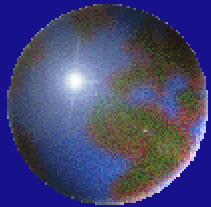


U.S. Department of Agriculture  
Agricultural Outlook Forum 2004  
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A Western Merchant's Perspective

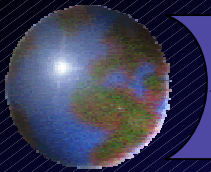
By

Gary W. Taylor



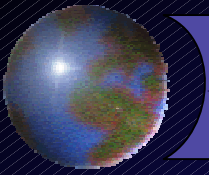
# **MEETING CHINA'S COTTON MILL DEMANDS**

**A WESTERN MERCHANT'S  
PERSPECTIVE**



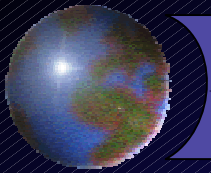
## **BACKGROUND AND INTRODUCTION**

- **HOW DO CHINESE MILLS BUY CHINESE COTTON?**
- **WHO ARE THE BUYERS OF IMPORTED COTTON?**
- **WHAT GROWTHS, QUALITIES AND QUANTITIES DO THEY BUY?**
- **WHAT ARE THE MAJOR CHALLENGES AND**
- **HOW DOES BUSINESS GET DONE?**
- **LOOKING FORWARD, WHAT CHANGES ARE LIKELY?**



# HOW DO CHINESE MILLS BUY CHINESE COTTON?

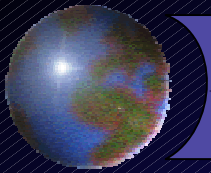
- Cotton and Jute
- Gin/merchant/mill privatization
- Governmental buying organizations
- Strategic reserves



# CHINA'S COTTON BUYERS

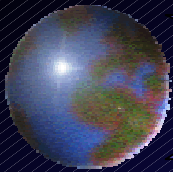
## MAJOR GOVERNMENTAL BUYING ORGANIZATIONS

- China National Textiles Import and Export Corporation (CHINATEX)
- China National Cotton Reserves Corporation (CNCRC)
- China National Cotton Group Corporation (CNCGC)



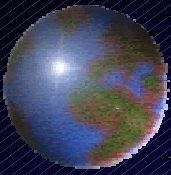
## MAJOR PRIVATELY OWNED (EXPORTING) MILLS

- Weiqiao
- Huafang
- Others (approximately 225 mills were granted import licenses)



## **STATE RUN MILLS**

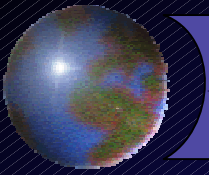
- ❖ **Inefficient, old equipment**
- ❖ **Large payrolls/retired employees**
- ❖ **Poor management**
- ❖ **Nonperforming Loans**



# **GROWTHS, QUALITIES AND QUANTITIES CHINA BUYS**

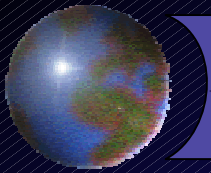
- **Determined by China's cotton production**
- **Government policy**
- **Timing (availability), price**
- **Other major origins include Uzbekistan, West African, Greek and Australian**





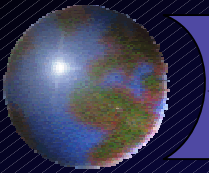
## **MAJOR CHALLENGES/DIFFERENCES OF THE CHINESE MARKET**

- **Uneducated buyers**
- **Current trade utilizes Chinatex rules (LCA,ACSA, GAFTA?)**
- **Lack of price/risk-management tools**
- **Government policies—CIQ, quotas**
- **Corrupt legal/arbitration system**
- **Culture**



## HOW THE BUSINESS GETS DONE

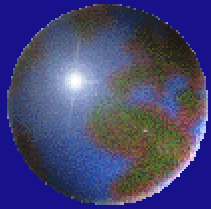
- Major merchants have a presence in China
- All merchants use agents
- Imports are priced relative to New York futures
- Much discussion regarding terms, credit, trade rules, etc.



# **A LOOK FORWARD**

## **WHAT CHANGES ARE LIKELY**

- **China's imports will grow—many more mills will deal with world exporters**
- **Trading rules will get resolved**
- **Less government intervention**
- **Less trade with government bodies**



# **MEETING CHINA'S COTTON MILL DEMANDS**

**A WESTERN MERCHANT'S  
PERSPECTIVE**