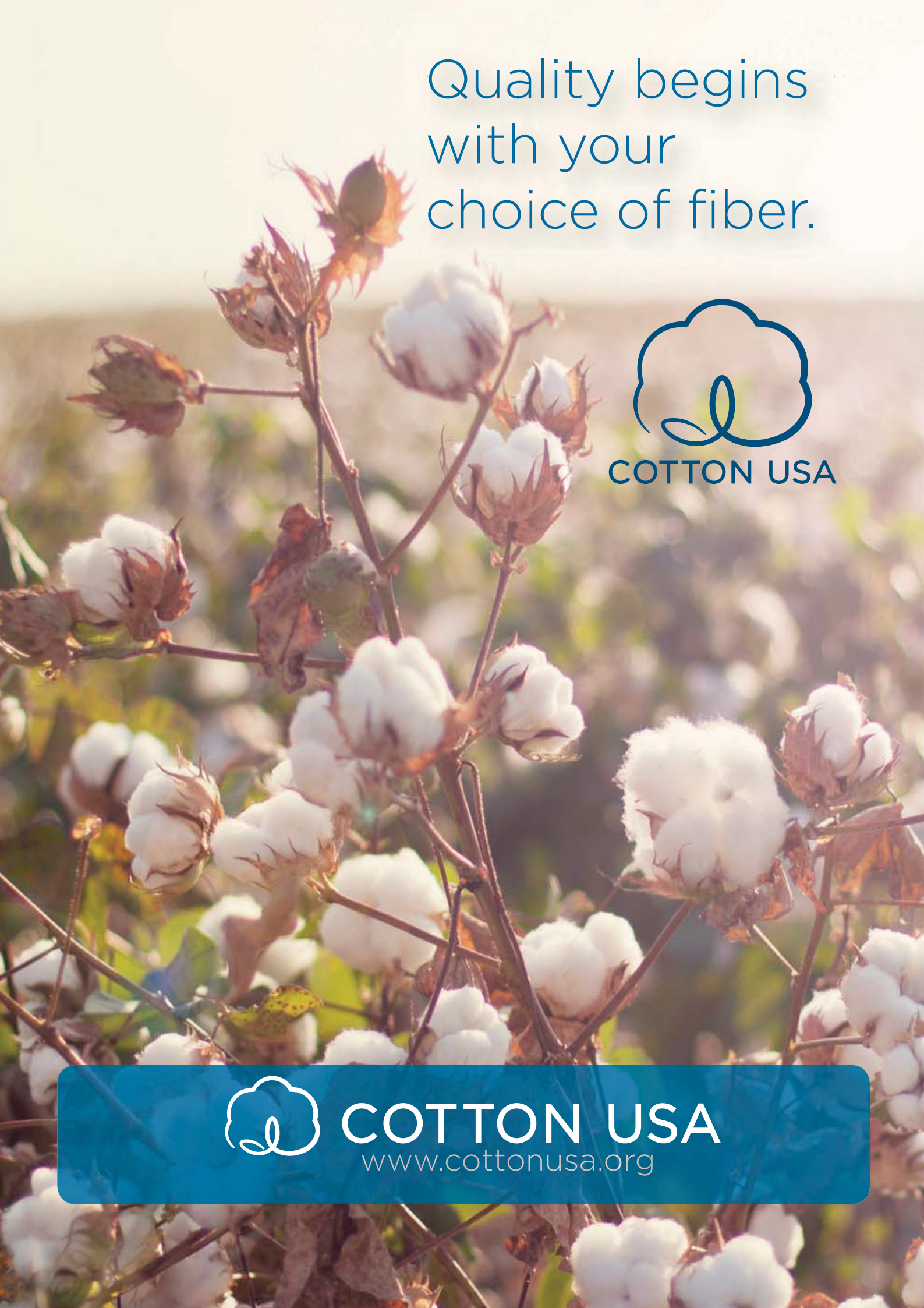
Fig 2.



Source: Tecnon Orbichem

Although consistently lower cotton pricing will likely lead to modest increases in consumption over time at current oil prices, a potentially greater cotton consumption impact will occur if crude oil prices change significantly. Obviously, this could benefit cotton demand, if geopolitical events cause a spike in crude oil, and the reverse if oil prices decline.

In addition to watching oil prices, it will be important for cotton market participants to follow future textile development trends favouring filament product substitution for spun yarns.


Quality begins
with your
choice of fiber.
COTTON USA
COTTON USA
www.cottonusa.org

I'm the high-tech engineer behind the world's most luxurious fibers.

The stronger, longer fibers of Certified FiberMax Cotton® are the secret behind some of the softest, most comfortable fabrics on the market. Consumers love its feel and durability. Mills love its exceptional spinning characteristics and superior consistency of low neps, long and strong fiber. You know you can count on Certified FiberMax Cotton because you can trace its quality right back to my fields. I'm Max McGuire and I'm proud of my Certified FiberMax Cotton.

From Seed to Shelf
Visit **FiberMaxCotton.com** for more information.

Bayer CropScience