Minutes

September 14, 2017
(13:30 – 14:15) hrs.

Karagasm Ballroom, Lower Level
Grand Hyatt Hotel Bali
Bali / Indonesia

1. Opening Remarks by the Chairman
   The meeting was opened with a few introductory remarks by Mr. Jeff Elder (USA), who chaired the meeting on behalf of the Chairman of the Committee, Mr. Nick Earlam (UK).

2. Panel Discussion on “Cotton Trading in a Changing Environment”
   A panel of experts from the cotton industry and from the spinning industry was invited to discuss whether cotton trading will change in the future. The entire cotton textile value chain has undergone and is undergoing enormous transformation (vertical integration, e-commerce, sustainability, new testing technologies, etc.). This raises the question whether, and if so, cotton trading will need to adapt to these changes. The following persons participated in the discussion:

Panelists:
Moderator: Jeff Elder, J. G. Boswell Company (USA)
Trader: Jürg Reinhart, Reinhart (Switzerland)
Trader: Urs Riederer, Sunrise Resources (Hong Kong, China)
Trader: Vinay Kotak, Kotak Ginning & Pressing Industries (India)
Spinner: Andrew Macdonald, ITMF Spinners Committee (Brazil)
Spinner: Bharat Desai, Sintex Industries (India)
Spinner: Bashir Ali Mohammad, Gul Ahmed (Pakistan)
Spinner: Abhay Agarwal, Primayudha (Indonesia)
The panel discussed the following questions:

1. **The whole textile Industry is evolving. Do you expect the consolidation in form of vertical integration of textile enterprises to continue?**

   There was consensus that vertical integration represents one type of business strategy and is not necessarily a continuing trend. For high demand commodity items, it perhaps provides an advantage. But for specialty items it has its own challenges and is perhaps a disadvantage. Developing a cluster of local providers will become more of a growing trend. This will help facilitate quicker supply chain reaction to retailer needs.

2. **Can you see a future for an entire supply chain integration, for example, brands procuring their own cotton and bring it down the supply chain to the store? - If so, what will be the future of the trade as we know it today?**

   There are currently some large retailers that are attempting to source their own cotton; Zara being the most recent example. But even in this case it represents a small percentage of their business. The feeling of the panel is that it is a small and current fad and was primarily a reaction to high volatility in cotton prices. Given the recent stability in prices it was determined that cotton procurement and trading is a specialized business requiring a great deal of expertise and the supply chain will depend on traders well into the future.

3. **What is the role of sustainability – how can a trader guarantee long term sustainability when he is not the producer?**

   There was again strong consensus that farming demands a great deal of knowledge and experience and that traders do not possess the skills to be successful farmers. Also, good farming practices requires growing alternating crops on the farmland. Most cotton traders are single commodity experts and would have trouble marketing the alternating crops. Sustainability requires more and more a knowledge and relationship with your raw material provider. This responsibility exists within the entire supply chain. Retailers and brands will require the supply chain be able to provide the source of their products. Initiatives like BCI clearly show this is a growing trend.

4. **Forty years ago, the world fibre market was 23.5 million tons and cotton almost 70 percent of the fibre market. Today it is 90 million tons and less than 30 percent. Where do you see cotton usage going from here?**

   The panellists agreed that not so much the cotton share is relevant but the nominal cotton production. In absolute numbers cotton production has increased, albeit at a slower pace than competing fibres. Until today, cotton is still the reference fibre. Nevertheless, other fibres are constantly improving their characteristics and functionalities. To keep cotton production at current levels and to increase it also in the future, it needs to become more efficient and productive in order to remain price competitive with competing fibres as well as with competing (food)crops. The potential to increase yields are significant, if one compares the world average fibre production of around 750 kg/hectare with the top-yields of around 3’000 kg/hectare. As a natural and sustainable fibre, cotton has many advantages on which cotton can build a better and more recognised image.
5. Do you believe that the emergence of big funds, particularly algorithmic funds, are a disturbance to how mills and traders approach the market?

Like it or not, all types of funds including algorithmic funds are a part of our business and we are better served by embracing the advantages they create than by blaming them for all the shortcomings inherent in our markets. Jürg Reinhart mentioned that funds were wrongly blamed for the sudden rise in prices in 2010. The trade was much more culpable with many times the volume traded. Also, the amount of world cotton that is actually hedged by futures is still in the minority. On call sales is the area that has grown the most and has created added volatility. The spinners mentioned their number one need and concern with cotton is stable pricing.

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