Cotton Outlook

Special Feature

October 2015


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ICA in San Francisco

Cotton Outlook is delighted once again to support the International Cotton Association by producing this Special Feature for the benefit of delegates attending the Annual Event in San Francisco.

Our contributors to this event include the current leadership of the Association. Congratulations are due to the retiring president, Jordan Lea, on a successful year in office and best wishes extended to his successor, the incoming president, Jean-Marc Derossis. Jordan comments in his article on some of the achievements of the ICA during the past year but focuses more on the challenges, and the need for a united industry in facing those challenges, in the period ahead. Jean-Marc discusses the Association in the context of developments in the industry in recent years and the organisation's vision of ensuring a safer trading environment. Kai Hughes, the Association's managing director, takes this further by dwelling on the Association's leadership role in tackling existing issues and taking on new challenges, highlighting, in the latter context, initiatives in regard to mutual insurance, industry training and the traceability of cotton.

Traceability will become an increasing imperative, according to BCI's Ruchira Joshi, who looks at the subject partly through her own personal experience and draws some interesting conclusions as to where BCI (and the cotton industry in general) is headed.

Gary Adams, from the US National Cotton Council, touches on the US and Australian experience of working together to promote responsible cotton production and the collaborative approach to 'continuous improvement'.

A new departure for the cotton trade will be the launch, immediately following the San Francisco meeting, of ICE's new futures contract. For the benefit of our readers, Ben Jackson, the company's president gives details of the contract's development and outlines the key differences between it and the existing No. 2 contract.

If aspirations regarding the new contract are met, the formation of shippers' offers to mills may take on a different hue, in future. Cotton Outlook will strive to ensure that any such change is taken into account by the Cotlook A Index, a world price barometer which next year will have been in existence for fifty years. This is not quite as impressive as the International Cotton Association celebrating its 175th Anniversary, but the decision of the Association to return to Liverpool for next year's annual event is, in our view, doubly appropriate.

Over the lifetime of the Index, patterns of trade in raw cotton have changed dramatically, and more such change is afoot, as a result of the vicissitudes in China's economy, together with government policies that impact the market. Cotton Outlook's discussion of these issues notes the resultant downward trend in world trade.

Bill May, President and CEO of ACSA, takes this theme a little further, by discussing how the industry's emerging leadership must strive to tackle today's obvious challenges but in so doing must draw on experiences from the past.

Finally, Cotton Outlook is delighted to have been able interview the Keer Group in regard to its decision to invest in cotton spinning in the United States, bringing new employment to a traditional cotton spinning region and reintroducing skills that had previously been lost.

We hope our readers find interesting comments, observations and facts in this publication. Thanks go, of course, to our contributors for their sterling efforts.

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Facing Up to Challenges

Jordan Lea, President,
International Cotton Association

As the end of a rewarding year as International Cotton Association (ICA) President comes to a close, some things seem obvious. We, as an industry, need more of some things and less of others. We need more demand for cotton and cotton products and less government intervention. We need to listen to our yarn spinning customers more and talk less. We also need for them to listen to and understand us as cotton traders. We need to learn more about the issues facing retailers and other downstream participants and we need to convince them to buy less products produced from man-made fibers. Cotton has a great story to tell and that story needs to be told more, not less. It should go without saying that we need more contract sanctity and less contract defaults. We need to see more trade with those that do not default and less trade with those that do. Lastly, we need to see existing arbitration awards taken up and honored more which would reduce the ICA List of Unfilled Awards.

Having had the opportunity to attend many conferences and to visit many of the countries where most of the world's cotton is both being produced and consumed, one thing is abundantly clear. Business is tough all over. Rainy days are here. Call it what you want, but current market conditions pale in comparison to the last few years. The world has produced more cotton than it has consumed for half of a decade now and it has finally caught up with us. The world's two largest producers and consumers, China and India, have either built up strategic reserves, kept cotton off of the market, created artificial demand with minimum support prices or all of the above. The net impact has been an extended period of strong prices that encouraged increased but likely unnecessary cotton production. Add in Brazil's decade long witch hunt of the US's cotton program, which has led to a dramatically different farm bill, as well as Turkey's anti-dumping investigation of US cotton exporters, and it is clearly obvious that we need less government and more free enterprise.

The build-up in ending stocks masked what is now very apparent. Cotton has a market share problem. Price stability, increases in polyester production capacity, advances in product development and favorable sentiments from retailers and especially consumers towards man-made fibers have caused our market share to drop below 30%. Total fiber consumption has exploded but cotton consumption has basically been flat. At the 2007 CCI Sourcing Summit, when consumption was approaching 125 million bales, a survey of all attendees had cotton consumption in 2020 at a currently impossible to imagine 150 million bales; nowhere near the anemic 115 million bales where we are now. Now is the time to work together and as the entire industry to promote cotton's positives at every level. Large cotton producing nations like China, India, Brazil and Pakistan need to join countries such as Australia and the USA in promoting cotton consumption. Cotton creates prosperity and jobs from field to fabric around the world and in an increasingly responsible fashion. Organizations and efforts such as BCI, Cotton Leads and Cotton Made in Africa are working to tell one very important side of the story while others like Cotton Incorporated and Cotton Council international are working to tell the whole story and promote our best interests. All of us should be bound to make sure that all know our story and not just a few; we need to all pitch in to further the efforts of the abovementioned organizations as well as the efforts of those I left out or failed to mention.

This last year I had the privilege to spend plenty of days, nights and everything in between visiting with spinners in Pakistan, India, Bangladesh, China, Taiwan, the USA, at various ITMF conferences and in other markets as well. Safe to say, it is very apparent that we can do more to communicate amongst ourselves about issues facing our own companies and industry. We all have grievances with one another and no one group whether it be traders, ginners or spinners is solely to blame. Given our troubled time in this industry, now is the opportunity to seek accommodation, mediation or, if necessary, arbitration. No matter what, differences of opinion must be explored and settled before they become a dispute that has no resolution. The International Cotton Association (ICA) exists to help all parties, member or not, though I have to say that, given the advantages of ICA membership, there is no reason not to join. We offer the Cotton Course in Liverpool annually during April. Furthermore the ICA is taking risk management modules, as well as modules on ICA rules, to various markets this year as well as in years past. We will of course continue to do so in the future, and offer agent training and other beneficial programs for the industry as a whole. It has never been more important than it is now though to know your spinner, know your agent, know your supplier and know your customer. Trade with ICA mem-

American Cotton Shippers Association

American Cotton Shippers Association

International Cotton Institute | June 1, 2016 - July 15, 2016

Memphis, Tennessee and cotton are synonymous. Their interwoven, rich history, booming cotton business and an ever-present need for educational opportunities in all aspects of the global cotton industry are the impetus behind the International Cotton Institute.

The ACSA International Cotton Institute at the Fogelman Executive Conference Center & Hotel is a seven-week residential program designed to provide a basic education in all aspects of the cotton industry and the international business environment for men and women worldwide. From field to fabric, to manual classing and the use of HVI data, through risk management and the basics of price protection, the program offers an in depth look at cotton from virtually every perspective.

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bers that are in good standing and protect yourself, your business and your downstream customer. Trading with fellow members ensures contract sanctity, performance and professionalism. It is easy to see that there is too much trading and too much consumption that remains 'outside of the tent'. We all need to make sure that we are in one room and at one table while working together to provide a mutually beneficial environment for all.

In the days after our annual ICA Dinner in San Francisco during October, one of many examples of what this industry can accomplish will come to fruition. The Intercontinental Exchange (the ICE) will list, for the first time, a World Cotton Contract that is settled by delivery (as opposed to cash). The current eligible growths of cotton will include Australian, Brazilian, Indian, West African and US. There will be various delivery points around the world both at the point of production and near the point of consumption. It will be listed in addition to the current # 2 contract that allows for delivery of US cotton at US delivery points such as Dallas, Memphis and my hometown, Greenville, SC. The ICA has a World Cotton Contract Committee that has worked diligently over the last couple of years with the ICE to get here and they deserve our gratitude. A presentation from ICE representatives will take place during the ICA meeting in San Francisco about the new contract and how it will be linked with the current contract.

Over and above the presentation from the ICE, there will be a full slate of relevant and informative presentations in the days leading up to the Annual Dinner. Attendees have requested broader offerings and the ICA has listened. There will be a world renowned economist and hedge fund manager speaking about the world economy, a market information expert from Cotton Incorporated speaking on consumer behavior, a meteorologist will explain what can and might happen to cotton production around the world as climate change occurs and the founder of one of America's most innovative all cotton brands, American Giant, will be on hand to tell us how he gets his product to market. Kai Hughes and others from the ICA will also be there to update the industry on various ICA initiatives.

Commodity industries never seem to be faced with the same challenges twice. Each and every time it is something new and different and possibly larger and more difficult than a previous set of issues. The issues of today can and will be solved; we have no choice. As has previously been the case, our livelihood depends on it. Cotton has made it through too much of many things and too little of others. We have endured market meltdowns such as 2008, national and international recessions followed by periods of extreme price volatility. And that is just the last few years. Let us come together once again as an industry, working together more, and against one another less, to ensure a prosperous future for all involved that want, and are willing, to play by our rules and honor the ICA way of doing things. With any luck this will be the last all of you hear from me in a forum such as this for a long time. It has been an honor and a privilege to serve this industry and all of you. Thank you for the opportunity.

The Importance of the ICA to Buyers and Sellers of Raw Cotton

Jean-Marc Derossis, First Vice President,
International Cotton Association

Today's cotton industry owes a lot to the International Cotton Association in ensuring an orderly trade, one that is not perfect, but not the sort of Wild West we are seeing downstream in the cotton supply chain either. It is a testament to the early understanding by our forefathers that there is no long term future for an industry without fair rules or the ability to have a sustainable business if one commits to hundreds of millions of dollars of business without knowing with some certainty that contract performance will ensue.

Over the course of its 174 years' History, the ICA and its forebears the Liverpool Brokers Association and the Liverpool Cotton Association have continuously strived to ensure their relevance in the face of a fast evolving cotton market. Regretfully, most of the progress tends to be made in adversity, i.e. when volatility is high and defaults ripe, rather than in range bound markets when everybody tends to honour their commitments.

The cotton market has been remarkably un-volatile in the past 12 months, leading to a fall in arbitrations to all-time lows. This couldn't contrast more with the difficult period in 2011 and 2012 when, over a period of 24 months, the Association had to cope with close to 500 cases, not to mention a huge number of appeals in the aftermath.

At the time, producers, merchants and spinners were reeling from probably the most volatile times ever witnessed by the cotton market, with futures contracts moving from 75 cents to 220 and back to 90 in a period of 12 months, and unprecedented basis movements too. Such volatility was always going to cause some sort of commotion, with spinners having to fix on-call sales at the top of the market, some having extended their coverage well beyond their normal buying pattern with fixed-price purchases and ginners having sold before they could cover their seed-cotton purchases, becoming de facto short in a ferocious bull market.

All this "irrational exuberance", be it on the producer, spinner or merchant's side, should never be forgotten, because it is not good enough to pile on the trades hoping for the best or putting other counterparties in a position where, should the market turn the wrong way, they simply won't be able to fulfil their obligations, be it a question of life or death, or straight dishonesty. Responsible business behaviour and good risk management don't start with the ICA, whether we like it or not, they lie solely with those who enter into the trade.

When the party came to an abrupt end and cotton prices came crashing down, the results didn't disappoint: a combination of over-commitments due to a fear of running out of cotton together with mighty price differences had left hundreds of millions of US dollars market difference hanging in the balance and this is when we saw the best and the worst of business behaviours.

Despite the market differences at stake, running into the tens of millions of US dollars in certain cases, those, and I am glad to say it is the majority, who performed their obligations seem to be doing well today. They took the long-term view and find themselves able to buy or sell cotton forward at competitive rates because the market knows they are 100% reliable.

Those who reneged on their obligations are not only on the ICA Default List, they are also not able to be BCI certified and they do find it difficult to buy cotton at market going rates.

Whilst the ICA cannot prevent market volatility, nor bad business behaviour, it has a number of tools and assets to ensure any commercial dispute is judged fairly, and we have made constant efforts, thanks to the relentless work of our Committees and Board, to adapt to today's market realities, in various directions:

- we have continuously improved our Rules to reflect an increasingly international trade and changes in various areas of our market
- we have strengthened our arbitral system by ensuring both arbitrators and Tribunal chairmen are extensively trained, to ensure speedy and solid arbitrations awards that will be more easily enforced
- we have strived to make the Membership as diverse as possible, including producers, merchants, spinners and various other participants in the cotton trade within committees and within our Board

Mediation is now available both pre and post arbitration, which is another tool to try and solve contractual disputes.

Our joint-venture, ICA Bremen, ensures we are also at the forefront on the quality side, with traceability projects that might feed into ensuring a default-free supply chain.

We rely on a cornerstone of our rules, the invoicing back principle, to ensure that the system is fair to everybody, by putting both parties in the same position as if the contract had been performed.

But wherever I go, I hear the same complaints from those who always perform their contracts:

- The unfairness for those who honoured their commitment of seeing their competitors who defaulted continue to operate because they "made" millions of dollars not performing their contractual obligations
- The difficulty of enforcing awards in a number of jurisdictions, despite their signing the New York Convention
- The unfairness of seeing that most of those who defaulted are still buying cotton, sometimes from Members of the ICA.

To make our trade even safer, we as an industry must ensure that the pain not to perform is too high to be even contemplated. To achieve this goal means working in several directions:

- The ICA, conscious that issuing awards is not the end of the journey but rather the start of it, has formed Enforcement Groups that are working with local lawyers to find the best path and practices to enforce awards in specific countries. Whilst this is a long-term process, it will only take one success and a few assets seized to make others think twice about being on the Default List
- The ICA has worked closely with BCI, who have a representative on our Board, to ensure that our industry challenges are understood throughout the supply chain, with the result that nobody who is on the ICA Default List can be BCI certified. There is much that still needs to be done to engage the retailers in our battle so that sustainability does not apply only to cotton growing but to trading practices too. We cannot afford another 2010/11 season.
- Our Business Intelligence Team is working hard to prevent Defaulters from using sister companies to buy their cotton requirements. It is also taking a closer eye on who supplies defaulters.

Ultimately, the ICA has a clear vision of what needs to be achieved to ensure a safer Trading Environment. This vision is the result of the discussions, needs and experiences of its Members, its Board and its Officers. The ICA cannot accept that its efforts be undermined by a tiny minority which needs the "Club" Membership to have some sort of respectability, but doesn't play by its Rules. This is a very dangerous game that negates all the efforts we as an Association have made over the course of many years to ensure a safe trading environment.

Only by abiding to our core principles in sunny days as much as in rainy days can we give ourselves the best chances that the ICA will remain a deterrent to the risk of default and ensure that we go through the next period of heightened volatility in better shape than last time.

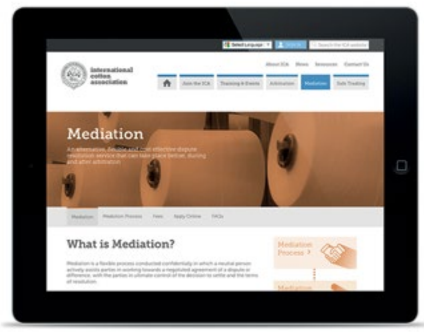
ICA Leading Change

Kai Hughes, Managing Director,
International Cotton Association

One of the challenges for an organisation that calls itself *"the leading cotton association for the global raw cotton trade"* is that it has to live up to that aspiration. It has to LEAD, not just by being at the forefront of finding innovative solutions to today's industry problems, but also in taking difficult and sometimes unpopular decisions - decisions that mitigate reputational damage and enable the association to continue to grow and meet the needs of its members. The alternative is stagnation or at worst decline, with an organisation run by the few to meet the needs of the few.

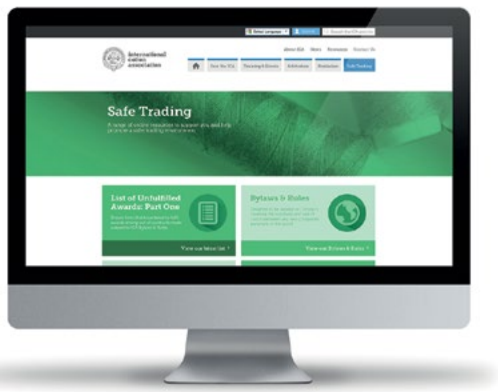
There are two problems that consistently challenge the ICA - the 'default list' and the enforcement of ICA awards. Once again, we are leading the way in tackling these issues by utilising new technology and launching a brand new insurance product.

The ICA Business Intelligence Team has become more and more sophisticated in its intelligence gathering to expose 'shell' companies and firms that are trading with defaulters. The practice still continues, even amongst a small minority of ICA members, so we have more work to do in this area. We are currently exploring how we can use the latest advances in information technology to register contracts and settlement agreements to ensure that parties have entered into a contract or settlement agreement in the first place.



Aiding enforcement

To help firms offset the legal costs of enforcing awards, the ICA will be launching its own ICA Mutual Insurance Company (ICAM) at the ICA Trade event in San Francisco. ICAM is the first of its kind amongst commodity associations. Its aim is twofold; to insure arbitrators against any legal actions brought against them and to insure ICAM members against some of the costs of enforcing an award. We believe this new product will give ICA members more confidence and the incentive to try and enforce an award in a difficult jurisdiction if they know they will have access to a panel of lawyers with expertise in enforcing awards and if they are able to recover some, if not all, of their legal costs.



Some years ago the ICA made a bold statement when it announced that one if its strategic aims was to have zero arbitrations by 2020. It began that journey by encouraging firms to mediate problems using an ICA accredited mediator before deciding to go to arbitration. So far this year the ICA has received just 32 applications for arbitration. Sadly, this is not an indication that the industry is now 'safe', rather a reflection of a flat market, but it does raise a very important question for the ICA and its members: *"If we want zero arbitrations, how do we replace this lost income stream?"*

Innovation and enhancement

As an arbitral authority we have to be totally impartial and transparent in all our activities, which must add value to our members and the wider cotton community. This significantly narrows the possible areas where we can develop income streams, but one area in which the ICA has excelled over the last few years is its provision of training and education and we want to build on that success.

We aim to increase the range of 'short courses' we offer and revolutionise the way we deliver them - making them globally accessible to a wider audience via new technology and digital media. Our annual training course, Complete Cotton, is extremely popular and always a sell-out, as are the interactive road-shows on understanding and contracting under the ICA Bylaws & Rules. Both will continue for 2016 and beyond.

New for 2016 is an online certificate and diploma in Commodities Management administered and awarded by the University of Liverpool. Another first in the commodity sector, this new initiative will enable people worldwide to get an academic qualification covering the core competencies required to be a commodities manager. Available on-line, from the comfort of your own home, the training consists of five core modules (with a sixth covering knowledge of a particular commodity). It is an excellent way to enhance your career prospects and obtain a globally recognised qualification from a world class university that boasts nine Nobel Prize winners. The training is due to be launched at the ICA's Annual Trade Event in San Francisco, where more details will be available.

Roadshows in Pakistan

Complete Cotton 2015

Traceability initiative

We often highlight the numerous innovative ideas at the ICA, but one of the best examples of the association showing leadership and developing innovative solutions is its joint venture company with the Bremer Baumwollboerse - ICA Bremen.

Since its creation in 2011 as a centre of excellence for quality testing, research and quality training, ICA Bremen has developed a reputation that is second to none in these areas, resulting in it being selected (along with USDA) as the classing authority under the new World Cotton Contract. Exciting times are ahead for ICA Bremen and the team is currently working on a number of projects at various stages of development that will bring major benefits to the cotton world.

Opening ICA Bremen's new laboratory

The laboratory has undergone a major $500K refurbishment and expansion and is now home to a range of state of the art facilities to match its 'world class' status. Its laboratory certification scheme is just two years old, but it already has three certified laboratories and 25 other laboratories working towards the certification criteria. The standards are undoubtedly high, but they are driving up standards within the industry, as well as confidence in the results obtained, which can only be a good thing. The certified laboratories will also be able to apply to class cotton under the World Cotton Contract.

But it is ICA Bremen's research into the traceability of cotton that is leading the way in finding a quick and easy method that enables retailers and brands to instantly measure the amount of 'marked' cotton in a garment. Working with specialised partners, it is now possible to add a substance to the cotton fibre at the ginning stage and measure the percentage of the marked cotton to a high degree of accuracy in the final garment simply by scanning it. This is something that existing systems are unable to do and is a major step forward. The potential for growers, brands and retailers is huge and will enhance brand opportunities and cut out the need for complex and costly certification systems that need to operate through the complete value chain. Already, a number of potential partners have indicated their interest and willingness to cooperate with ICA Bremen on this research project and it is now hoped that funding can be obtained to conduct trials in field conditions.

This is a great example of how we are taking the lead and working with growers, spinners and merchants to produce innovative solutions that will benefit the whole industry.

Improving governance

To have the foresight and vision to innovate and change requires strong leadership. That is why, as we move forward, the ICA will be placing a lot of emphasis on improving its governance arrangements to ensure that there is more transparency and, more importantly, that the association engages closely and effectively with its growing membership to attract the best candidates to sit on its Board of Directors.

Is Traceability Cotton's Top Priority?

Ruchira Joshi, Programme Director - Demand
Better Cotton Initiative

In mid-September, Marks & Spencer kicked off their new TV ad campaign on UK screens, for the fall-winter season. The theme of the campaign is 'The art of…' with some ads focusing on the art of design, others on the art of comfort and yet others on the art of travel. One of these ads refers to sustainably sourced cotton, which got me thinking about how M&S could make that claim, and the importance of the traceability in cotton and agricultural commodities more generally.

As a consumer, and before I got involved in sustainable commodities sourcing, I was convinced that knowing exactly where the content in my products came from, and altering my consumption choices to content I considered 'good', would have meaningful impact on the lives of those who made that product. As I began to work in the food and beverage sector, and saw some fairly short supply chains, I still maintained the belief that the exact provenance of a product was not only easy to determine, but also necessary to know. After all, a banana was a banana on the tree or in your kitchen, and sugar didn't transform itself too significantly to go from cane to granules.

Then I joined the Better Cotton Initiative in 2010, and understood for the first time, the journey cotton makes from a being a boll on a plant to being in my towels or bed linen. I understood the complexity of the textile supply chain, and I also understood the social, economic and environmental circumstances of producers who cultivated cotton. With cotton production supporting the livelihoods of more than 250 million people worldwide, it became obvious that 'good' was needed at scale. This is why I now view traceability, or the ability to know the provenance of the content in the products we purchase, as a journey.

In the same way as the Better Cotton Standard at field level is based on a theory of continuous improvement, so too I believe that there is no right or wrong point to be at in the journey of traceability, as long as progress is being demonstrated toward a desired goal. In the case of Better Cotton, this goal is certainly to trace physical content in a finished product such as a pair of jeans, for example. But we are not there yet. In fact, the point we are at in our journey toward that goal is not a coincidence, but a deliberate strategic choice driven by a desire to have an impact on the lives of 5 million farmers by 2020.

Sustainable commodities or commodities grown in compliance with a specific standard, such as the Better Cotton Standard, have the ability to transform the lives of producers. In 2015, BCI is projected to reach 1.6 million cotton farmers globally. To build the capacity of this large number of farmers to understand and implement the standard, BCI uses a financing model that is contingent on the procurement of increasing amounts of Better Cotton by our retailer and brand members. Brands in turn are keen to procure increasing amounts so that they can make robust public commitment claims about the volumes they intend to convert to being more sustainable. These two reasons alone behove us to develop a chain of custody system that is credible, but also ensures increasing uptake of Better Cotton. For us, that system is *Mass-Balance*; the ability to replace physical Better Cotton with conventional cotton in equal quantity, in order to ease its flow through the textile supply chain.

BCI could have made the choice to require physical traceability of Better Cotton; requiring that Better Cotton is kept physically segregated from conventional cotton at all points in the chain. This would merely have had the effect of adding cost and effort in the processing of a nascent commodity and stamping down on its uptake, ensuring that it forever remained niche. But most importantly, this would have had the effect of significantly reducing the number of farmers we could have reached. By loosening the controls at this early stage of our development by adopting *Mass-Balance*, we can encourage quick uptake, transitioning naturally into physical traceability. When more than 50% or 70% of what you procure as a textile processor is a more sustainable product, it becomes part of 'business as usual' to understand where it is being used. Segregation is a moot point when all you buy is more responsible cotton.

This does not mean that the model has to be 'one size fits all.' Indeed, where possible, we should encourage a faster movement towards physical traceability of content.

In Brazil, China, Australia and the US, sophisticated and well-funded and managed systems of cotton testing, bale numbering and recording, mean half the battle for content traceability is won. As BCI embarks on the journey to physical traceability of Better Cotton, we will be looking to collaborate with producers in these origins to trace Better Cotton to end product. Equally, we will also be attempting to bring value through our online traceability platform, the Better Cotton Tracer, to those origins where traceability may be more of a challenge.

The speed of BCI's movement toward our goal of physical traceability will be determined by speed of uptake by brands. They can start by setting public targets for procurement of more sustainable cotton such as BCI members Nike, Adidas, Levi's and others have done. They can get CEO buy-in and embed Better Cotton into performance targets for the business and for individuals, such as IKEA has done to achieve its 100% by 2015 goal. And most importantly, they can engage suppliers in new, creative and transparent ways to build the business together, such as BCI member H&M has done.

BCI will do its part. We are working hard to create the supply to feed these chains. We aim to be at 30% of global cotton production as Better Cotton by 2020. We will also do our part by removing any additional costs from our system to make it as easy as possible for your supply chain partners to source and use Better Cotton in your products. But the drive for uptake, physical traceability and content claims must ultimately come from our brand members in order for these things to become a reality.

It is clear that physical traceability of content, even with complex supply chains, will become an increasing imperative. This is demonstrated through the development of the EU's work on Product Environmental Footprinting (PEF) – services towards the development of a harmonised methodology for the calculation of the environmental footprint of products (including carbon) which requires physical traceability, increasing consumer demand, and legislation such as in France where fibre content information is mandatory on textile product labels. However, rather than driving more sustainable cotton into being a niche product simply to assuage our guilty conscience as consumers, we must as stewards of the sector, prioritise the scale of impact we are able to deliver through less stringent forms of traceability. At some point, when Better Cotton is a truly mainstream commodity, representing even more than 30% of cotton production, our desires as consumers and our goals as a movement will coincide. Until that time comes, we must be vigilant in ensuring that we put cotton producers first and you, the industry, must be audacious in your ambition to procure increasing amounts of Better Cotton.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U.S. Cotton: Committed to Continuous Improvement

By Gary Adams, President/CEO,
National Cotton Council of America (NCC) -- the unifying force of the U.S. cotton industry's seven segments

It has been two years since the Australian and U.S. cotton industries initiated Cotton LEADS™. I am happy to report the program is successfully promoting awareness of these two countries' responsible cotton production practices throughout the global cotton textile supply chain. Already supplying about 17 percent of the world's cotton, the United States and Australia obviously would like to provide even more cotton to this supply chain. Both countries know that to compete for market share with other fibers (including man-made) and for world demand for cotton to increase in the long-term -- a large and reliable supply of quality cotton is required. Both countries also acknowledge that proof of responsible production is needed to satisfy many in this supply chain -- leading apparel brands, retailers and manufacturers.

The Cotton LEADS™ program takes the proof of both countries' best practices and makes it known to these cotton end-users. That information, coupled with the U.S. and Australian cotton production sectors' solid track record of and commitment to continuous improvement, is helping Cotton LEADS™ resonate effectively with these retailers, brands and manufacturers.

We have let these supply chain members know that our two countries' continuous improvement in cotton production is a unique situation made possible by their respective: 1) governments' strict national and regional regulatory environments, 2) cotton sectors' ability to affect best production management practices; and 3) producers' self-investment in research and development. That investment is the $20 million and $50 million devoted annually by Australian and U.S. cotton producers, respectively, to agricultural research. This investment: 1) enables them to achieve continual and substantial environmental improvements; and 2) extends the research activity beyond the farm gate to all sectors associated with the manufacture of cotton yarns, textiles and apparel.

Principles, Not Certification

Even though Cotton LEADS™ is a no-cost, no-certification program, cotton producers are asked to operate under the program's five core principles consistent with sustainability, the use of best management practices and traceability in the supply chain. Those principles are:

1. COMMITMENT – to the social, environmental, economic and regulatory factors to produce world-class cotton,
2. RECOGNITION – that sustainable and responsible cotton production requires continual improvement, investment, research and sharing of best practices information among growers and industry,
3. UNDERSTANDING – that leading change in responsible and sustainable cotton practices will have the most positive impact when implemented in collaboration with farm, regional, national and international programs,
4. BELIEF – in the benefit of working cooperatively with similar programs that seek to advance responsible and sustainable cotton production in an effort to keep global cotton competitive in world fiber markets, and
5. CONFIDENCE – in a cotton identification system that ensures traceability from farm to manufacturer.

Growing List of Partners

U.S. and Australian cotton producers' adherence to these five core principles gives users of these two countries' cotton the confidence and knowledge that -- this raw material is responsibly produced and identified.

That confidence has led to a steady increase in Cotton LEADS™ members which must sign "The Commitment to Cotton" to participate. In the seven months after its launch, the program garnered more than 179 partnering manufacturers, brands and retailers. Today, it boasts 323 partners from across the global cotton textile supply chain. A list of those partners is at http://www.cottonleads.org/what-is-cotton-leads/partners/ and it includes such notables as: Target, Brooks Brothers, Fruit of the Loom, Gerber Childrenswear, HanesBrands and Kohl's®.

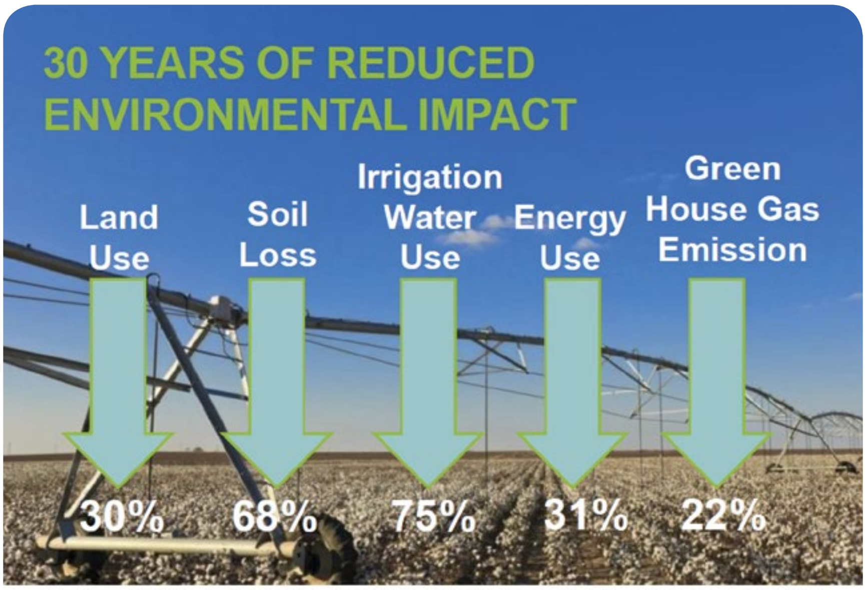
These partners are: 1) acknowledging the gains already achieved by Cotton LEADS™ producers and that cotton produced under the program's principles meet the sustainability guidelines for their cotton products, 2) becom-

ing more active program participants by supporting research projects, helping to disseminate information on best practices and creating partnerships for continual improvement and 3) pleased that Cotton LEADS™ was designed to have minimal interference in the market and not impose additional costs on cotton producers, supply chain companies or retailers and brands.

Keeping Partners Informed

The National Cotton Council is striving to increase support of Cotton LEADS™. We and the other Cotton LEADS™ founders: Cotton Australia, Cotton Incorporated and Cotton Council International (the NCC's export promotions arm) are working to keep program partners informed of Cotton LEADS™ activities through a series of partner meetings.

During one of those meetings earlier this year in Gastonia, N.C., Dr. Bill Norman, vice president of the NCC's Technical Services, shared the results of the *Field to Market® 2012 Environmental and Socioeconomic Indicators Report* (https://www.fieldtomarket.org/). This "National Indicators Report" analyzes sustainability trends over time at the national scale for U.S. corn, cotton, potato, rice, soybean and wheat production. Using publicly available data and peer reviewed, the report evaluates performance over three decades. Specifically for cotton, the report chronicled environmental gains made by U.S. cotton producers that have been well established by USDA and other third parties. Consider: compared to 30 years ago, soil loss has declined 68 percent; water use (irrigation) declined 75 percent; energy use is 31 percent less; and greenhouse gas emissions are 22 percent less. Productivity, though, has improved substantially. U.S. cotton farmers only need



Field to Market: Keystone Alliance for Sustainable Agriculture Jan. '12
www.keystone.org/spp/environment/sustainability/field-to-market

two-thirds of the land required 30 years ago to produce an equivalent amount of cotton. Norman told the group that much of this improvement can be attributed to U.S. cotton producers' annual $50 million contribution to agricultural research.

During the meeting, Adam Kay, president of Cotton Australia, reported that evidence of Australian cotton producers' environmental gains is being documented by third-party audits.

Kay told attendees that in Australia identification of areas for increased environmental focus is ongoing. That focus includes the Australian cotton industry's undertaking a full review of its myBMP (best management practices) program to help improve its on-farm sustainability. The voluntary on-farm program includes more than 500 checklist items across 11 modules that cover all aspects of cotton production from crop to people management. Each module review is led by an expert technical advisor to identify any legislative changes to be taken into account, ensure checklist items remain relevant and make sure supporting resources are up to date.

More recently, three members from Australia's Cotton Research and Development Center and a member of the Commonwealth Scientific and Industrial Research Organisation visited Cotton Incorporated to explore areas of future collaboration in agricultural research and textile manufacturing. Among the broad areas of agricultural research interest identified was evaluation of sustainability metrics.

Another highlight of that North Carolina meeting was a presentation by Jay Hardwick, a Louisiana cotton producer and Cotton LEADS™ governing board member. He reported on the tools and practices used by modern U.S. cotton growers, such as the Fieldprint® Calculator, an online toll developed by Field to Market® that is helping producers assess how production decisions affect their farming operation's overall environmental footprint. Specifically, the Fieldprint® Calculator enables producers to compare an individual field's sustainability performance to the state and national agriculture data contained in the «National Indicators Report" in the areas of: land use, soil conservation, soil carbon, water use, energy use and greenhouse gas emissions.

Hardwick, in fact, was recognized this year along with his wife and farming operation partner, Mary, by The Environmental Law Institute as recipients of the 2015 National Wetlands Award for Landowner Stewardship. The Hardwicks' family partnership is dedicated to achieving and promoting balanced farm ecosystems that are both productive and sustainable. They have planned and documented their efforts to harmonize productive agricultural operations with maximum natural resource protection and a comprehensive conservation plan for the whole farm. They implemented conservation practices and systems that have included extensive crop rotation, minimum tillage, field borders, filter strips and wetland restoration.

Hardwick not only conducts outreach to farmers, including holding numerous educational workshops, he presents information to textile manufacturers to encourage sourcing cotton from responsible producers.

At another Cotton LEADS™ partner meeting in Lima, Peru (the second Latin America event this year), Dr. Andy Jordan, U.S. sustainability advisor, also described Cotton LEADS™ coordination with Field to Market® to define, measure, monitor and promote continuous U.S. major row crop production improvement at a national level. Jordan shared case studies of U.S. cotton producers, including Hardwick's operation, who use the Fieldprint® Calculator and how their efforts have led to further reduction of pesticides, improvements in water efficiency and improved soil health and biodiversity.

At that meeting, attended by 20 representatives from 11 Cotton LEADS™ partner companies, Mark Messura, senior vice president of Cotton Incorporated, shared how the Cotton LEADS™ program has evolved and how the program promotes partners through meetings, events and press.

I want to emphasize that while Cotton LEADS™ currently champions U.S. and Australian cotton, it is open to other cotton-producing countries' partnering in the program if those nations are willing to commit to continuous improvement, while demonstrating that commitment on a national basis. This global collaborative effort will continue demonstrating that cotton is the world's best fiber and that technology and support for best practices is being provided not only in cotton production, but cotton use throughout the supply chain.

More information on the Cotton LEADS™ program, including how to become a partner, is at www.cottonleads.org.

Global Market, World Contract

Benjamin Jackson, President
ICE Futures U.S.

While cotton has had a long-standing spot at the center of the global textiles industry, the last decade has seen a pronounced shift in the commodity's production and exportation. In 2003/2004 the U.S. accounted for 19% of the world's cotton production and 41% of global cotton exports. Just ten years later, in 2013/2014, the U.S. accounted for 11% of world cotton production and 27% of the product's exports - a 42% and 34% drop respectively.

We at ICE work hard to make sure that our product offering remains finely tuned to the needs of the end user market. And that means constant change. Whether it's transitioning the European gasoil market to reflect lower sulfur requirements or adding a world cotton contract to complement our existing Cotton No. 2® contract - we have demonstrated an ability to evolve with the changing needs of our customers.

We have been engaged in wide-ranging conversations with individual market participants and major industry groups such as American Cotton Shippers Association (ACSA) and International Cotton Association (ICA) going back many years on the shifting patterns in the global cotton market and how a contract with multiple origin and delivery points would enhance the market's ability to price for those changes.

Working with the cotton trade we designed a contract to fit the cotton market's needs and even pushed through a couple of unexpected hurdles including a legislative change that was needed to the US Cotton Act and new import requirements in Malaysia.

World Cotton Contracts Delivery Origins

World Cotton Contracts Delivery Points

The World Cotton contract is a product of that collaboration and we are confident it will give cotton producers, merchants, spinners and mills an enhanced ability to manage their risk. And it's a perfect complement to our benchmark Cotton No. 2, which it will trade alongside of.

The new contract is scheduled to launch on November 2 and the first delivery month will be May 2016. Most key terms of the new World Cotton contract are identical to the terms of the No. 2 contract: price quote (US cents per pound), contract months (March, May, July, October and December), trading

hours and settlement at expiration (physical delivery in exchange-licensed warehouses). The contract size of the new contract is slightly larger, at 55,000 pounds.

The key differences between the new World Cotton contract and the No. 2 are the par quality, deliverable origins and delivery locations.

Quality - the par quality for the new World Cotton contract is Color 31, Leaf 3, Staple 36, Strength 27 gpt and Mic 3.5 to 4.9. These color, leaf, staple and strength provisions are all higher than those of the No. 2 contract. Minimum deliverable staple for the World Cotton contract is also higher, at 35.

Origins - the World Cotton contract will allow delivery of nine origins: the U.S., Australia, Brazil, India, Benin, Burkina Faso, Cameroon, Ivory Coast and Mali. The U.S. is the par origin for the contract; delivery of each other origin will carry a premium or discount (which is subject to change on a fixed schedule each year).

Delivery Locations - the World Cotton contract will allow delivery in 12 locations in four countries: Memphis, Greenville, Dallas/Ft. Worth, Houston and Galveston in the U.S.; Brisbane, Melbourne and Sydney in Australia; Port Klang and Tanjung Pelepas in Malaysia; and Port Keelung and Port Kaoshiung in Taiwan. The four Malaysian and Taiwan locations are deliverable at par, and delivery in any of the U.S. and in any of the Australian delivery points will be subject to a U.S. or Australian discount (which is also subject to change on a fixed schedule each year).

More information can be found at: **www.theice.com/world-cotton** including additional detail on the origin and delivery location differentials.

Launching this new contract is a logical step in our history of providing solutions to cotton market participants, which dates back to the establishment of the New York Cotton Exchange in the late 1800s. Our ability to evolve with the changing needs of the cotton trade for over 100 years has helped us to remain the home for cotton markets and we will continue to listen to the needs of our customers so we can be here for the next 100.

50 Years of the Cotlook A Index

In 2016, Cotton Outlook will celebrate 50 years since the Index A was first published in 1966. Over the years, the Index has established a unique reputation as the world barometer of cotton prices in the international arena, and is a key tool in pricing policies and decision making by trade, governments, various international organisations, analysts and the like all around the world. The Index forms an integral part of cotton legislation in a number of countries.

Changes through the years

The A Index, initially known as 'The Liverpool A Index' was first established in January 1966 as a weekly value for SM 1-1/16" cotton. Its creator decided that an alternative, independent price measure would assist the cotton market in understanding the development of prices. It was originally based on CIF Liverpool prices (the UK was then still a considerable importer of raw cotton, though its spinning sector was in decline). The Index was constructed from the cheapest six quotations from a basket of twelve. The concept, validated over time, was that by taking an average of the cheaper offers, the Index would reflect the value of the cottons being most widely traded at any time.

In 1972, the name of the Index was changed to the 'Cotlook A Index' and its value was calculated and reported daily, instead of weekly.

The CIF Liverpool basis was changed (in 1974) to CIF Northern Europe, to reflect a much wider range of offers to an industry that was then using over one million tonnes per year. The quality parameter was amended to Middling 1-3/32" and the average was changed to the cheapest five from ten constituents. Subsequently, the basket of eligible constituents was allowed to grow, without limit.

In 1988, a 'Dual Index System' was introduced, whereby a 'Forward Index' for the following season is introduced as early as practicable in each calendar year which displaces the 'Current Index' on August 1.

The momentum given to the shift eastward in manufacturing industry by China's entry to the WTO in 2001 dramatically reduced European cotton consumption and, in consequence, the Index basis was shifted to CFR main Far Eastern ports in 2004.

A further change to take effect from the 2015/16 season concerns the increase in staple length from 1-3/32" to 1-1/8", a move which is reflective of the general increase in the staple length required by today's global spinning sector and is representative of the generality of cottons traded across international borders.

The A Index is compiled by Cotton Outlook's editorial staff, none of whom has any trading interests in raw cotton. The Index has won a reputation for impartiality and reliability.

Cotton Outlook can trace its origins back to 1923, when Liverpool was still a major cotton port, with an active market, supplying a still vibrant UK cotton textiles sector. Today, its head office remains in Liverpool. A sub-office is located in Memphis, Tennessee in the United States and Cotlook Limited is a leading partner in China's Beijing Cotton Outlook. The company has representatives in most important cotton producing and consuming countries.

Our Commitment. Your Success.

Cargill Cotton is committed to achieving your objectives through trusted global expertise, proven reliability and comprehensive risk management solutions.

As a leading agriculture commodities merchant with global supply chain and risk management capabilities, we are uniquely equipped to help you *thrive.*

Cargill is committed to helping people and organizations *thrive*.
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Changing Patterns of Trade

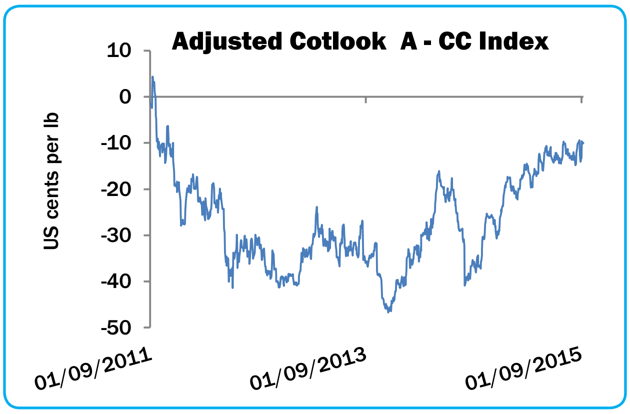
Ray Butler, Managing Director,
Cotlook Limited

"China remains the undisputed giant of garment exports, with eight times the dollar volume of exports than the number two Asian apparel sourcing country, Bangladesh. Vietnam and India are tied for the third place, each exporting garments worth around $17 billion. Despite high growth over recent years, none [of these countries] poses a threat to China's dominance at the moment, as all are facing their individual challenges in terms of political stability, garment industry structure, or competitiveness. Only over the longer term is China's manufacturing base expected to weaken due to macro-employment trends." – Mckinsey & Company

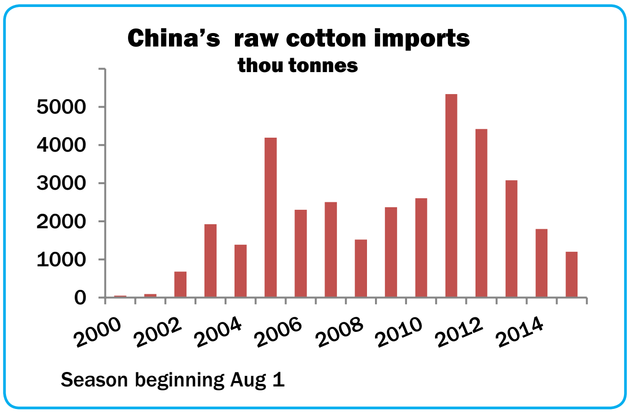
China's dominance of global trade in garments remains undiminished, despite recent monthly falls (from April through to July) in year-on-year US dollar revenues. The value of exports in 2013 was approximately US$177 billion, rising in 2014 to 186 billion, values several times greater than earnings recorded by Bangladesh (the number two exporter) and the combined total of Bangladesh, India and Vietnam. The Mckinsey report nevertheless identifies Bangladesh as the likely first choice of major western retailers for increased sourcing of garments in the coming years. However, China's growing domestic market is expected to strengthen the position of its garment sector.

What does this mean for cotton consumption and patterns of trade in raw cotton? It is well documented that cotton's share of total fibre consumption has continued to decrease – from 40 percent at around the turn of the century to less than 30 percent today. In terms of volume, cotton consumption receded from peak levels of over 26 million tonnes prior to the global financial crisis to around 22.5 million in 2011/12, since when recovery has been pedestrian, at best. Cotton Outlook's present forecast is for growth in global mill use of less than one percent in 2015/16, which would be a lower rate than that evident during 2014/15.

The data tell a slightly less discouraging story if China is excluded from the analysis, though overall growth is still expected to slow in 2015/16. China's turn away from cotton consumption in spinning has resulted from a number of recent policies – not least the now abandoned state reserve procurement plan, which contrived to leave domestic Chinese cotton prices well above international parities and significantly higher than prices for man-made fibres, especially polyester. More recent developments – including August's surprise devaluation - have served to close the price gap to some extent. Between September 2011 and September 2014 (the period of the state procurement plan), the Cotlook A Index (adjusted to approximate delivered mill terms), on average, was 4,114.5 yuan per tonne (29.91 US cents per lb) below the China Cotton (CC) Index and the peak differential, in November 2013, was almost 6,324 yuan (47 cents). The differential at the time this article was written (September) was fluctuating between 1,500 and 2,000 yuan (10 to 14 cents).

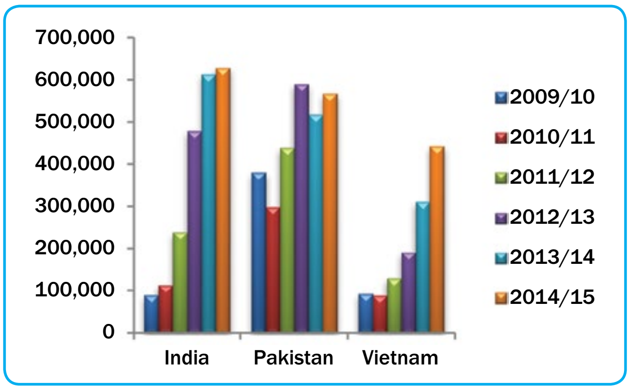


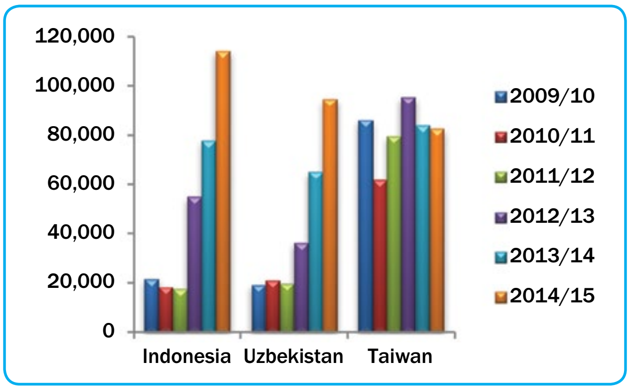
The Chinese government's mantra now is to allow market prices to determine supply and demand, though the door to open trade in raw cotton remains firmly closed. Quota control of raw cotton imports seems un-



likely to take a more liberal turn while the government remains burdened by the massive stocks held in the state reserve. This year's attempt to offload some of those holdings via an auction process failed spectacularly, with far less than one percent actually having found buyers from the one million tonnes earmarked for sale. Although retaining importance as a sales market for the international trade – perhaps absorbing annually something in excess of one million tonnes – China's significance as a cotton destination while the tight quota controls remain in place, has paled in comparison with the boom consumption years from the early 2000s through to the end of the 2013/14 season.

China's principal cotton yarn import sources

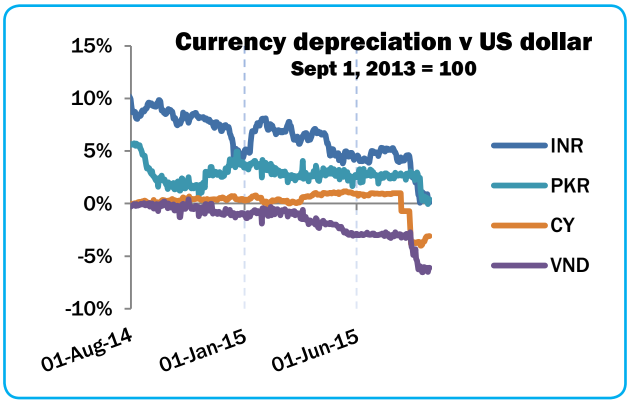




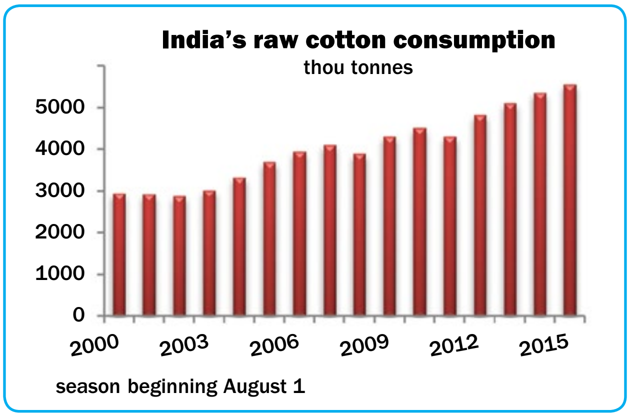
Of course, no such constraint exists in regard to trade in cotton yarn, imports of which have burgeoned as a consequence of the policies applied to raw cotton. Cotton yarn imports grew by 75 percent between 2005 and 2010 and then more than doubled again by 2014. In the first seven months of 2015, year-on-year growth was a further 26 percent. The availability of comparatively cheap imported cotton yarn has particularly disadvantaged smaller to medium-sized yarn spinners in China but it has doubtless helped to some extent to sustain China's cotton textile production. Reciprocally, China's import appetite for cotton yarn has been a boon to the expansion and development of cotton yarn spinning elsewhere, particularly in Vietnam but also as far afield as the United States.

In 2014/15, China imported almost seven times the quantity of cotton yarn from India as it had done five years earlier. Multiples over the same time period for other origins were as follows: Pakistan 1.5; Vietnam 4.75; Indonesia 5.25; Uzbekistan 4.9; Thailand 1.75; South Korea 3.55; the USA 4.4. Of the top suppliers, only Taiwan recorded a decline.

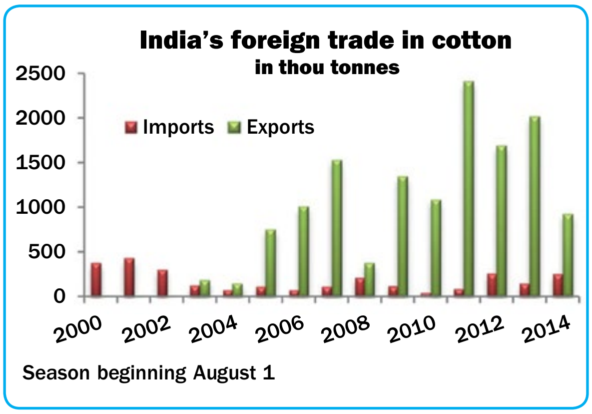
Clearly, any action (such as devaluation and cheaper internal cotton prices vis-à-vis external values) that might restore partially the competitiveness of Chinese spinners could be detrimental to the import flow of cotton yarn. However, the devaluation of the yuan in August has been reflected elsewhere, for instance in India, Pakistan and Vietnam, China's three main suppliers of cotton yarn.



India is predicted soon to be the world's most populous nation with sustained expansion of middle class incomes, The scope thus exists for continued growth in domestic textiles and clothing consumption, while the importance of export markets will remain undiminished. In terms of cotton consumption, therefore, an upward growth trend might be expected to persist in the years ahead. Cotton Outlook's current consumption forecast for the 2015/16 season is 5.5 million tonnes, which is not far off double what it was at around the turn of the century.



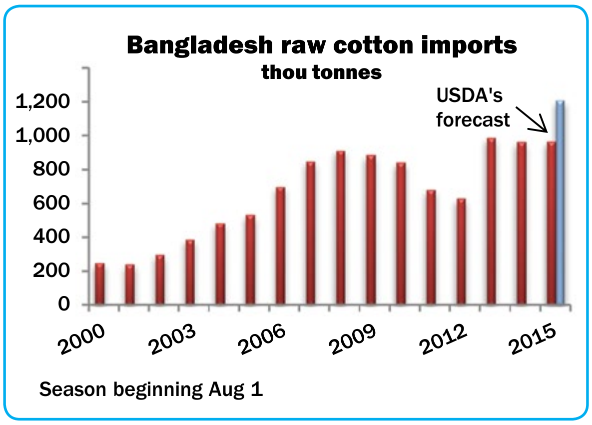
In terms of trade flows, however, developments in China have of course sharply cut India's raw cotton exports during the 2014/15 season - a final total not much above 925,000 tonnes seems attainable, at best. India's exports to China during the period from August through June were below 280,000 tonnes - substantially less than those to Bangladesh – whereas China alone accounted for over 1.1 million tonnes during the 2013/14 season.

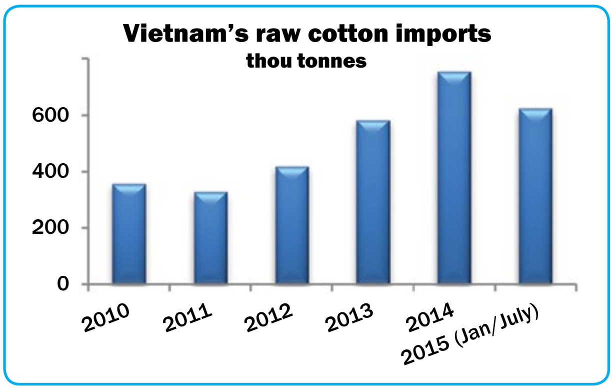


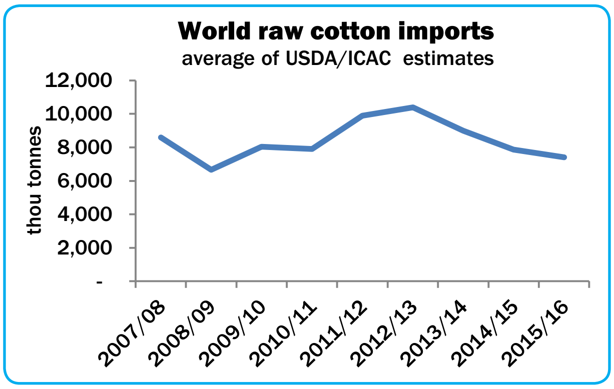
Despite the apparent oversupply in India, with cotton residing in government hands until the pick-up occurred in the auction pace (initially in June, and then again in August), imports of raw cotton have, at times, retained attraction for mills in southern India, as a result of which this season's final import figure could prove more than 100,000 tonnes greater than the 2013/14 figure of around 147,000 tonnes. Such imports are attributed to both price (internal transport for domestic supplies to reach the region's mills being regarded as costly) and sometimes to quality grounds.

Vietnam, the recipient of large-scale foreign investment in spinning, has meanwhile seen raw cotton imports more than double in the space of four years, from 2010 to 2014, and the final total for the current calendar year seems set to show further growth. Between 60 and 70 percent of the amount consumed is attributable to the foreign-invested mills, which of course include substantial Chinese interests.

As stated earlier in this article, the flow of retail orders for textiles and clothing products will be key in determining trade flows in raw cotton. Bangladesh, for instance, with a burgeoning garments sector, is now importing cotton on a scale second only to China (USDA's recent data amendments in fact suggest the gap is narrowing quickly).







Other countries mentioned in research documents that may increasingly be recipients of inward investment in the next phase of the textile and clothing industries' relocation story include principally those with ample manpower, cheap energy rates and favourable industrial policies. Such countries might include Cambodia and Myanmar as well as various African countries (notably Ethiopia), where many pundits foresee the next phase of economic growth opportunities.

For the time being, however, world trade volume continues on a downward path, with the projected figure in the 2015/16 season being lower than in any year since the global financial crisis of 2008. Distinct trends would appear to include not merely the spinning industry's relocation to more cost-effective locations where cotton can be traded without undue restriction, which is of course beneficial to the international trader, but also its movement to centres of raw cotton production, to give certain access to the raw material and reduce transport costs. The large international trading houses will have doubtless been building future strategies that take account of these trends.

A U.S. Perspective on the Changing Dynamics of the World Cotton Trade

William E. May, President & CEO,
ACSA

The landscape of the world cotton trade has certainly changed in monumental ways in past years. We have seen major family-owned stalwarts of the trade either close their doors or sell their companies' worldwide operations to longtime competitors. We have seen bankruptcy rear its head involving several recognized firms. In the past several years, we have watched the entry into the cotton trade of new players. Although new to cotton, but certainly not new to the commodity trading world, these firms have filled the absence that was left by the departure of those mentioned earlier.

There is a new generation in the trade emerging onto the scene into leadership positions in major trade and industry organizations. These leaders certainly will, and are now in fact facing many issues that will make their jobs most challenging in the years to come. Many of the issues and problems have been experienced before by the trade, whether it be low prices to the producers of cotton or fierce competition from the synthetic fiber industry; these leaders must draw from the historical perspective and institutional knowledge of those who preceded them on how best some of these reoccurring problems were dealt with in the past. There are also a myriad of trade related issues that we now face and will continue to have to deal with in the future regarding WTO, trade pacts involving many countries looking for an advantage for their finished goods, and certainly disputes that result in anti-dumping and countervailing duty cases being filed, as has recently taken place in Turkey against the U.S.

Government policies can have huge ramifications on trade, as we have experienced in China, which has slowly built a cloud over the cotton industry from which we have yet to come out from under. Governments of countries, whether producing, consuming or both, that can implement policies overnight that can be very damaging to the trade are also actions that present a formidable challenge. Politics and trade policy will always be at the forefront of issues that the trade will have to attempt to deal with, or adjust to, both now and in the future.

A new product from ICE will soon be up and running providing the world cotton trade with another tool in risk management. The World Cotton Contract will trade alongside the existing benchmark Cotton No. 2 contract. With the recent slow decline in U.S. acreage the timing of this new contract will provide the trade the opportunity to utilize other growths for delivery to points in Australia, Malaysia, Taiwan, and the existing delivery points in the United States. ACSA initiated the discussions of such a contract in 2011 with the formation of a committee to come up with the basis for a new contract. We also worked with ICE in Washington DC to pass legislation that allows this contract to be listed in the U.S. through making amendments to the U.S. Commodity Futures Act.

The traditional export markets continue to change and evolve as they have done in the past. China is quickly changing as we have seen recently due to many reasons. They remain the largest consumer of cotton but the changes we are viewing now will continue due to higher labor and electricity costs and land prices rising as well. Also, China continues its move away from low-end manufacturing to a higher tech economy. Vietnam is rising very quickly as a larger user of cotton, although it is the opinion of many in the trade that the market is not mature. The Vietnamese industry and government have proven such in recent years by their failure neither to perform on contracts nor to honor ICA arbitration awards. Mexico, Turkey, Indonesia, Bangladesh also remain as key players in the current export market.

The tendency of the textile industry as we know it today is to make buying decisions based on hand-to-mouth needs, though forward sales still do take place, mostly on an on-call basis, in markets such as Turkey. The trade will no doubt deal with, in my opinion successfully, the challenges that are ahead and adjust accordingly. But the matter of synthetic fiber competition must be dealt with soonest in order to maintain a viable industry for all concerned, not only in the U.S. but globally.

Investing in Cotton Spinning in the United States

Interview with Huang Guogang, Office Director,
Keer Group

Cotlook recently interviewed Mr Huang Guogang, the Keer Group Office Director, to elicit information about the Group's investment in spinning in the United States. Our questions and Mr. Huang's replies are shown below:

1. We understand that the Keer Group, PRC, was established in the mid nineteen nineties in Zhejiang Province. Our readers would be interested to know a little about the history of your company, the cottons it uses and the range of products produced.

Keer Group was founded in 1995, with the establishment of China's first digital OE yarn factory in 2002, facilitating the production of cotton yarn and other major products in accordance with the USTER® Statistics global standard*. "Keer" branded cotton yarn has been named 'Zhejiang's famous brand'.

In face of fierce competition in traditional industries, the Keer Group decided to branch out and, in 2012, set up Hangzhou Keer Jewellery Co. Ltd.

In 2013, the group pursued a "going out" strategy, and established facilities in South Carolina, USA, which consist of a set of the world's most advanced air-jet looms and a modern ring-spinning workshop, thereby extending the group's cotton business to international markets.

In July 2015, the group seized the opportunity presented by the government's "Internet +" policy to make its gold jewellery e-commerce platform fully operational.

In China, Keer Group currently uses mainly Xinjiang cotton, but augments this supply with 'mainland' supplies, Brazilian, US, Australian and other cottons to produce OE 6s ~ 21s, ring spun combed 20s ~ 40s, carded 7s ~ 40s, and incorporates spandex; the US company uses entirely US cotton.

2. What were the driving forces behind the decision to invest in the United States and why the US rather than elsewhere in Asia?

Keer Group's investment in the US was based on a number of important considerations. For example, China's strict import quota management renders it difficult for the company to secure large import quotas and the domestic cotton price has long been a few thousand dollars per tonne higher than international cotton values. Furthermore, rising land costs and electricity prices in China were a factor, as was the narrowing gap between labour costs in China and the United States. In addition, the United States also introduced a number of local tax breaks and subsidies to encourage the return of manufacturing industry.

In selecting the United States rather than other Asian countries, the main considerations were the political situation and relative exchange rates; by choosing the US such problems can be completely circumvented, and the investment is in a mature business institutional system.

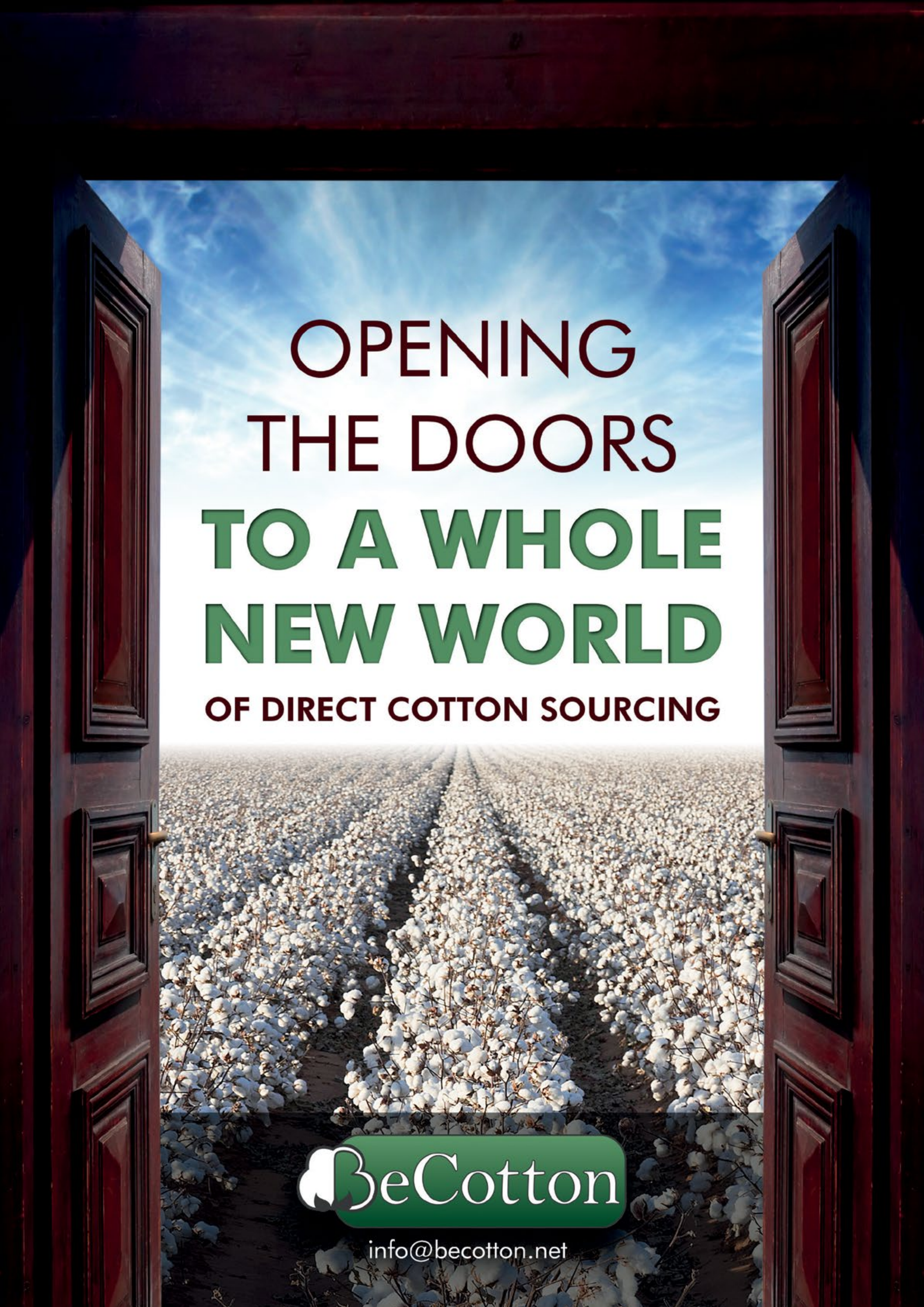
3. Is Keer's plant in the US now fully operational? What has the experience been today in terms of plant operations, labour and local customs?

Keer's plant in the United States was commissioned in late February 2015, with the first batch produced of air-jet spun yarn. The equipment has been running smoothly, with an operating efficiency maintained of more than 92%. The current production plant has more than 150 employees, and a technical and a management team have taken shape.

4. Does Keer have investments overseas other than in the United States? How does the US plant's efficiency compare with those investments, and with production in China? Are there any drawbacks to the US as a location for producing cotton yarn?

Keer is not considering investing in other mills.

In Lancaster County, South Carolina, the last previous textiles factory closed in 2007. Textile technology skills disappeared from the region and many of those engaged to work in Keer's factory have had no contact with the industry. Inevitably, therefore, a lot of challenges have to be faced. For instance, equipment operation efficiency has been running at only 60% to 70%, whereas the comparable ratio in the company's facilities in China is never less than 95%. However, such challenges are being addressed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through appropriate training. Furthermore, using US cotton eliminates many of the quality difficulties encountered when using Chinese cotton. So the resultant productivity will certainly not be less in the US than in China.

Advantages of the US plant can be identified as proximity to low cost, high quality cotton and low energy costs. The disadvantage is the relatively high cost of labour.

5. It would be interesting to know the product range in the United States and roughly what amount of cotton is being consumed annually. What happens to the finished product?

Our US plant produces a range of yarn counts, including OE6s ~ 21s, producing about 30,000 tonnes annually. A second workshop is planned for ring spinning.

Currently, most products are shipped to China. However, as US sales staff become more established, North America, Latin America and other places will gradually open up and Keer's US yarn output will be sold worldwide.

6. What are the future intentions for production in the USA?

Keer's US company plans to invest $ 218 million over five years to build four production plants and facilities on 150,000 square metres, creating more than 500 jobs. Currently, the air-jet spinning plant has been put into production. Bidding and negotiations for a second plant are in progress.

7. Incentives have been raised for companies to invest/relocate in Xinjiang. Do these have any attraction for a company like the Keer Group? What, in your view' is the future of cotton spinning in Zhejiang and other 'mainland' provinces?

As stated above, Keer is currently not planning to invest in other mills.

In China, domestic textile enterprises are passing through sad times, facing a lack of market demand, inventory pressure, rising costs, a shortage of funds, recruitment difficulties and other issues. In consequence, many textile companies have been forced to cut or even suspend production. China's textile industry is going through a process of 'survival of the fittest'.


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