

UNITED KINGDOM

Country Report for ICAC 61st Plenary Meeting 2002

Introduction

The United Kingdom's main connections with the international cotton industry today are mainly in fields other than the actual processing of fibre. Cotton trading still retains a strong base in the UK and the provision of trading rules and arbitration services gives Liverpool a pre-eminent role in the worldwide cotton industry. Furthermore, UK companies provide numerous ancillary functions of value to the international cotton community, including information services, and its institutions retain a substantial agricultural research capacity from which cotton benefits.

Raw Cotton Imports

The following table compares UK raw cotton imports for 2001 with those during the two preceding calendar years.

United Kingdom Raw Cotton Imports			
- in tonnes -			
	2001	2000	1999
	Jan/Dec	Jan/Dec	Jan/Dec
Central Asian	415	1,079	1,427
US	14	279	701
South Africa	-	203	560
Uganda	-	-	411
Egypt	184	313	313
India	-	-	294
Mali	-	-	100
Tanzania	853	355	97
Syria	34	-	76
Zambia	76	-	40
Pakistan	-	-	25
Turkey	-	-	5
Zimbabwe	37	25	-
Cote d'Ivoire	-	20	-
Israel	1	28	-
Nigeria	123	60	-
Others	19	207	711
TOTAL	1,756	2,569	4,760

Source: HM Customs & Excise, courtesy Cotton Outlook

International Cotton Prices

When the ICAC met a year ago in Victoria Falls, world prices (as measured by the Cotlook A Index) had been following a downward trend for a period of some twelve months, in the face of a general oversupply and mounting economic difficulties. The tragic events in the United States, which

immediately preceded the 2001 meeting, had a further depressive influence on global business activity levels. Cotton prices shrank to levels that, taking inflation into account, were historically low. The Cotlook A Index fell to 34.95 cents per lb on October 29, 2001.

The path to recovery has been very slow and a rise above the 50 cents per lb mark – a level not breached since early in 2001 – has yet to materialise. Despite low prices, cutbacks in cotton plantings for the 2002/2003 seasons have not been as large as might have been anticipated. However, growing conditions generally have been less favourable than last year and a drop in world cotton output of approximately 10% might be in prospect. World consumption appears to have regained upward momentum, with forecasts of growth approaching 3% being widely predicted. In consequence, a correction in theoretical world stocks seems probable, with many forecasts suggesting that the massive increase sustained in 2001/2002 will be more than offset by the end of July next year. The longer-term price outlook thus appears somewhat more promising but much cotton has still to be marketed, particularly by the United States, which is now consuming less itself. This is serving to temper expectations of price gains in the immediate future.

Liverpool Cotton Association (LCA)

Arbitration and Enforcement of Awards

The last 12 months has seen a considerable turnover for LCA. Last year LCA reported a 50% reduction in the number of disputes. This year has seen an unprecedented rise; 400% on the total for 2001 and 165% based on the average for the previous five years. The LCA has also seen a corresponding increase in the number of appeals referred to the LCA with, on average, an appeal being lodged for every six arbitration awards stamped.

It would appear that because prices have fallen to unexpected levels there has been a proportionate increase in the number of firms or individuals who have chosen to contest or even ignore previously agreed but frequently unsigned contracts. This situation more than any other that has acted as a catalyst for the taking forward the “Good Trading Practices” initiative expediently. This initiative gave warning in October 2001 that the Trade and the LCA in particular could no longer be expected to turn a ‘blind eye’ to those members of the Association and the Industry more generally who choose to conduct business with firms who have failed to fulfil arbitration awards legally made against them.

The upward trend in the number of disputes taken to arbitration is expected to moderate during the next year as a modest increase in raw cotton prices begins to take effect. It is also felt that the measures introduced in support of Good Trading Practices are also beginning to moderate the behaviour of some members of the industry.

The increased demand for arbitration has highlighted a shortage of experienced arbitrators to take this work forward. The LCA has therefore turned its attention towards the availability of properly trained individuals who are prepared to make themselves available to undertake this task. There remains a concern that the less experienced traders in the industry are reluctant to make themselves available for dispute resolution tasks for fear that they lack experience and or any form of training. This has led to an LCA initiative to provide of formal training for those who would be willing to act as arbitrators. This training will encompass the procedures involved in dispute resolution, the development of a deeper understanding of the Arbitration Act and cover the duties and responsibilities of the Arbitrator.

The fulfilment of awards continues to be a problem but with new measures now in place ensuring increased discipline into the market, the focus is being shifted towards the issue of enforcement. The LCA is keen to support the enforcement initiatives that are now in hand through CICC, the ICAC and UNICTRAL. This began in May 2001 when the LCA, representing CICC delivered a keynote speech on the Sanctity of Contracts to ICAC's Standing Committee. This issue is now gathering momentum.

Laboratory Matters

Throughout the last 12 months there has been a notable increase in the number of applications from international cotton merchants and spinners to make use of the LCA's high volume instrumentation (HVI) testing facilities. It has been particularly encouraging to have been able to conduct quality testing for large spinning mills in India, Indonesia and Pakistan who have been keen to use the laboratory for the provision of data on length, length uniformity, strength, elongation, micronaire, colour and trash content. It would appear that Mills in this region are drawn to the LCA because its role as an independent arbitral authority underscores its impartiality within the international market. To encourage greater use of cotton testing facilities LCA's Board of Directors have now introduced generous discounts for volume testing.

This year the Association has been conducting a survey into the requirement for providing facilities to measure 'stickiness'. The purpose has been to establish demand before determining whether to install the testing equipment. Demand has been weak. However, there has been an increase in the requirement to provide data on fibre parameters such as nep and sugar content. The LCA is currently promoting the Availability of the testing service to both members and non-members

Cotton Standards

Throughout the year the LCA has continued to welcome representatives from major cotton producing countries for the purpose of adopting grade standards as Liverpool Official Standards. The Cotton Development Organisation of Uganda, The Sudan Gezira Board and standards from Kyrgyzstan, Pakistan, Tanzania and the USA have all had their replacement standard boxes adopted by the LCA. Finally, a set of standards representing Australian, the Community of Independent States (CIS) and West African cotton has been received from The Seam, a company specialising in 'online' trading. These standards have been accepted by the LCA albeit for reference purposes only. Meanwhile, the LCA continues to hold standard boxes representing almost all major cotton varieties

International Cotton Trade Seminar

The annual International Cotton Seminar remains to be one of the major highlights of the LCA calendar, and appears to be growing from strength to strength. Twenty-nine few Delegates from 22 different countries honoured the LCA by making the long journey to Liverpool. Presenters also travelled great distances to provide the seminar with the benefit of their experience of the international market and Industry. This year, thanks to the generosity of seven Liverpool based international companies, the LCA was able to welcome its first sponsored student. The successful candidate is from Paraguay.

International Cotton Trade Dinner

The LCA's 2002 International Trade Dinner which will be held in St. George's Hall, Liverpool, on 4 October is likely to set new records for numbers attending. Even as early as June applications exceeded the capacity of the Hall (which is 720) by over 100. There will of course be large numbers who plan to visit Liverpool to listen to the keynote presentations on matters of particular concern or of interest to the International Community, or who wish to visit the Cotton Trade Exhibition who may not find a seat at the dinner. Many delegates visit Liverpool for the purpose of attending the Advisory Council meeting or to participate in one or a number of the many meetings representing segments of the International Cotton Community. Whatever the attraction of Liverpool this event represents the single largest gathering of cotton merchants and perhaps for that reason alone, justifies the long journey that countless delegates embark upon from every cotton-producing region.

LCA Articles, Bylaws and Rules

The Articles of Association have recently undergone a major review to take account of modern working practices. The Articles and Bylaws also make provision for the office of Second Vice President, introduced by a special resolution last year. The first holder of this office is from Brazil and in effect will be the first overseas resident to hold the office of LCA President, representing the LCA's transition to a wholly international trade association. The Articles and Bylaws also include major amendments to properly reflect the recommendations of the Sub-Committee on Good Trading Practices. Amplification of these new rules together with information on the penalties that are likely to be awarded to members who choose to trade with companies whose names have been included on the LCA's list of unfulfilled awards, have been published in the LCA Bylaws. Amplification in the form of guidelines is being posted on the LCA Website - www.lca.org.uk. The Association is therefore confident that buyers and sellers of raw cotton, whether subject to the Articles or not will be provided with an opportunity to become familiar with the likely consequences of electing to do business with a firm whose name has been posted on "The LCA Default List".

International Visits

Bremen

The LCA was well represented at the 26th International Cotton Conference organised by the Fibre Institute and Bremen Cotton Association. The main topics of the conference were cotton production and marketing fibre properties and processing. Modern and futuristic automated cotton classing together with internet-based marketing were included in the programme, which embraced several presentations from companies in the US. Transgenic cotton was another subject that focussed the attention of the conference. Overall this was a thought provoking and often stimulating event, which contained something for everyone. The conference also provided an opportunity for CICC to meet when the LCA delivered what was to be the first of a series of presentations on good trading practices.

Turkey

Cotton Council International (CCI) conducted an invaluable seminar in Turkey this summer visiting four main regions. Exceptionally, CCI extended an invitation for a small LCA delegation to join the group since all US cotton sold to Turkey is under LCA Rules and it was judged that a large number of

questions would be based upon matters relating to these rules and the LCA Arbitration Service. This turned out to be the case. It was very clear however, that despite the size of the Turkish cotton industry a large majority of importers of raw cotton did not understand the LCA Rules neither did they possess a Rule Book.

American Cotton Shippers Association (ACSA)

This year's ACSA convention was relatively upbeat given the 'turnaround' in finances that the ACSA President had presided over. The hope is that this can now be sustained. The prime focus for discussion was on Good Trading Practices and there was an expectation that the LCA proposals would help kick-start the membership of ACSA and the Committee for International Co-operation between Cotton Associations (CICCA) into re-introducing a sense of parity and honour back into the international market.

Universal Standards Conference

The 26th Triennial Cotton Standards Conference for American Upland Cotton was held in Memphis earlier this year. The conference had not met for four years following an agreement to delay for 12 months to permit for the US Department of Agriculture (USDA) to devote more time to solve a pin trash problem relating to new standards. The conference was judged a success. The Overseas Signatories work well under the chairmanship and secretarial support of the LCA. The Signatories raised a small number of procedural points that will be the subject of further discussion within USDA. While expressing much satisfaction with the overall conduct of the conference they requested more time to assess the standards themselves.

The Committee for International Co-operation between Cotton Associations (CICCA)

Reinforcing good trading practices whilst helpful is not in itself the complete answer and as a result CICCA continues to direct its efforts towards those measures that will help reinforce the principle of the sanctity of a contract. This is being done by urging the 44 member states of ICAC to underwrite, implement and reinforce the provisions of the New York Convention on the enforcement of arbitration awards. CICCA is also working in partnership with UNICTRAL and ICAC to establish empirical data to help determine the full extent of the problem facing the cotton industry. Until this is done long-term solutions will be difficult to determine.

In parallel, CICCA is working with International. (ITMF) through the Joint Cotton Committee to establish regular dialogue with the spinning community on matters relating to the drafting of contracts and the development of a better understanding of the LCA Rules and Bylaws for the purpose of avoiding subsequent disputes.

The catalyst for renewed effort over this matter may be directly linked to the LCA initiative on Good Trading Practices. There remains much to do but CICCA is of the view that progress will be actioned by confronting these problems head on. This is one of the reasons why CICCA has recently adopted an emblem as an identifying mark to signify CICCA's long-term commitment to the sanctity of a contract and support for good trading practices.

Cotton Co-operative Research

Following the early success of the PhD Student from Cardiff University over the measurement of biomarkers in cotton as a quality control index, the work continues to move forward. The research

work has now reached a stage that entails the detection and analysis of bacterial endotoxins and other contaminants in cotton. In parallel the research laboratory at Cardiff has reached agreement with the Liverpool Cotton Research Corporation to establish a simultaneous endotoxin/glucan assay for cotton tissue that will provide invaluable data to this project. The next paper to be published on this subject will be at the US Belt Wide Conference in 2003.

Cotton in the UK Aid Programme

The UK has a long association with all aspects of cotton production in less developed countries (LDCs) and this is reflected in its continuing commitment to Aid in the cotton sector in those countries. This assistance continues to form a modest but important element of both the research and development and technical co-operation components of the UK Aid Programme funded through the Department for International Development - DFID. It is recognised that cotton is an important cash crop for small, resource-poor, farmers and that the most significant constraint to cotton production by small farmers in LDCs is yield losses caused by insect pests, plant diseases and weeds. This includes the increasingly important and widespread problem of pest resistance to conventional pest control chemicals.

Consequently, most UK Aid to the cotton sector in LDCs is provided in the field of integrated pest management (IPM), focused on the development and implementation of sustainable, cost-effective and environmentally friendly strategies that can be integrated with existing programmes of pest, disease and weed control.

Current DFID funded research and development funded work on cotton is administered through its Crop Protection Programme administered by Natural Resources International, (a consortium of UK Universities). NRI commissions cotton-related R&D projects both from UK and LDC institutions and universities.

British agro-chemical and pest control companies are also important contributors to UK Aid funded research on and the implementation of appropriate IPM and IRM strategies for LDCs, often in close collaboration with NRI and the universities in addition to undertaking research on equipment and products in cotton producing countries.

R&D and Technical co-operation work carried out during the last year includes:

ICAC-supported, funded through the Common Fund for Commodities

- A major international project on the chemical aspects of sustainable control of the American bollworm on cotton has completed its second year of operation, with laboratory and fieldwork in India, The People's Republic of China (PRC) and Pakistan. The work, led from NRI at the University of Greenwich, is optimising the incorporation of insecticidal chemistries into the IPM of cotton pests.

DFID funded

- Provision of IPM advice to Ugandan cotton farmers in partnership with the IDEA project.

- Support of the Government of India programme of area-wide management of insecticide resistance in cotton (2002-2004) in 26 districts of the Indian Union.
- Work continues on weed management in cotton in the Zambezi valley and other areas of Zimbabwe
- Work at Rothamsted Agricultural Experimental Station on Chinese, Pakistani and Indian cotton bollworms are focussed on determining the genetics of resistance and cross-resistance patterns, in conjunction with the CFC/ICAC project above.

EU funded

- Work on the farmer-appropriateness of Bt transgenic cotton in PRC. This collaborative venture between the University of Greenwich, CABI, the Danish Institute for Agricultural Research and CIRAD is exploring the implications of Bt transgenic cotton on the beneficial and other non-bollworm pest insects, for farmer incomes and insecticide use. It examines the prospects for the development of resistance and its subsequent management – including the development of molecular diagnostic tools for resistance.

Other Cotton Research in UK Universities and Institutions

The Institute of Arable Crops Research (IACR) Rothamsted continues working on insecticide resistance in whiteflies that is of great relevance to cotton. The International Pesticide Application Centre of Imperial College of the University of London undertakes studies on spray application in cotton and has run training courses for international students in this area. A number of cotton ginning and trading companies also support research work in such areas as the alleviation of the impact of stickiness in cotton, water use efficiency and the trash content problem. Private sector research and development work continues on the design and efficacy of spray equipment.

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