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Discover Natural Fibres Initiative

Meeting Cotton's Competitive Challenges

April 18, 2013
Embassy of Switzerland, Washington DC

A seminar on the topic of, "Meeting Cotton's Competitive Challenges," was held on April 18, 2013 at the Embassy of Switzerland, 2900 Cathedral Ave., NW Washington DC 20008-3499.

Analysts reported at the 71st Plenary Meeting of the ICAC that polyester now dominates the global fiber market, with cotton's share continuing to decline. It is expected that polyester fiber quality will improve and production capacity will increase further. Cotton faces additional challenges such as competition with other crops, rising input costs, consumer pressures to reduce input use, and shifts in consumer spending away from clothing and home furnishings.

The seminar provided an opportunity to explore the challenges facing the cotton industry, to reflect on the industry's future, and to advise ICAC members of possible actions, including appropriate government responses to near-term challenges facing the cotton market. Participation by government officials, representatives of industry, USDA, and cotton researchers created a healthy discussion with a cross section of perspectives.

In his welcoming remarks, Mr. Josef P. Renggli, Minister-Counselor, Head of the Economic and Financial Affairs Division, Embassy of Switzerland, said that Switzerland values its membership in ICAC. He stressed the importance of the issue of sustainability to the Government of Switzerland in their economic, domestic and foreign policies and said that he appreciates the efforts of the world cotton industry to move to more sustainable production practices. He said that it was a pleasure to host this seminar, and he wished participants a successful outcome.

Summary of Presentations

The first session of the seminar included presentations by Caterina Au, statistician for the Secretariat of ICAC, Kevin Latner, executive director of Cotton Council International and Chair of an ICAC Working Group on Challenges from Competing Fibers, and Jordan Lea, Eastern Trading, representing the ICAC Private Sector Advisory Panel and the American Cotton Shippers Association (ACSA).

Caterina Au: World Cotton Situation

Dr. Au reported that after beginning the current season at 82 cents per pound, the Cotlook A Index dropped slightly to 79 cents in November 2013 before rising steadily to 99 cents in March 2013 and had retreated to the low 90-cents level since. She noted that the volatility in prices during 2012/13 was similar to levels of volatility shown in years past, a stark contrast to the extreme volatility in 2010 and 2011 during which cotton prices rapidly rose from 86 cents per pound to 244 cents per pound and then dropped to below $1.

She said that in 2012/13, global cotton production is estimated down by 5% to 26 million tons, and production may drop another 9% to 24 million tons in 2013/14. On the other hand, world cotton mill use is expected to rise by 3% to 23.4 million tons this season, and mill use is projected to rise just 1% to 23.7 million tons in 2013/14. As a result, cotton stocks at the end of season 2012 and 2013 are forecast above 16 million tons. The global stocks-to-use ratio is forecast at 71% in 2012/13 and 69% in 2013/14, the highest ratios since World War II.

However, despite the seeming abundance of cotton, it was noted that the China National Reserve has expanded from 300,000 tons of cotton last season to an estimated 10 million tons as of March 2013. As a consequence, "free" global ending stocks are estimated at 8 million tons in 2012/13 and 7 million tons 2013/14, and the stocks-to-use ratio in the world minus the China National Reserve is expected to drop to 28% this season and 27% next season, breaking the record lowest stocks-to-use ratio of 33% set in 1989/90. Dr. Au noted that the tightness of stocks outside the China National Reserve is constricting mill use of cotton.

Dr. Au noted that another challenge the cotton sector is facing is the increasing substitution of manmade fiber. The increase in cotton prices in 2010 and 2011, and the high volatility of prices, eroded the competitiveness of cotton relative to other fibers. She reported that in March 2011 cotton prices were almost two and half times the price of polyester. In 2011 when global cotton mill use contracted by 4.9%, non-cotton fiber consumption increased by 5.5%. She reported that cotton's share of world fiber consumption dropped to 31.2% in 2012.

Kevin Latner: Work of the Task Force on Challenges from Competing Fibers

Mr. Latner reported on the work of the ICAC Task Force on Challenges from Competing Fibers. He said that the Task Force had boiled its discussions down to five major issues: technical fiber performance, sustainability, classification and standardization, fiber content labeling, and price volatility. Mr. Latner reported that there is a need to highlight the technical benefits of cotton vis-à-vis other fibers, including benefits for the body and skin, and use in cosmetics and medical textiles.

Mr. Latner said that as a renewable resource, cotton has inherent sustainability advantages over petroleum based products, even recycled products. However, cotton faces image problems related to sustainability, especially in Europe. Mr. Latner reported that the Task Force believes that standardization of instrument testing of cotton quality will help to improve the competitiveness of cotton. He reported that Task Force members observe that because of consumer preferences for cotton, cotton would benefit from fiber content labeling. Finally, Mr. Latner noted that the members of the Task Force have had significant discussions about cotton price volatility and the negative impacts of volatility on cotton's competitiveness. He noted that government policies and direct government interventions in cotton markets are among factors causing high volatility. Accordingly, governments could be asked to heighten transparency in cotton polices, and to improve information and statistics on cotton supplies and stocks.

Mr. Latner reported that the Task Force has also discussed the impacts of speculation on cotton price volatility, world cotton contracts, and the inability of citizens of large volume cotton producers to invest in existing international financial instruments for hedging against price fluctuations.

Jordan Lea: A Shipper's Perspective on Challenges Facing Cotton

Mr. Lea emphasized the negative impacts of government measures that distort markets. He noted that there are two sources of volatility in commodity prices, natural volatility and manmade volatility. Natural price volatility stems from shifts in fundamental factors affecting supply and demand, including weather, economic growth, and changes in consumer preferences. He said that markets can adapt to naturally occurring volatility and take steps to mitigate the consequences. On the other hand, volatility in prices caused by government interventions (manmade volatility) can have disastrous consequences because of the size, inflexibility and unanticipated nature of such interventions. According to Mr. Lea, manmade price volatility threatens the future of the cotton industry.

As an example of natural volatility, Mr. Lea showed a map of drought conditions in the United States in July 2012 and the related impacts on commodity prices. Mr. Lea noted that prices of corn (maize) in the U.S. had reacted sharply after publication of the map by a U.S. government agency, but once prices had adjusted reflecting the new fundamental supply situation, prices had remained at the new level until the following season. In contrast, Mr. Lea showed a chart of world cotton prices and the impact first of a ban on exports by one large supplier in 2011, resulting in a marked price spike, and then the impact of the resumption of exports from the same country in 2012, causing prices to collapse. Mr. Lea observed that the China National Reserve had the potential to create enormous volatility in prices should the government decide to liquidate the reserve in a destabilizing manner.

Summary of Discussions

The second session of the Seminar involved small-group discussions in a World Café format. Participants were randomly assigned to tables of between four and seven with a rapporteur at each. Each group discussed two questions: Which challenge is the highest priority for the ICAC to address, and what strategies should be pursued to address the highest priority challenge?

Challenges:

Market Share of Cotton: participants noted that relative fiber prices have a greater impact on market share than absolute prices, and that work-in-progress in the cotton value chain stretches up to two years. Accordingly, it will be another year before the beneficial impact of lower cotton prices since 2011 will become apparent in mill use statistics.

Mill Use of Cotton: It was acknowledged that world cotton mill use will be affected adversely for the foreseeable future by the Chinese National Reserve. When the world’s biggest cotton consuming country drives prices of cotton above those of polyester, mill use will have to be affected.

Manmade Volatility: The Government of China has already spent an estimated $32 billion to purchase cotton for the Reserve, not counting interest, storage costs or insurance. China’s policy is sending false price signals to producers and spinners around the world, resulting in distortions to production and mill use. Manmade price volatility in March 2008 led to divergences between cash prices and futures prices. The resulting bankruptcies and market consolidation is still felt in reduced opportunities for producers and spinners to sell and buy forward. Government interventions in markets often precipitate further interventions by other governments trying to offset resulting market impacts. Free market policies result in lower costs to governments and less volatility in the long run.

Sustainability: Cotton is often criticized for chemical use during production. However, 82% of the environmental impact during the cotton life cycle occurs during the processing, consumer care and disposal stages. Chemical use in dying and finishing cotton yarn and fabric is greater than for fabric of competing fibers. Chemical use in processing poses a threat to the sustainability of the cotton value chain because of regulatory pressure and the potential for reduced consumer confidence in cotton. Water and salt are the biggest inputs used in cotton dying and finishing, and technologies exist to dramatically reduce utilization of each; the challenge is to get companies to invest in these technologies. Formaldehyde use may be curtailed in Europe, with differential impacts on cotton and competing fibers.

Sustainability: The cotton industry needs to increase consumer confidence in cotton by reducing input use and carbon emissions. The industry also needs to educate consumers on the environmental, social and economic benefits of cotton production and to provide perspective on the benefits of cotton compared with the impacts of oil-based fibers.

Strategies

The ICAC should:

- Raise awareness of the social and economic benefits of world cotton production;
- Educate the public about the environmental impacts of cotton production;
- Work with producer organizations to provide positive information about cotton to consumers, governments and NGOs.
- Identify influential organizations in countries and work with those organizations to advocate for cotton.
- Be a more vocal advocate for the cotton industry.

- Educate government officials on the impacts of interventions on the cotton value chain.
- Encourage governments to focus on regulation to achieve environmental and social goals, and to avoid market interventions that distort prices.
- Facilitate standardization of instrument testing of cotton;
- Develop information technologies that facilitate better use of cotton by textile mills;
- Provide prizes to researchers to develop new technologies for textile manufacturing;
- Encourage investment to reduce the environmental footprint of cotton production and processing;
- Facilitate information exchange between ICAC member governments;
- Facilitate greater communication between producers and consumers;
- Identify ICAC audiences, including governments, intergovernmental organizations and NGOs and tailor messages to each.

Next Steps

The Secretariat is in the process of updating the ICAC Strategic Plan, which was last completed in 2008. The challenges and strategies identified during this seminar will be discussed with the Private Sector Advisory Panel at its next meeting in May in New Orleans, with the Task Force on instrument testing (CSITC) at its meeting in Raleigh in June, with the Expert Panel on Social, Environmental, and Economic Performance of Cotton Production (SEEP) and the International Forum for Cotton Promotion (IFCP) by e-mail and conference call, and with the Standing Committee during a meeting in North Carolina in July.

The 72nd Plenary Meeting will be held in Cartagena, Colombia, during September 29 to October 4, 2013. Building upon the successful experiment with the World Café at the Plenary Meeting in Switzerland, all participants will have an opportunity to contribute to the Statement of the Meeting via discussions during a World Café on Tuesday morning, followed by a consensus-building World Café session on Wednesday. The topic of the World Café will be “Challenges Facing Cotton,” and the report of this seminar will help to prepare plenary meeting participants for the Cartagena discussions.

All of these discussions will feed into the process by which the ICAC, including its secretariat under the leadership of a new executive director in January 2014, member governments and stakeholders in the cotton industry can agree on a strategic plan for future of the ICAC. A draft of the new strategic plan will be completed in November 2013 following the plenary meeting in Colombia, and a final strategic plan will be completed in 2014 to reflect the priorities and vision of the Standing Committee and the new executive director.

Seminar : Meeting on Competitive Challenges (Attendees)
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