

# Quarterly Update by Member Associations



Issue 4 – 20 November 2014

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Welcome to this Update, keeping you informed of the new developments at the Member Associations. This publication comes as a result of a decision reached at the 2012 Plenary Meeting that “To facilitate the understanding of the latest cotton related information in the countries of Member Associations and to make CICCA more pro-active if necessary, it was agreed that Member Associations would update their countries’ cotton market information on a quarterly basis, and this would be distributed within the CICCA forum.”

Any suggestions and comments would be greatly appreciated. The following Member Associations have contributed to this issue:

ACSA (USA), ACSA (Australia), BBB, BCA, CAN, CCA, FITMI, GCA, ICA and JCTA.

## **ACA - Association Cotonnière Africaine**

(No update)

## **ACSA – American Cotton Shippers Association**

The 2014-15 US cotton crop has been estimated to be 16 million bales of production. It has been a favourable growing season for the majority of the production areas in the cotton belt. Implementation of the Agricultural Act (Farm Bill) of 2014 is slowly taking place and most parts of the legislation will go into effect in 2015. It was a difficult political climate in Washington to finally pass a Farm Bill, as it is currently with any legislation to try and be passed within a totally divided US Congress.

Financial and commodity market oversight continues with the slow process of implementation of the Dodd Frank Financial Markets Reform Legislation Act. What was once an effort by commodity market participants to bring transparency to the markets has now turned into what many think is an overreaching bureaucratic burden on not only some of the markets but on the participants who trade on these markets. ACSA has been and continues to monitor the possible effects on its members in dealing with these new regulations and rules.

ACSA continues its cooperation and assistance to ICE in an effort to see the World Cotton Contract be approved and become a tool for hedging risk. ACSA is working closely with ICE in a joint effort to overcome possible obstacles within US Government agencies that could prevent the new product from being listed in the US on ICE. We also continue our favourable working relationship with ICA on the joint specs committee of ICE finalizing the details of the WCC.

The ACSA International Cotton Institute completed its 20<sup>th</sup> year of service to the worldwide trade and cotton industries by providing the most intense and thorough residential educational program of its kind anywhere. There have been over 900 students from 52 countries that have participated in the program and from comments received from company principals these students after completion of the 8 week course are able to come back to their employer and begin to contribute right away. 2015 session dates have been scheduled; May 26-July 14.

ACSA also continues its efforts in discussion with US Government agencies and embassies in the matter of unfulfilled contracts and arbitration awards from 2011-12.

## **ACSA – Australian Cotton Shippers Association**

Consecutive good seasons have enabled a dramatic turnaround in Australian cotton production - and with it, an increased presence and position in the global trade. The past four crops have produced a total of 17.4 million bales.

Unfortunately 2015 is not anticipated to continue the pattern of recent years. At the time of writing, significant rainfall would need to be received to ensure a significant crop size and given the current weather outlook it is anticipated the Australian 2015 crop will be somewhere between 2.0 and 2.1 million bales.

With the 2014 season wrapping up, and at the time of writing an estimated 70,000 bales of ginning remaining, Australia looks likely to produce around 3.8 million 227 kg bales of cotton.

98% of the crop has been classed and quality parameters were disappointing for both growers and merchants with estimated 50-60% of the crop affected by rainfall at the time of picking.

#### **AFCOT – Association Française Cotonnière**

(No update)

#### **ALCOTEXA - Alexandria Cotton Exporters' Association**

(No update)

#### **BBB – Bremer Baumwollbörse**

No difficulties in contract performance are reported so far. A technical arbitration is under progress.

#### **BBM – Bolsa Brasileira de Mercadorias**

(No update)

#### **BCA – Belgian Cotton Association**

Last June the association had a meeting with the embassy of Uzbekistan in Brussels to inform about the progress they made on the child labour in their country.

It looks that they take the matter seriously and have provided us a memo outlining their commitment. For your guidance you can find the press release in attachment (Attachment: BCA).

#### **BM&F – Bolsa de Mercadorias & Futuros, São Paulo**

(No update)

#### **CAI – Cotton Association of India**

(No update)

#### **CAN - Centro Algodonero Nacional**

##### **2014/15 Spanish crop**

The planted area is set at 74,000 hectares.

The harvest is going to start in the second fortnight of September.

Observers suggest that the lint outturn can be estimated of around 75,000 tonnes.

## **CCA – China Cotton Association**

### **China Cotton Acreage and Output Projection in 2014/15 Season**

A bumper harvest of cotton is expected this season thanks to the improved summer weather conditions. In August, China Cotton Association adjusted the earlier national cotton acreage into 63.40 million mu (4.23 million hectare), 9.35% down year on year (Y/Y); the national cotton output is estimated to be 6.71 million tons, 4.22% down Y/Y.

### **China Cotton Production and Procurement**

Since September, cotton boll opening hastens and cotton picking speeds up in different cotton regions. The procurement price of seed cotton equivalent of white cotton type 3128 is 6.8-7.5 Yuan/kilo in Xinjiang, 15% less Y/Y. The inland seed cotton price equivalent of type 3128 in Shandong and Hebei, the two major cotton production provinces, is 7.2-7.3 Yuan/kilo, 13% down Y/Y. Currently, the buying price is rather tentative at this early stage.

### **Target Cotton Price Reform in Xinjiang**

On 16<sup>th</sup> September, Xinjiang Cotton Target Price Reform Trial Implementation Plan is announced jointly by National Development and Reform Commission and Ministry of Finance after the authorization of the State Council. The notable policies in this Plan include: first, the current cotton reserve purchase practice will not continue. Government will not intervene with the cotton price; producers sell cotton at the market price. Second, target price subsidy will be granted to Xinjiang cotton. When the market price was lower than the target price, which will be announced before cotton planting, the price gap between them will be allocated as subsidy to the growers in trailed regions. No subsidy will be allocated when the market price is higher than the target price. Third, the target price subsidy will be determined with acreage, seed cotton quantity delivered to ginneries and cotton variety as considering factors.

The market price used in the payment scheme will be shaped by market demand and supply. It will be an average price in the Xinjiang autonomous region during the price collection period from September to November, instead of the actual selling price of certain cotton grower.

The target price subsidy will be determined according to the acreage and the quantity of seed cotton sold to ginneries on a 60:40 basis. The estimated amount of subsidy will be allocated from central government to Xinjiang before the end of December; and the local finance department will deliver the growers the acreage subsidy against the planting certificate before the end of January, and the quantity subsidy against the seed cotton selling receipt and planting certificate before the end of February.

As for cotton growers in Yellow River and Yangtze regions, the central government will deliver a fixed subsidy to cotton growers to protect their interest.

In new cotton season, we expect the market dominated cotton price rather than the government intervened price; however, when excessive price decrease and the seed cotton selling difficulty of large scale happened in domestic market, government will take necessary measures to encourage ginneries to buy seed cotton or the China National Cotton Reserves Corporation to purchase the lint through China National Cotton Exchange platform.

## **FITMI - Federazione Imprese Tessili e Moda Italiane**

Notwithstanding a further reduction in the activity of some Italian spinning mills during the first six months of 2014, the total raw cotton consumption remains substantially similar to the previous year. On the cotton import front (total 20.234 tons from January to June) the variation is however, compared with last year's same period, minus 8.4% resulting by the drastic reduction of stocks and imports from GREECE, UZBEKISTAN, TADJIKISTAN and KAZAKISTAN.

The very competitive prices of INDIAN cotton and the increased use of this origin in yarns for DENIM are held as the reason for the higher share (31%), followed by IVORY COAST (18%).

Italy's cotton yarn imports increased by 2.5% revealing its weaving and knitting industry not completely succumbed to pressure from outside competition.

Largest suppliers, Turkey and India, saw volumes increasing as Italian importers took less yarns from China and Pakistan.

Also Italian yarn exports have increased reflecting more demand from Spain and Austria.

### **GCA – Gdynia Cotton Association**

In the 1<sup>st</sup> half of 2014, the GCA continued cooperation with companies of the cotton sector as well as with the Polish and EU administration, concerning matters essential for the branch and the textile industry.

The Gdynia Cotton Association has supported the initiative of the academic circles connected with the textile industry. They have elaborated and submitted to the National Centre for Research and Development the motion on the establishment of the programme dedicated to the textile industry. The A/M programme is aimed at financing of the R&D undertakings in enterprises of the T&C sector.

Furthermore, considering priorities of the new EU's financial perspective, GCA has decided that the 13<sup>th</sup> International Cotton Conference - Open Debate will focus on the innovation as a platform of a co-operation between science and industry. On 29 May 2015 invited panellists will be trying to reply to the question whether nowadays such a co-operation is a chance, a vogue or a need.

### **THE 1<sup>ST</sup> HALF OF 2014 IN POLISH TEXTILE-CLOTHING BRANCH**

Results of production of the Polish textile-clothing branch in the 1<sup>st</sup> half of 2014 appeared to be quite good. In the case of many categories of products, there were impressive growths of production volume, first since a very long time.

In comparison to the analogical period of 2013, mainly textiles' producers noted increase in almost all categories of production. Very high growths were noted by manufacturers of: flax yarn(+28%), fabrics with terry coating (+49%), fabrics from synthetic fibres as well as carpets and runners (+18%). First time for a very long time, the growth of production volume was noted by manufacturers of cotton yarns and fabrics.

The first half of 2014 brought also an immense increase of investments in both of the branches (textiles +93%, apparel +113%) as well as improvement of all economic ratios of production.

According to the GCA estimates, in the 1<sup>st</sup> half of 2014, ca. 3,8 thousand tonnes of raw cotton materials were imported and processed – those which are used for yarn, non-wovens and hygienic-cosmetic products based on cotton fibre.

It is possible, that imports and consumption of cotton raw materials in Poland will exceed 7 thousand tonnes in 2014.

### **ICA – International Cotton Association**

#### **Eight enforcement groups**

- As part of our strategy to ensure ICA awards are internationally recognised and enforced, we have set up a number of dedicated country focus groups.
- There are now eight groups in place - Bangladesh, China, India, Indonesia, Pakistan, Thailand, Turkey, Vietnam.
- One of the aims of each group is to help parties enforce ICA awards by providing local knowledge, information and best practice, as well as building up a database of legal contacts.
- The groups have been highly successful in doing this and we hope to rejuvenate the groups over the next few weeks and spearhead further action that they can undertake.

#### **Engaged at governmental level on arbitration/enforcement**

- Working with half a dozen Embassies and Governments on enforcing awards, especially in Vietnam.
- Engaging and obtaining the support of the EU Commission;

- Engaging and obtaining the support of the international “Federation of Commodity Associations” to lobby Governments, embassies, multinational organisations and so on concerning cotton and other commodities concerns.

### **Mediation launched**

The ICA Directors have agreed to introduce a process of mediation and two persons have already been trained as international mediators by CEDR. The process will be approved at the Board meeting on 30th September and Mediation will be launched on October 2nd with a presentation on the detail on what it is and how it works given by Mr Kai Hughes and Mr Jamie Welsh.

### **Mutual**

The use the “ICA Cotton Mutual” to offer Legal Expenses Protection to members of the ICA, offers many benefits in risk reduction:

- The volatility of 2011/12 and even 2013 on a smaller scale made all traders wish for some relief. At the time 20 pts/lb would have been very cheap to gain some relief from losses caused by defaults by being able to deter defaults from happening. As we get further and further away from the volatility, memories fade about how truly awful that period was for many. One default at a time does not seem that much of a catastrophe (depending on the size of the default, of course!) but if there are two, three or a run of defaults on your contracts; having the assurance of knowing you will readily have the legal funds to fight to enforce your awards without having to dig into your reserves, is a huge relief to many business, large and small.
- No need for an “additional overhead” of unnecessary representation overseas and costs associated with retaining a lawyer overseas: the mutual will have a list of experienced, efficient and successful lawyers who have enforced ICA awards in the past, for you to choose to instruct; or you can use your own lawyers in the country concerned, to enforce the award;
- The mutual will be run by legal enforcement experts and they will be experienced in liaising with member’s own in-house legal teams (who will retain control of the enforcement case if that is preferred) in order to enhance enforcement at no additional cost, to the mutual member.
- Potential defaulters know that many ICA members do not enforce awards if they encounter financial difficulties i.e. lack of money or know-how to enforce an award. If a potential defaulter knows that a member has legal expenses cover for enforcing awards, some may be deterred from defaulting since the member will be funded and have expert advice on enforcement from the lawyers employed by Mutual;
- Enhances the financial protections available to trading members of the ICA in trading conditions when contract defaults may be prevalent;

We hope to open the Mutual in 2015.

### **IME – Izmir Mercantile Exchange**

(No update)

### **JCTA – Japan Cotton Traders’ Association**

#### **JCTA has appointed New Chairman**

JCTA announced during their May 29, 2014 General Meeting the election of new officers.

Mr. Hanshichi Toyoshima, President of Toyoshima & Co., Ltd., in Nagoya, Japan, has been named Chairman of the association.

Mr. Kenichi (Ken) Yamaoka, currently President of the association, has been reelected to the President of the association.

#### **Raw cotton imports into Japan during 2013/14**

Raw cotton imports into Japan during 2013/14 dropped to 301,759 bales (480lb), down from 309,062 bales in 2012/13, due to decrease of domestic demand.

The main source of supply continued to be the United States (122,654 bales), Australia (63,665), Greece (54,460) and Brazil (40,469). It was noted that Greece emerged as the third largest supplier after the U.S. and Australia. These top four countries accounted for 93% of total imports during 2013/14.

Please note that the total spinning capacity decreased from 1.19 million spindles in 2011 to 1.07 million spindles in 2013. This is because spinning mills continue relocating their spinning equipment to oversea joint-venture textile mills.

#### **KCA – Karachi Cotton Association**

(No update)

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