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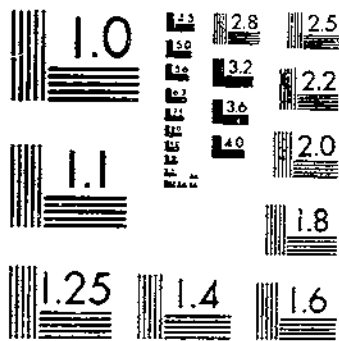
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MARKETING AMERICAN COTTON ON THE CONTINENT OF EUROPE

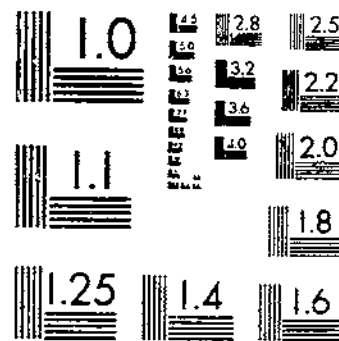
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NATIONAL BUREAU OF STANDARDS-1963-A

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C.

**MARKETING AMERICAN COTTON ON
THE CONTINENT OF EUROPE**

By ALONZO B. COX

*Formerly Agricultural Economist, Division of Cotton Marketing, Bureau of
Agricultural Economics*¹

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GENERAL ASPECTS OF COTTON MARKETING ON THE CONTINENT

The Continent of Europe taken as a whole is, next to the United States, the greatest consumer of American cotton. Of the total American cotton consumed by the United States, the Continent of Europe, and England during the years 1922-23, 1923-24, and 1924-25, the United States took 52 per cent; the Continent, 31 per cent; and England, 17 per cent. The ratios for the year 1912-13 were 41, 34, and 25, respectively. It is significant that, although England has about 13,000,000 more spindles than has Continental Europe, that country consumed 4,500,000 bales less of American cotton during these three postwar years.

The problem of locating the spinning industry on a map of the Continent is not so simple a task as in the case of England. Each country has its own industry, which means that the industry for the

¹ Credit is due to W. I. Holt, who represents the bureau in the cotton markets of Europe, for review and check of many details as to foreign-market practices reported, and to Florena Clèves, of the Division of Cotton Marketing, for much assistance in research and in the preparation of the text of this report.

Continent as a whole is widely scattered. Even within any one country there is not that high degree of centralization which prevails in England. In addition to the more important manufacturing districts there are smaller centers and many isolated mills, and many of these mills are small. There are, however, some very large isolated mills. For example, Leipzig, Germany, has only one mill, yet it has 250,000 spindles. An equally large mill is located at Naples.

SOURCES OF RAW MATERIAL

Except for a negligible quantity of cotton that is grown in southern Italy and Spain, western Europe must import all its raw cotton. The chief sources of supply are the United States, India, and Egypt; a great number of minor sources are grouped under "sundries." The United States furnishes the greater portion of this supply. (Fig. 1.)

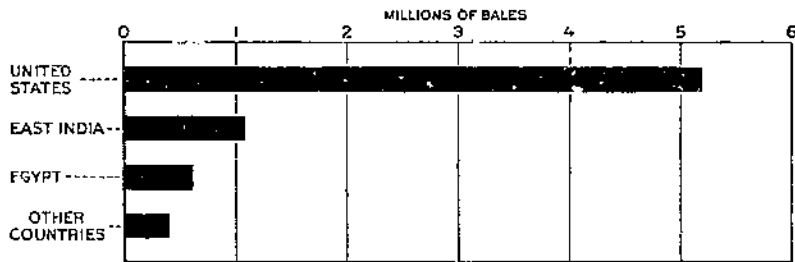


FIG. 1.—SOURCES OF SUPPLY OF RAW COTTON FOR ALL OF EUROPE EXCEPT RUSSIA, 1921-1925

The comparison here made is between the average annual consumption of indicated growths for the five-year period ended July 31, 1925. The item shown as "sundries" is made up chiefly of cottons grown in Peru, Africa, Brazil, and the West Indies. Data used in the preparation of this graph are from reports of the International Federation of Master Cotton Spinners' and Manufacturers' Associations, Manchester (*d*).

The chief ports of entry for these cotton supplies are Bremen, Germany (including Bremerhaven); Havre, France; Milan, Italy (through Genoa); Barcelona, Spain; Antwerp and Ghent, Belgium; and Rotterdam, Netherlands. Other points through which some cotton enters, but which have no regularly organized cotton markets, are Hamburg, Dunkirk, Venice, Marseilles, and Naples.

As the mills are located at considerable distances from the import markets, the marketing problems are different from those found in England. It is impracticable for the spinners to go to the import markets to buy their cotton, and it takes a longer time for the cotton to be delivered. These and other conditions have developed spinners' markets apart from the import markets and have tended to develop a different method of doing business from that prevailing in England.

MARKETING COTTON YARN AND GOODS

In western continental Europe there is no outstanding center comparable with Manchester in the marketing of yarn and cotton goods. Tariffs and other barriers have tended to restrict the markets to national units. Within each country one or more markets serve as

the distributing centers for the finished goods. In addition, each spring and fall what are known as international fairs are held. The chief function of these fairs is to bring buyers and sellers together. Some of these, like the ones held at Leipzig and Vienna, are really international in character. Textiles and textile machinery form important parts of the exhibits.

The chief market for finished goods may not be in or near the manufacturing center. Paris, for example, is the outstanding goods market for the manufactures of France; yet it is not a center of textile manufacturing. Consequently, there is not the close relationship between finished goods, yarn, and raw cotton that is found in England.

MARKETING RAW COTTON

The raw-cotton marketing business of Europe has not been so thoroughly hedged about by tariffs and other legislation as has the cloth business, but national lines are important considerations in determining the size of markets. The ports which make a specialty of handling cotton are comparatively few. Some countries have no import merchants' market, either because they have no sea front or because the volume of business does not justify it. The few large port markets, therefore, have what is commonly spoken of as a hinterland, a consuming territory to which the merchants in the market have free access and within which they operate to more or less advantage. The description of cotton marketing on the Continent will be centered around these larger markets.

MARKETING AMERICAN COTTON IN NORTHERN EUROPE

BREMEN AND ITS HINTERLAND

The hinterland of Bremen, the largest of the continental markets, comprises Germany, Czechoslovakia, Poland, and a part of Russia. Bremen claims, also, an equal chance in Switzerland, Austria, and the Scandinavian countries. In order to facilitate the international aspects of its trade, Bremen has developed what is known as a "free port"; that is, goods destined for other countries are not subject to German tariff duties when passed through the port.

The leading spinners' markets in what will be referred to as the Bremen territory are Chemnitz, Rheine, München-Gladbach, Lodz, Vienna, and Prague. This does not mean that the spinners in the districts of which these cities are the chief centers congregate there to buy cotton; they do most of the buying at their own mills. To compete successfully for the business, therefore, it is necessary for each merchant to have a large selling force.

The spinners buy most of their cotton on basis, buyer's call. They buy the basis, that is, make a contract for a certain number of bales of a specified quality for a stated number of points "on" or "off" a named month in a designated futures market, when they think that part of the price is low. Sometimes they buy heavily in the spring for new crop deliveries, and sometimes they do not buy until summer or until well into the fall. They may fix the price on their call purchases at any time. Customarily they sell their goods at a

price calculated on the prices of futures and of the "basis" named in their purchase contract, and when the sale is made they fix the price of a quantity of cotton sufficient to make the goods.

The contract almost invariably specifies New York as the futures market to be used in the call. The price at which the futures contract is actually executed is rarely the price of the actual purchase or sale, as is the case of the English spinners' call in Liverpool; it is more often the quotation for that month at a definite time. The close is most often used. The spinner may be given the privilege of fixing the price on the previous day's close, provided he exercises his privilege before 11 a. m. of the next day. The practice in this particular is not uniform and may be used as a bargaining point.

FACTORS MAKING BREMEN THE COTTON MARKET FOR NORTHERN EUROPE

Germany was one of the earliest countries in western Europe to begin the development of a cotton-manufacturing industry. In the fourteenth century its barchent, a cloth woven of linen warp and cotton weft, had already gained a wide reputation. Ulm and Augsburg were the centers of this early industry. Later it spread to Alsace and along the trade route to Nuremberg, Hof, Leipzig, and Chemnitz.

The raw cotton to supply this growing industry came mostly from Cyprus and Syria. Venice was the great entrepôt for it, and it was sorted, tested, and distributed to the spinners from the border cities.

The Thirty Years War wiped out this budding cotton industry, which made little progress toward recovery until after the beginning of the eighteenth century, when the main developments were in Saxony. The old sources of supply of raw cotton were completely eclipsed by the new sources in the West, especially in the United States. This gave western ports the advantage in the trade in raw cotton and reversed the movement of it, which had formerly been from the south and east to the north. The new line of movement was from the west eastward. Bremen took the lead in the development of the new cotton trade.

The shortage of cotton resulting from the American Civil War revolutionized the cotton-manufacturing industry in Germany, because the hand weavers were forced to seek other employment. The revival which followed the Civil War was based on power machinery. This, coupled with the formation of the German Empire, which eliminated internal tariff barriers, made possible Bremen's great development as a cotton market.

BREMEN COTTON MARKET

The bulk of the cotton which is imported into Germany passes through either Bremen or Hamburg. Almost 100 per cent of the American cotton is handled in the Bremen market, whereas most of the East Indian and other growths enters through Hamburg. There is no organized market in Hamburg, and much of the business is done by Bremen merchants.

Bremen is one of the old cities in Germany. It is situated on Weser River about 75 miles from the sea. The silting of rivers and

the increase in size of ocean-going ships have spelled the ruin of many such river towns; but not so with Bremen, for this city has striven to deepen its waterway in keeping with increased size of ships. To-day more than 60 per cent of the Bremen imports are unloaded in the harbor within the city limits. Some of the larger ships that can not come to Bremen with their cargoes stop at docks built by Bremen at Bremerhaven, a port nearer the mouth of the river. The cotton unloaded there is sent up the river on lighters or by rail, or is stored in warehouses at Bremerhaven. The facilities for handling the cotton are the same in quality at Bremerhaven as at Bremen. There is no market at Bremerhaven. The stocks in the two places are treated as one in the statistics of German cotton imports.

An organized market existed in Bremen prior to the American Civil War. In 1859 the total of imports into Bremen amounted to 152,935 bales. Of this number, 109,000 bales were American, and the rest of the cotton was East Indian. During the Civil War imports ceased almost entirely. Following close on the heels of the disasters that were due to the American war came the War of 1870-71 in Germany. This latter war gave only a temporary setback, for shortly afterwards a "committee for the Bremen cotton trade" was formed. In October, 1872, the association was organized in its present form under the name of the Bremer Baumwollbörse.

The Bremen market is unique in the breadth of its organization. All phases of the cotton industry in Germany are represented, and citizens of many foreign countries are also members. As early as 1886 the spinners were asked to cooperate in the development of the market. They saw an advantage in having a large market on the sea and on German soil, to bring them in closer touch with the world's supply of raw cotton, especially a market in which they had a substantial measure of control.²

Bremen is now the second largest market for American cotton in Europe. It is the distributing center for raw cotton for a large part of the hinterland as well as for Germany itself. The largest volume of imports for any one year occurred in 1912, when nearly 3,000,000 bales, mostly American, were handled. Business was cut off during the World War; and, though Bremen again ranks second in importance in the importation of American cotton, it has not yet resumed its former volume. The imports into Bremen from August 1, 1924, to April 1, 1925, were over 1,250,000 bales.

PORT FACILITIES

The port of Bremen is within the city of Bremen. Most of the docks and landing sheds are comparatively new and have excellent facilities for handling a cargo quickly and cheaply. The docks have direct railway connections. As many as six 2-ton cranes can be trained on a single ship, all the cranes being movable. A ship can thus be discharged in an exceptionally short time. (Fig. 2.)

The landing sheds used by ships discharging cotton have a capacity of approximately 75,000 bales. These are one-story sheds and

² For details of the organization of the exchange, see p. 7.

are equipped in most cases with skylights. There is a triple-track railway between the sheds and the ship, and either a single or a double track on the land side. At the ends of the sheds there are also places for loading and unloading motor lorries.

WAREHOUSING

The approximate cotton-warehouse capacity of Bremen and Bremerhaven combined is 800,000 bales. The warehouses are owned mostly by private companies called "spediteurs," or forwarding



FIG. 2.—Unloading cotton in Bremen. Huge cranes lift the cotton bales from the quay, swing them across the street, and deposit them in the warehouse.

agents. The city of Bremen, however, owns cotton-warehouse capacity equal to approximately 150,000 bales. About half the cotton-warehouse space in Bremen is in buildings of the one-story type; the other half, largely in three-floor buildings. None of them is designed to handle cotton only one bale high. In the one-story buildings it is customary to stand the first bales on end, then to stack others flat from three to five deep on top of the first bales. They are stacked one bale at a time with electric-motor lifts. Cotton is stacked in even-running marks in 50-bale lots. The houses are of brick and are divided by solid fire walls into compartments. The size of the compartments varies. Some of them have a capacity of 2,500 bales.

The warehouses have railroad tracks on both sides, and most of them are within the dock area. The cotton may be removed direct from the quay

into the city warehouse, which is just across the street from the shed. The land side of the shed is equipped with a crane which supports an arm capable of reaching from the quay to the warehouse. (Fig. 3.)

METHOD OF DESCRIBING COTTON

The spinners in this region buy their cotton on type or on type samples, or on description according to a standard, or on a combination of these. The merchants' agents, from whom the spinners buy most of their cotton, carry either types or type samples with them to the spinners' offices. If the cotton is in stock in Bremen, type samples are more often used. The agent is furnished 2 rolls of 20 sam-

ples each for each 100 bales. If the prospective buyer is interested, he chooses either roll without previous examination. If the samples prove satisfactory, the unopened set is sealed and sent to the arbitration room of the Baumwollbörse in Bremen.

When the cotton is taken up by the spinner's representative, the "spediteur" or forwarding agent, he draws two sets of samples. One is sealed jointly with the seller and is sent to the arbitration room of the Baumwollbörse, to be used in case of arbitration; the other is compared with the selling samples. If the forwarding agent is satisfied that the samples drawn are as good as the selling samples, the spinner's representative calls for the samples in the possession of the Baumwollbörse, and the transaction is closed.

Since the adoption of universal standards, much of the American cotton is bought as equal to a grade or grades of these standards. Many of the spinners have sets of these standards or have access to them. It is an important assurance that they get what they buy.

The interior spinners' markets do not have separate rules governing their business. All business between spinners and merchants is done on Bremen contract forms and is subject to Bremen rules and terms. The man with whom the spinner makes his contract is an agent of a merchant. He works for a commission and is usually a resident of the territory which has been assigned to him.

The spinner rarely goes to Bremen to buy his cotton direct from the merchant, though presumably he could do so if he desired. A cooperative buying organization of spinners has been formed to buy direct. An office is maintained in Bremen, but the volume of business done thus far has not been large.

Since the World War a number of American cotton merchants have developed facilities for doing business directly with the spinners. They establish offices in Bremen, employ German citizens in the offices, carry stocks of cotton in Bremen, and establish agency connections in the different spinning centers. They thus do essentially the same type of business as does the German merchant.

GENERAL CHARACTERISTICS OF THE BREMEN MARKET

The Bremen cotton market provides facilities for trading both in spot or actual cotton and in contracts for the future delivery of cotton. The side of the market which deals in spot cotton or cotton of specific



FIG. 3.—Bremen city warehouses. There are many warehouses like this in the dock area. These warehouses hold about 150,000 bales of cotton.

description is the older and the more important and will be first described.

The present organization was formed in 1872, in the period when much organization and reorganization was taking place in the cotton markets of the world. Bremen had a loose organization prior to this time, just as did Liverpool, New York, and New Orleans. Bremen had begun in 1859 to publish weekly figures of imports and sales of the different growths and other pertinent facts. At this time the total imports of all kinds of cotton into Bremen amounted to about 150,000 bales a year.

The Bremer Baumwollbörse is located in Bremen. The exchange as such owns a handsome building which is large enough not only to house all the official business of the association, but to furnish office space for the members. (Fig. 4.) The association has no capital stock. It pays no dividends on its shares, and its rental of office space provides considerable income.



FIG. 4.—The Bremen Cotton Exchange Building. In this building is located the exchange of the largest cotton market on the Continent of Europe.

MEMBERSHIP

There are two classes of members—regular members and associate members. The only difference between the two is that the regular members have a right to vote in the general assembly and the associate members do not. Voting may be done by proxy, but no member can represent more than five members.

Firms as well as individuals may become members. The following are the qualifications for regular members:

(1) A regular member may be—

(a) Anyone who is listed in the Bremen trade register of registered firms, who as an importer, trade agent, jobber, shipping agent, freighter, or banker, is interested in the Bremen cotton trade.

(b) Any German firm in the cotton industry which, as dealer or agent, is interested in the Bremen cotton trade.

(c) Any proprietor or partner, any member of the board of directors, or any manager of a firm which may be a regular member of the Bremen Cotton Exchange.

(2) If a firm, as such, is a member, then each partner, each director or overseer, each manager, as well as each head clerk, authorized agent in the business, or representative of the firm, is considered a member of the Bremen Cotton Exchange. But the partners or the various agents of the firm have but one vote in the general assembly.

(3) If an individual member makes use of his vote in the general assembly, the firm to which he belongs has no vote.

(4) If several members of the board of directors, or the superintendents of a joint-stock company or company of shareholders, or several managers or superintendents of a company with limited liabilities in such company, are individually regular members of the cotton exchange, they may have together as members of a firm, at the most, only three votes in the general assembly.

One associate member is always chosen from each of the three following non-German associations: The Swiss spinning, twisting, and weaving society; the societies of cotton spinners and weavers of Austria; and the delegation of cotton spinners from Czechoslovakia.

ELECTION OF MEMBERS

Application for membership must be in writing to the president of the association, and election must be recommended by three regular members. Members are elected by the directors. There are approximately 600 members, though no limit is set to the possible number of members.

MEMBERSHIP FEES

Each member must pay an annual fee, fixed annually by the general assembly. The fee of an associate member is three-fourths of that of a regular member. In 1925 the fee was 300 reichsmarks, the equivalent of about \$70 in United States money.

Memberships are lost by death, by voluntary withdrawal, or by expulsion by the general assembly. The directors may temporarily withdraw the privileges of membership from a member for a period of not to exceed one year.

RULES OF THE BREMEN EXCHANGE

The rules of the Bremen Cotton Exchange are made up of all the written rules and the established customs of the German cotton trade and industry. The written rules can be changed or added to only by the general assembly through a committee of the board of directors.

THE GENERAL ASSEMBLY

The general assembly is the law-making body of the exchange. It must hold a regular meeting within the first four months of the calendar year. Extra meetings must be called by the directors on petition of 30 regular members, within six weeks. In case the directors think it advisable they can call a meeting of the general assembly at any time. The assembly approves accounts, fixes the amount of the annual dues, and elects directors, inspectors to check the accounts of the directors, and the assessors to serve in the case of superappeals, etc. All changes and additions to the rules of the exchange must be presented to the directors 16 days prior to the meeting of the general assembly and be placed on the day's order of business. Changes in the rules require a majority of two-thirds of the votes cast.

THE DIRECTORS

The board of directors consists of 24 members. Of these 12 are from Bremen, 1 is from Hamburg, 8 are German spinners, and 3 are spinners who operate outside of Germany. All of the directors except the 3 spinner members from outside of Germany must be regular members; and of the Bremen members, only personal members may be elected. The Hamburg director is elected by the cotton trade in Hamburg. The 8 German-spinner directors are elected by the spinners' organizations. The 3 spinner directors from outside Germany are elected one each by the spinners' organizations of Switzerland, Austria, and Czechoslovakia. These latter three have only advisory powers; the Bremen members therefore constitute a working majority.

POWERS AND DUTIES OF DIRECTORS

The board of directors is charged with the enforcement of the rules, the operation of the market, and the promotion of its best interest. It names the managing director, who in turn has the responsibility for the active management of the affairs of the association. It has the general oversight of the arbitration and sample room, with the managing director in active charge. It elects its own officers, and, in cooperation with the managing director, appoints the cotton classers, expert inspectors, and helpers. It elects the committees, but by absolute majority.

THE COMMITTEES

There are nine regular standing committees. They are (1) committee for naming arbitrators, (2) committee on statistics, (3) committee on rules, (4) committee on American cotton standards, (5) committee on East Indian cotton, (6) committee on standards for linters, (7) committee for establishing value differences for American cotton, (8) committee for establishing value differences for East Indian cotton, and (9) quotation committee.

Members of committees 1, 2, and 3 must also be members of the board of directors. Committees 4, 5, 6, 7, and 8 must each have at least one member from the board of directors. Committee 9 must consist of three cotton brokers, not necessarily members of the board of directors. The members of this committee must likewise be members of committee No. 7.

The members of committees 1 to 8 inclusive are elected annually and serve for one year. One member retires each year from committee 9 and can not be reelected until one year has elapsed.

Each committee effects its own organization. If a member of a committee is personally interested in a dispute that comes before it, the president names a substitute.

THE COTTON SAMPLE ROOMS

Much significance attaches to the cotton sample room. The actual classing is done by paid experts. They are under the general supervision of the board of directors and under the immediate direction

of the managing director, who must also make reports to the general assembly. Before entering upon their duties the classers and other experts, or their substitutes, must take an oath to perform their duties accurately and impartially. All fees for work done are paid into the bank of the cotton exchange. The amount of work done does not affect the compensation received. The actual operation of the sample room will be discussed later.

PENSIONS

The association has established a pension fund for the benefit of its officers and employees, their wives and children. The management of this fund is under the general supervision of the board of directors and under the active management of the managing director.

COTTON STANDARDS

The universal standards for grade and color of American cotton are the official standards for American cotton in Bremen. There are no official standards for cotton lower than that represented by the universal standards. Such cotton is sold on actual sample or on type samples.

The association requires five sets of the universal standards for the most efficient operation of its business. The spinner customers of the Bremen exchange have bought sets of universal standards and are buying much of their supplies on standard description.

The Bremen exchange has also official standards for East Indian cotton. They are essentially the same as the Liverpool standards for these cottons. No official standards for Egyptian and other growths are used in Bremen.

There are no official type standards in Bremen for staple length or for character of cotton. Staple is described in terms of millimeters except in the case of "fair staple"—a quality equal to approximately seven-eighths of an inch American measure; and "good staple," which is approximately seven-eighths of an inch.

All price quotations are based on 28-millimeter staple with discounts for shorter staple and premiums for longer staple. The staple lengths used in official quotations are fair staple, 28, 28/29, 28/30, 29, 29/30, 30, 30/32, and 32 millimeters.

The millimeter description takes character into consideration; but if the character is unusually poor, an extra allowance may be deducted. It is evident, therefore, that a comparison of actual inch lengths with actual millimeter lengths can be only approximate. In fact, no accurate comparisons can be made, because experts in the market sometimes have different opinions as to the classification of any set of samples, and more particularly as to what the staple description would be in another market. The following comparisons (Table 1) represent the predominant opinions of some of the best-informed men in the different markets.

TABLE 1.—Comparison of American and European staple-length descriptions

American lengths	Liverpool lengths	Bremen lengths	Havre lengths
<i>Inches</i>	<i>Inches</i>	<i>Millimeters</i>	<i>Millimeters</i>
Shy $\frac{1}{8}$		Fair staple.....	
$\frac{1}{8}$	Fair staple.....	Good staple.....	23 to 24.
Full $\frac{1}{8}$ to $\frac{3}{8}$	Good staple.....	Barely 28 mm.....	26 to 28.
$\frac{3}{8}$ (full $\frac{1}{8}$ to 1).....	$\frac{1}{4}$	28.....	28.
Full $\frac{3}{8}$ to 1.....		Full 28.....	
1.....	Commercial $1\frac{1}{8}$	Barely 28 to 29.....	Barely 28 to 29.
Full 1 to $1\frac{1}{8}$	$1\frac{1}{8}$	28 to 29.....	28 to 29.
		(1).....	
$1\frac{1}{8}$	Good $1\frac{1}{8}$	28 to 30.....	Full 28 to 29.
Full $1\frac{1}{8}$ to $1\frac{3}{8}$	Full $1\frac{1}{8}$	29.....	28 to 30.
$1\frac{3}{8}$	$1\frac{3}{8}$ to $1\frac{1}{2}$	Full 29.....	29 (29 to 30).
Full $1\frac{3}{8}$ to $1\frac{1}{2}$	Full $1\frac{1}{2}$	29 to 30.....	30.
$1\frac{1}{2}$	$1\frac{1}{2}$ to $1\frac{3}{4}$	Full 29 to 30.....	Full 30.
Full $1\frac{1}{2}$ to $1\frac{3}{4}$	$1\frac{3}{4}$	$1\frac{1}{8}$	30 to 32.
$1\frac{3}{4}$	$1\frac{3}{4}$	$1\frac{1}{4}$	32 to 34.
	$1\frac{3}{4}$	$1\frac{3}{8}$	34 to 35.

¹ Bremen merchants sometimes buy $1\frac{1}{8}$ Bremen descriptions, which is better than 28/29 but not quite so good as 28/30.

The best check on staple measurements is the official price quotations. Unfortunately, Liverpool has no official quotations for premiums and discounts for different staple lengths. The chief difficulty in any comparison between the markets that have such figures is the fact that the base from which prices are reckoned is not the same in each market.

SETTLEMENT OF DISPUTES IN BREMEN¹

According to the Bremen rules all disputes are to be settled by arbitration. There are essentially three official ways of bringing about such a settlement in the Bremen cotton market. (1) If the dispute requires the taking of testimony, either party at dispute or either arbitrator may insist that the matter be tried in a court of law. (2) Disputes which arise out of such things as different interpretations of contracts, the terms in contracts, or the general conduct of business are settled by arbitration, appeal, or superappeal. (3) Disputes over questions of the class of the cotton or its condition are settled by a statement of fact or an arbitration or appeal by sworn experts. Each of these methods will in turn be more fully described.

Few disputes in the Bremen cotton market are such as to require settlement in the law courts. If an interested party feels that the dispute should be settled in the law court, he appeals for such a settlement to the board of directors. Such a party must furnish details of the matter in dispute and the reasons for appeal to the courts. The decisions of the directors are final as to manner of settlement. All cases referred to the courts must be tried in the courts of Bremen.

Disputes of the second class, those which involve matters which require neither court settlement nor the decision of technical experts such as is required in determining the quality or condition of cotton, are settled by the usual methods of arbitration.

In cases of disputes other than those as to quality, or damp, or damage, each disputant appoints one arbitrator. He may appoint

any member or associate member of the Bremen Cotton Exchange, partners, members of a board of directors or supervisory board, business manager, or persons holding procuration of a member firm.

There are three such methods, one applicable to disputes as to quality alone, one applicable to disputes as to damp or damage, and the third applicable to disputes of other kinds. The arbitration of disputes as to quality and damp or damage is described later.

The party who demands arbitration informs the opposite party in writing of the name of his arbitrator and requests him to appoint one. The party so notified must make his appointment within seven days after receipt of notification. If he fails to make such appointment, the party demanding arbitration may request, through the managing director, that the committee for the nomination of arbitrators appoint an arbitrator for the defaulting party.

Arbitration proceedings are initiated by the party demanding arbitration when he furnishes the arbitrators a written statement in duplicate showing (1) the names of the parties, (2) a summary of the facts in the case, and (3) the specific demands. The contracts and other written documents involved must be attached by the complainant to this statement.

The arbitrators then hand one copy to the opposite party and fix a time within which he must make a counter statement. It must be made in duplicate, addressed to the arbitration committee and handed to the arbitrator named by him. If he does not make a counter statement, the arbitrators presume that the statement of the demanding party is correct.

The arbitrators may call for additional evidence, but no direct communication between a disputant and his arbitrator is permissible. All communications must be addressed to both arbitrators in order to be considered.

The decision of the arbitrators must be in writing within 14 days from the day of their appointment. It must show (1) the names, occupations, and addresses of the disputants, (2) the names of the arbitrators, (3) a summary of the facts, (4) the grounds for the decision, and (5) the verdict. The certificate of award is signed by each of the arbitrators and is given with the other documents to the managing director. Copies are prepared and handed by the managing director to the disputing parties.

Either party may demand that a transcript of the verdict be filed with the law court. The demand is addressed to the managing director, who has the necessary authority to carry out the demand.

In case arbitrators fail to agree, they choose a third arbitrator, who serves as umpire. If they can not agree on an arbitrator to serve as umpire, each names one and they select one of the two by lot.

When an umpire has been chosen, the decision is by majority, or if the umpire can not agree with either arbitrator, his decision alone shall stand. If a monetary award is involved, the decision of the umpire must be within the range of the figures given by the arbitrators.

Fees for arbitration are fixed by the arbitrators and stated in the award. The fees are paid by the party in whose disfavor the award is rendered. If a claim is allowed only in part, then the fees are divided proportionally between the disputing parties.

APPEALS FROM AWARD OF ARBITRATORS

Any party affected by an arbitration award may appeal by filing with the managing director within seven days from date of receipt of award a written or telegraphic notice of appeal. He must state in his notice the extent to which he disputes the award and the alterations he demands. He must at the same time serve notice of appeal on the opposite party. He may alter his original claim in any way he desires.

The appeal committee consists of three members. They are appointed by the committee for the nomination of arbitrators on notification of the managing director. Anyone who has a right to serve as an arbitrator may serve on an appeal committee. The legal adviser of the cotton exchange, or his deputy, is adviser of the appeal committee.

The award of the arbitrators and the documents upon which the arbitrators based their award, are handed to the appeal committee. Other evidence may be furnished by either party, and the committee may demand further information. The appeal committee renders its award by majority vote. It must confine its decision to the points raised by the parties in dispute.

The fees are paid by the appellant if the original award is not altered. If it is altered, the appeal committee divides the fees as it sees fit. The fees are stated in the award.

SUPERAPPEALS

An appeal may be made by an interested party against the award of an appeal committee by sending such appeal to the managing director in writing or by telegram within seven days from the day a copy of the award was served upon him. The managing director informs the opposite party.

The superappeal committee consists of the chairman (or his deputy) of one of the chambers of trade of the Bremen district court as chairman and two members of the Bremen Cotton Exchange as assessors. The latter must be chosen from a list of persons elected by the directors at their first meeting after the general assembly. Anyone who may be an arbitrator may be placed on this list. The chairman of the superappeal committee is chosen by the committee for nominating arbitrators. The two assessors are chosen, one each by the disputants.

The managing director furnishes the superappeal committee with all documents used in the case. All further declarations must be addressed to the chairman and handed to the managing director for transmission. The award is rendered by a majority and is confined to the points in dispute. The fees are fixed and paid as in the case of appeal.

COLLECTION AND DISTRIBUTION OF FEE MONEY

All fees are collected by the managing director, who may require payment in advance. Fees for the arbitration are collected from the claimant, and those for appeal and superappeal, from the appellant. The fees collected for the arbitration and appeal are assigned three-fourths to the arbitrators or appeal committee, as the case may be;

and one-fourth to the Bremen Cotton Exchange. In case of super-appeal, four-tenths goes to the chairman and two-tenths each to the two assessors and the exchange.

ARBITRATION INVOLVING QUALITY

The Bremen system of settling disputes as to quality is different from that of any other market. All classing and arbitrations of quality of cotton must be done by sworn classers hired by the Bremen Cotton Exchange. They are not chosen by the parties in dispute. They know neither the names of the disputants nor the marks of the cotton.

Cotton for official classification must be sampled, and the samples must be sealed undressed by the buyer and seller jointly. Within the required time the sealed samples are sent by the buyer, or his agent, to the cotton sample room of the exchange. They go first to the sample-dressing room on the sixth floor of the exchange. The samples are received, a paper is pasted over all marks of identification, and a serial number is given each lot. This serial number is the only means of identification either in the arbitration room or the appeal room. The samples are then unrolled and carried to another room, where they are dressed and made ready for classification. The original numbers put in the samples at the time they were drawn remain there to identify the bales in the lot, but they furnish no clue as to the identity of the parties to a dispute or the marks of the lot.

The classers work in committees of two. If the two do not agree, then others pass on such samples until two do agree. The classification and arbitration rooms are on the fourth floor.

MAKING THE AWARD

The monetary award is a joint result. The classers are paid experts whose functions extend no further than the classification itself. The relative differences between the various classes of cotton are made officially by an entirely separate group—the committee for establishing value differences for American cotton. Differences are given separately for grade, staple length, and color. The base is Middling universal standard of 28-millimeter staple. This committee makes up these differences on Friday, and they become effective on Saturday for the following week. They are officially posted in the arbitration and appeal rooms.

After the class has been determined by the classification committee, the award is made in terms of points "on" or "off" the contract price of the bales classed.

All classification where the universal standards are used is on an average of the box.

A copy of the classification certificate is served on each of the disputants on the day of issue. It must be signed by the classers who give the award.

When the classification has been finished and the award given, the samples are sent to rooms on the fifth floor, where the disputing parties or their representatives may view the samples any time within seven days. If neither appeals within that time, it is presumed that the award has been accepted.

APPEALS ON CLASSIFICATION

Either party affected may appeal from the award of the classers. Such an appeal must be lodged with the managing director within seven days of the date of the award, provided he notifies the opposite party at the same time.

The appeal committee consists of three members. They are appointed by the committee for nominating arbitrators, on the notification of the director. The members of the appeal committee must be appointed from the list of appeal judges for American cotton elected by the board of directors at its first meeting after the general assembly. They are appointed for one year and must be members of the exchange. One of the classers who took part in the arbitration must be appointed to attend the meetings of the appeal board in an advisory capacity.

The committee is given the award of the arbitration committee, but neither before nor after rendering their decision are the names of the disputing parties known to them.

FEES FOR SETTLING DISPUTES ON QUALITY

The fees for classing and arbitration must be borne by the buyer on such lots as shall have passed in arbitration or on appeal or when the allowance is so small as not to exceed the amount of the fees, but by the seller if the award exceeds the amount of the fees.

If the cotton is sold on basis of a stipulated grade or on mutual allowances, the arbitration fees are borne jointly. The fees for appeal are borne by the appellant if the award be confirmed. If there is an alteration, each party pays one-half. These fees are collected by the managing director. One-sixth goes to the members of the appeal committee and five-sixths to the exchange. The Bremen Cotton Exchange publishes a schedule of tariffs.

ASSESSING DAMP OR DAMAGE

Allowances for damp or damage are not assessed by arbitration when the parties at interest can not agree. They are assessed by a sworn expert of the Bremen Cotton Exchange appointed by the managing director on application of either party. The demanding party must inform the opposite party as to the allowance claimed or offered. The expert is not informed as to the allowances claimed and offered by the parties.

The award of the expert is allowed if it exceeds the claim or falls below the offer. The award is issued in duplicate from the cotton sample room, and a copy is furnished each party.

The whole of the fees is borne by the losing party only when the award is equal to or greater than that claimed or offered by the opponent. Otherwise, they are borne in proportion to the number of bales falling below or above the amount claimed or offered.

THE OPERATION OF THE SPOT MARKET

The Bremen spot-cotton market and the futures market are operated independently of each other, although in close cooperation.

The importance of Bremen as a spot-cotton market is best shown by the volume of imports and of stocks. Imports are not as large as

those of Liverpool, but, when American cotton alone is considered, Bremen is not far behind; and if present trends are continued, eventually Bremen may equal Liverpool as an importer of American cotton. (Fig. 5.)

The stocks in Bremen are much smaller, as compared with imports, than is the case in Liverpool. This may be due to a number of reasons. The spinners in Germany buy a larger volume of their cotton on standard descriptions than do the English spinners. In the past, at any rate, the English have bought more of the better grades and staples than have the Germans, and these are more easily secured in the early part of the season. Previous to the World War cotton could be carried in Liverpool very cheaply, and there was

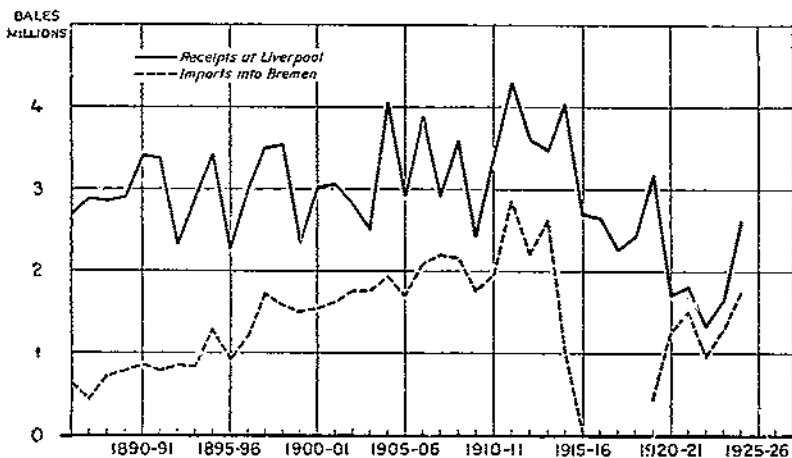


FIG. 5.—IMPORTS OF AMERICAN COTTON INTO BREMEN AND INTO LIVERPOOL.

Receipts at Liverpool are here compared with imports into Bremen for the period 1886-87 to 1924-25. Receipts at Liverpool are those given in Shepperson's Cotton Facts, 1886-1925 (6); years beginning September 1, 1886-87 to 1911-12; years beginning August 1, 1912-13 to 1924-25. Imports into Bremen are from Deutsches Baumwoll-Handbuch, 1921-22 and 1925-26(8); years beginning January 1, 1886-1892; years beginning September 1, 1893-1913; years beginning August 1, 1914-1925. No reports of imports into Bremen are available for the years 1916-17 to 1918, inclusive.

abundance of cheap money for financing large stocks. Figure 6 shows the trend in volume of stocks carried in Bremen since 1887.

The Bremen spot-cotton market operates under several different forms of contracts. One group of these relates to the transactions between merchants and spinners; the other, to the importation of cotton by merchants. Stated in another way, they are the spot-terms contracts, including such payment terms as "Franco Waggon," "Franco Board," and the other c. i. f. (cost, insurance, freight) contracts. For convenience in treatment the c. i. f. business and the c. i. f. contract will be the first discussed, though it must not be forgotten that much of the c. i. f. business of the Bremen merchants with their American shippers is prompted by spinners' purchases. The spinner customers of this market probably contract for their cotton further ahead, on an average, than do those in England.

The sale of cotton to persons or firms in a foreign country, especially those with a different language, presents some problems not encountered in domestic trade. The prospective seller must learn the qualities demanded, or those that will sell to best advantage in the market. He must acquaint himself with the tariffs, fees, and other possible costs that may have to be paid. It is important that he understand the meaning given to terms used in the trade and the rules prevailing in the market in which he proposes to do business.

The usual method of establishing business connections in a market is by introduction through a friend or business associate. A letter of introduction from a well-known banker or banking house is often valuable. Those who are not well known often use a bond from a reputable bonding house to assist them in establishing business con-

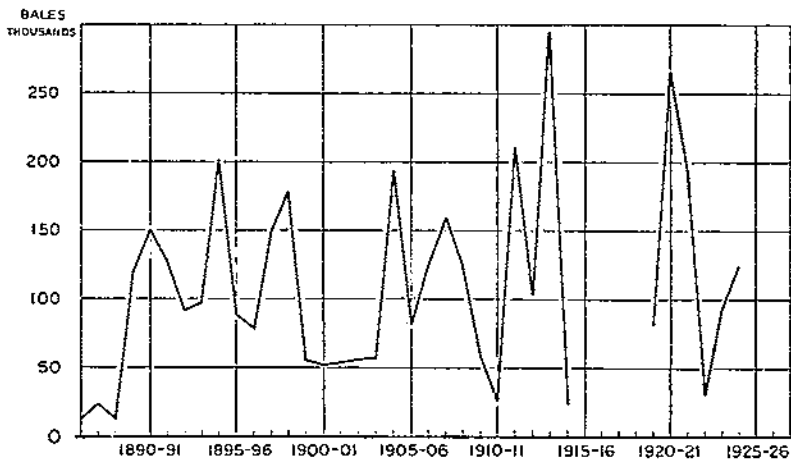


FIG. 6.—STOCKS OF COTTON IN BREMEN, 1887-1925

Stocks of raw cotton in Bremen are here shown. The data used in the preparation of this graph are those taken from *Deutsches Baumwoll-Landbuch*, 1921-22 and 1925-26. Stocks are as of January 1, 1886-87 to 1891-92; as of September 1, 1892-93 to 1914-15; as of August 1, 1914-15 to 1924-25. No reports of imports into Bremen are available for the years 1915-16 to 1918-19, inclusive.

tacts and confidence. In Bremen the rules recognize the importance of having a guarantor by stating that if a guarantor has been named in the contract he is held responsible for the correct fulfillment of the contract.

MEANING OF TERMS

Trouble is sure to result unless the seller and the buyer come to a complete understanding as to the meaning of the terms used in the contract. Strong efforts are being made to internationalize certain terms in common use, such as *c. i. f.* and *f. o. b.* It is well, however, to make sure that there is a definite understanding of terms used by individual buyers and sellers.

Quality descriptions of cotton are most frequently misunderstood. The adoption of universal standards for grade and color will eliminate much ground for dispute, but little has been done in the matter of standardizing staple and character descriptions. Unless other-

wise specified, a term with several meanings is interpreted to have the meaning in use in the market where the trade is made or the cotton is received. Thus, an American shipper in the United States who has a lot of cotton which he is offering in America on a staple description of 1 inch will offer the same cotton in Liverpool at from $1\frac{1}{8}$ to $1\frac{1}{4}$ inches, depending on the character, and at 28/29 millimeters in Bremen. It is so easy for misunderstandings and loss to occur under such circumstances, that many merchants prefer to sell on actual samples or sample types. This is especially true for the longer and the shorter staples, for the grades below Low Middling universal standards, and for the highly colored cottons.

The specification of port of shipment is used also in Bremen as a part of the description of the cotton. If such is the case, the shipper must take care that the cotton is sent from that port on a port bill of lading. Sometimes the naming of the point of origin within a State may add to the salability of a lot, especially with merchants who happen to know the cotton from certain districts.

The rules of the Bremen Cotton Exchange governing grade descriptions specify that, when "average" has not been expressly stated in the contract, the cotton must grade "even running." A variation of one grade above or below is permissible in an even-running contract, and the bales above are set off against bales below.

When cotton is sold on sample or equal to a particular grade, the buyer is bound to take any "off bales" with an allowance according to market value. If the falling off is more than one grade and on more than 5 per cent, then the seller must pay an additional allowance of 2 per cent of the value of such bales. If the deficiency in grade averages two or more grades, the seller must pay an additional allowance of 4 per cent on the invoice value of the whole lot.

If cotton is sold to average a particular grade with the clause "nothing below," the buyer must take bales falling below the grade specified; but the seller must pay an additional allowance of 2 per cent of the average invoice value, unless the amount is below 5 per cent. If the deficiency in grade amounts to two or more grades taken on an average, then the seller must pay the buyer an additional allowance of 4 per cent on the invoice value of the lot.

When cotton is sold on samples drawn in the United States from the identical lot, half a grade is allowed for "bloom" in the arbitration held against samples drawn in Bremen.

Unless it is expressly agreed in the contract, the seller can not deliver highly colored or stained cotton to the buyer without paying the market allowance and, in addition, 2 per cent of the value of such bales, unless the quantity be negligible, say about 5 per cent.

STAPLE DESCRIPTIONS

When cotton is sold with a specified length of staple over and above 28 millimeters, any deficiency of staple is not counterbalanced by the delivery of a grade better than that specified; or when the sale specifies 28 millimeters and there is considerable variation. If the specified length is 28/30 millimeters or above, the award must specify the allowance for grade and staple separately: if it is 28/29 millimeters, the same must be done as far as possible. Where the staple length specified is less than 28 millimeters, there is no rule which pro-

hibits the arbitrators from granting compensation for staple length below the specified length with grades better than specified.

Where a considerable lot of cotton is sold on a type in Bremen, it is customary for the buyer and seller to seal the type jointly and hold it to arbitrate against when the shipment arrives. Buyers often like to make repeat orders, "equal to previous shipment." This is sometimes done; but the shipper usually prefers to sell against his established type.

Types and samples of the cotton to be sold are exhibited customarily in the merchant's buying room. Each c. i. f. agent sends out each morning to the merchants a list of cotton he has for sale and the "basis" at which it is offered. If the merchant wishes to see any of the cotton offered, he telephones for it to be sent to his rooms. In addition to the sending out of lists, personal representatives may call at the merchant's office, especially if he is an established customer.

WEIGHT DELIVERABLE

According to the Bremen rules, the average gross weight of American cotton shall be 53,000 pounds per 100 bales for Texas, Oklahoma, and Arkansas cotton; 51,020 pounds for Gulf cotton (including Alabama) or cotton sold simply as Gulf cotton; and 49,251 pounds for Atlantic cotton and cotton sold as American, upland, or "any-port" cotton. A variation of 5 per cent is permitted from these figures without penalty. Cotton is weighed in Bremen in kilos, it being customary to figure 100 pounds as equal to 45.35 kilos.

Whether the proper weight has been shipped is determined by the gross weight at time of landing. The weight of missing bands and "loose" cotton is taken into account in the calculation. Deductions of one-sixth of the weight of the country-damaged cotton removed or agreed upon as existing, all allowances made for damp, and one-third of the amount deducted for sea damage are made in the settlement.

The seller must guarantee that the gross landing weight shall not be more than 1 per cent less than the gross invoice weight. Any deficiency in excess of 1 per cent may be allowed for at the invoice price. Condemned bales and bales not delivered from the ship are accounted for at the average invoice weight without further allowance for franchise. The weight of "no mark" bales is determined by the Bremen Cotton Exchange.

If the gross landing weight varies more than 5 per cent from the contract weight, the buyer may demand that the difference be settled for at the market value in Bremen on the last day of landing of the cargo.

Unless the cotton is sold on mutual weights, the seller gets no credit where the gross landing weight is greater than the gross invoice weight.

It is very important, therefore, that the merchant have an agent in Bremen. About 70 per cent of the American cotton coming to Bremen is sold to Bremen merchants through resident c. i. f. agents; and of that sold on c. i. f. terms, almost all is sold by agents in Bremen. Most of these agencies have formed companies and are members of the Bremen Cotton Exchange. Some of these agents are German subjects and some are American.

C. I. F. CONTRACTS IN BREMEN

The contract used by Americans in exporting cotton to Bremen is the c. i. f. and 6 and 1 per cent franchise with mutual allowance for weight. Interpreted, this means that the American pays the cost, insurance, and freight to Bremen. The amount of the draft he draws on the buyer is equal to the contract price multiplied by the gross invoice weight less 6 per cent. The 1 per cent franchise provision is a relic of a similar contract without the mutual-weight provision. It is deducted from the gross invoice weight in calculating possible tare and arriving at the net gain or loss in weight, and otherwise has no material significance. The phrase "mutual weight" means that gains or losses in weight shown by the invoice, as compared with the landing weight, are duly accounted for whether in the buyer's or seller's favor.

The obligations of the shipper under a c. i. f. contract require the shipping of the cotton called for in the contract in the way specified and the paying of all charges necessary to deliver it alongside the quay. It is the business of the buyer to receive the cotton and pay all landing and subsequent charges. A translation of the contract follows:

BREMEN COTTON EXCHANGE

CONTRACTS FOR COST, FREIGHT, SALES OF NORTH AMERICAN COTTON

The firm _____
in _____
sold through the intermediary of the firm _____
to the firm _____
in _____
according to the rules of the Bremen Cotton Exchange with arbitration in
Bremen _____

Bales _____ Cotton _____

Class _____

Price: at _____
Per American pound gross, cost, freight _____
To _____
With 6 per cent allowance _____

To be loaded: per _____
From _____ To _____

Via _____

Time of loading _____

Payment _____

Marine insurance to be covered through _____, including
country damage. (If the marine insurance is to be provided by the seller,
then it shall include 10% imaginary profit on the net invoice amount.)

Weight guarantee: Gross landing weight against gross invoice weight with
1% franchise (100 lbs. American is figured equal to 45.35 kilos).

"Control" of weight: shall be effected at landing port.

"Control" of samples: shall take place at landing port (meaning Bremen city
or port at the lower Weser) in case the cotton is to be imported via Bremen;
otherwise at place of destination.

Guarantor domiciled in Germany for the purpose of immediate settlement of
allowances due for deficient quality and weight and for variation in weight.
All disputes to be settled by arbitration. The competent law court is located in
Bremen.

Remarks: _____

_____ the _____ 19____ the _____ 19____
Seller Purchaser

Effected through _____

The contract is actually made by cable and is later confirmed by letter and exchange of contracts. Bids and offers are made "firm" and subject to confirmation. Such offers are good for about 24 hours. Such offers and bids are usually made after the opening of the market and the mail, and usually hold good until the next morning to allow a reasonable time for an answer by cable.

Cables are nearly always in code. When translated, the bid or offer reads about as follows: "Firm bid for 500 S. M. Univ. S. 28 mm. at 375 on July, April-May shipment. Cash on arrival buyer's call on or before arrival."

Freight is paid on shipments to Bremen on shippers' invoice weights rather than on landing weights, as in Liverpool. When invoice weights exceed landing weights, as is usually the case under the 1 per cent franchise clause, freight is paid on a greater poundage than is actually shipped.

The agents usually sell cotton at a "basis," that is, at points "on" or "off" the price of a designated month in a named futures market for the qualities specified. Formerly almost all cotton was sold on buyer's call. It is still customary, but considerable cotton is now sold to Bremen merchants on seller's call. The larger farmers' cooperative associations in America sell considerable quantities in Bremen entirely on seller's call. Most of the hedging is done in New York since the World War. The contract usually specifies that the call shall be of a specified delivery month in New York. The price is fixed at the request of the party who has the right of call, by requesting that the sale or purchase of the required number of future contracts to cover the order be made. The final price is the price of the futures contract plus the basis previously fixed.

The Bremen merchants contract for cotton at a "basis" considerable distances ahead, especially in the early part of the season. The merchants may make these basis purchases to cover "basis" sales to spinners, who in turn may have made basis sales of goods to customers who wish to call the price on a certain quantity each month. Merchants may speculate on the "basis" when they think it cheap, especially as it enables them to buy the cotton required by their customers.

Shipping terms are as the parties may arrange. The forms of lading most used are the port bill, the custody bill, and the through bill. The port bill of lading is interpreted to mean that the cotton must have been delivered to the vessel named in the shipping documents, and have been actually in the port of shipment. It must be signed by the captain or some authorized agent, but not until after both the vessel and the cotton are in the port of shipment and the cotton is actually delivered to the captain or his agent. If a contract calls for shipment from a named port, the cotton must be shipped on port bill of lading, unless it is expressly stated in the contract that the custody bill is permissible.

The custody bill of lading may be signed prior to the ship's being in port, but the cotton must be in the port at the time and duly delivered to the captain, to the shipowner, or to his agent. The shipper must see that the cotton is shipped and that a receipt, show-

ing that fact, signed by the master or his agent, is sent forward within three weeks. It is not permissible to substitute another vessel for the one named in the bill of lading, unless the named vessel is prevented from making the trip by "force majeure."

The through bill of lading has four essential conditions: (1) It must conform to the terms of the Liverpool conference of 1907, a copy of which is deposited in the Bremen Cotton Exchange. (2) It must be signed by the duly authorized agent or representative of the railroad company. (3) The lading must not be signed until the cotton has actually been delivered to or within control of the railroad company. (4) A certificate of the railroad company must be attached purporting that the signature affixed is that of an authorized agent.

The advantage of the through bill of lading lies in the fact that it enables the merchant at an interior city like Dallas or Memphis to make his shipments direct to the foreign buyer. There are cases of abuse of the privilege, and even now many foreign buyers hesitate to use it. Interior shippers should see that they carry out to the letter the stipulations in the contract.

The actual time of sailing, under the Bremen rules, is specified by some commonly used phrases which are defined in the rules. Shipment, clearance, or sailing must take place within the time specified. If the contract calls for "prompt" or "immediate" shipment, clearance or sailing, it means within 14 days from date of contract. If it is for the first half of the month, it must be by midnight of the fifteenth day when the month has 30 days; or of the sixteenth, if it has 31 days; and by the fourteenth of February, when that month has 28 days, and by the fifteenth, when it has 29 days. If the last half of the month is specified, then the last day of fulfillment is midnight of the last day of the month. If the cotton is sold "afloat," the vessel must have previously sailed.

It is not an infringement of the contract for a portion of the cotton sold for shipment to be shipped within a specified time if it is shut out from the vessel named in the bill of lading. This does not apply for specified times of clearance or sailing.

The other documents should be as carefully drawn and as completely understood as the bill of lading, especially since the rules of the exchange do not in most cases specify and define the terms. The insurance policy is especially important. It should state the time the insurance begins and especially the time it expires. In Bremen, on "on-call" sales, if the price has not been fixed, the seller is bound to keep the cotton insured. The risks to be covered and the limit of the qualifications of the company employed to carry the risks should be clearly specified. It is customary to insure the full invoice value of the cotton, plus 5 or 10 per cent imaginary profit. In Bremen the profit specified in the rules is 10 per cent. Several weeks may expire from the time the policy comes into force and the time the buyer receives the cotton. In the meantime the price of cotton may increase until the cotton is inadequately covered. The best policy would probably be one based on the price of future contracts and not on an absolute price, as is done at present.

REIMBURSEMENT

The giving of authority to the seller to draw upon a certain named bank in payment for cotton is known as "giving reimbursement."

Some buyers give their reimbursement at the time the contract is made. Some buyers are negligent in the matter, which is more or less embarrassing to the seller or his agent, and sometimes of considerable inconvenience. The seller often wishes to make a record of reimbursement at the same time he records the order.

Sometimes the shipment is made up and the documents are ready before the source of reimbursement is made known. This may occasion extra expense and unnecessary worry for the shipper, which, to say the least, will not be appreciated by the seller. Furthermore, it must be remembered that the custody of the documents and not the cotton bales is the real evidence of ownership. The shipper can not afford to part with the documents until he has evidence of reimbursement in his possession or is otherwise sure of his payments.

Reimbursements by Bremen merchants are usually on banks in New York, and in most cases the bank is named at the time the contract is made. The actual payment can not take place until the proper documents are in order and are duly presented to the bank designated or its agent. The bank in the proper performance of its functions must insist that the documents be in order.

The way in which the documents are made up and the promptness with which they are dispatched may be important factors in making and retaining satisfied customers, and such efficiency may assist materially in winning new clients.

The necessary documents for securing payment are (1) the bill of lading, (2) the invoice, (3) the policy or certificate of insurance, and (4) the draft itself.

It is customary to send the documents forward in duplicate through a bank. One of those sent should be the original. This is especially desired in Bremen. They should be sent promptly, as it is especially important that they should arrive ahead of the cotton; otherwise the handling of the cotton at the port of discharge may occasion considerable expense, for the cotton can not be claimed without the bill of lading.

The seller must render an invoice or make some other declaration of marks and ship's name or state particulars through the bill of lading showing the timely fulfillment of the contract. This must be done within six weeks from the time agreed upon for fulfillment if cotton is shipped from North America, and within two weeks if shipped from a European port.

Much cotton coming to Bremen is bought on "cash on landing" terms. If the price is not fixed before that date, the only thing the shipper who wishes to come into possession of funds can do when the cotton is shipped is to present the documents as security for a loan or an advance of funds. It is customary, however, to call the price before the cotton is shipped. When this is done, it makes little difference to the shipper whether the terms are cash on arrival or on 60 or 90 days' sight or otherwise, for the bank discount has been computed and included in the "basis."

LANDING COTTON

Cotton sold to Bremen may be landed either at Bremen or Bremerhaven. The ship has no occasion to weigh the cotton, for the freight is charged on the invoice weight. The shipper draws his draft on the invoice weight, less the 6 per cent tare, but final settlement takes landing weight into account.

The cotton is received and weighed on the quay by the buyer, his forwarding agent, or the warehouseman. Since weighing and handling is done by the buyer and not by a sworn public official, it is customary for the shipper to have a representative on the quay to see that the weights are correctly ascertained and recorded. The weights are checked at the same time against the invoice weights on the ship's manifest. Settlement weight is always ascertained before the cotton leaves the quay. Otherwise, invoice weights apply.

The bales are weighed one at a time on a movable scale. The bale is weighed standing on end. It is essentially a balance scale on the decimal system. The weights weigh one-tenth as much as the cotton. Weighing is done in terms of kilos and fractions of kilos. The weighing is accurate to about the equivalent of a half pound. If the beam is up on the half pound, it is counted; if down, it is dropped. The scales are inspected by the Government at least once each year, and oftener if demanded. The bales are weighed before being sampled.

The bales are usually sampled before they leave the quay. One or two bands are removed, and one big sample is drawn and divided into two. One set of these is taken by the buyer, in rolls of 20, to his own sample room. The other is similarly rolled according to lot numbers, marks, or other designations without being dressed. The papers are sealed jointly by the representatives of the buyer and the seller. These sealed samples are turned over to the forwarding agent or warehouseman of the buyer pending claims for arbitration, which may be filed any time within four weeks from last day of landing.

All claims for damage of whatever nature, or for damp either internal or external, must be made and determined on the quay. There are virtually no claims for damp unless the cotton is shipped as "deck cotton." It is exposed to the rain only as it comes out of the hold of the ship, and unless the rain is heavy this is not considered. If buyer and seller do not agree as to the amount of damp, the expert of the Bremen Cotton Exchange assesses the amount.

Country damage and sea damage must likewise be determined before the cotton leaves the quay. The amount of such damage is determined by representatives of the insurance company, the buyer, and the seller. It is estimated by the controllers and forwarding agents that about 50 per cent of the cotton landed in Bremen during the season 1924-25 had some damage; but a comparatively small percentage was damaged sufficiently to be compensated for by the insurance policy providing cover only in case the damage is more than 6 per cent gross or 3 per cent net.

If cotton is tared, the taring must be done on the quay. About 35 per cent of the cotton was tared during the season 1924-25. Almost no tare claims are settled by friendly allowance on the part

of the shipper or his agent. If the buyer makes a claim, he must establish it by taring the bales. The amount of the tare is established by taring 10 per cent of the lot in dispute. The bales to be tared are selected by mutual agreement or by an expert from the cotton association. If by the latter method, the lot is divided into three groups, the heavily tared bales, the medium tared bales, and the light tared bales. One-third of the bales to be tared are chosen from each group by the expert.

.DETERMINATION OF TARE

Total tare on a bale of cotton is composed of bands and canvas. The bands and canvas are kept entirely separate both in the tare statement and in figuring the outturn. The weight of bands is determined by weighing either 10 or 20 bands, to determine an average weight which, multiplied by the total number of bands on the bales, gives the weight of bands on the shipment. The amount of canvas is determined by stripping the 10 bales selected for the purpose. The weight of canvas on the entire lot of 100 bales is taken as 10 times the tare on the 10 bales tared. It is customary to deduct a small amount from the weight of the canvas on each bale because of the bits of cotton which cling to it. The canvas on the bales tared is weighed separately. The permissible amount of tare is calculated on the gross invoice weight. It is 408 kilos (about 900 pounds) for bands per 100 bales, or that ratio, and 3 1/8 per cent for canvas. The amount of permissible canvas is calculated by deducting 1 per cent from the gross invoice weight, then the actual weight of bands, and 3 1/8 per cent of the remainder. Whether there is an underweight, or an overweight of either bands or canvas depends upon whether the amount actually existing (see statement of tare shown below) is greater or less in each case than the permissible amount.

STATEMENT OF TARE

Shippers: -----

On ----- Bales Cotton Ex S/S-----

Actual tare:
Amount of Bagging and Patches Ascertained on----- 10 Bales, 84.2 kg.
100 Bales, 842 kg.

Tare allowed:
Gross Invoice Weight----- 53, 535 lbs.
Less 1% Franchise----- 535 "-----
53, 000 lbs.
at 45.35³----- 24, 035 1/2 kg.
Less 900 Bands
10 Bands, 4.53 kg----- 408 "-----
(408 kg. Allowed).----- 23, 627 1/2 kg. at 3 1/8----- 842 kg.
Under Tare----- 0 kg.
Excess Tare----- 0 lbs.
at 45.35----- 0 lbs.

WEIGHT OUTTURN

The weight outturn means the determination of gain or loss in weight. Under the 1 per cent franchise it is figured as being gross landing weight against gross invoice weight, less 1 per cent franchise.

³It is customary to figure 100 pounds as equal to 45.35 kilos.

The gross landing weight is the actual weight of the bales at the time of landing plus any missing bands and minus excess weight of either bands or canvas or excess weight due to wet wrappings, country damage, or sea damage.

Weight returned of -----	Bales cotton	
S. S. From -----	Discharged in -----	
Shippers -----	Buyers -----	
Mark -----	Bales	Gross Invoice Weight.. 53, 535 Lbs.
Invoice No. -----		Less 1% franchise.. 535 "
Contract No. -----		53, 000 Lbs.
Gross Landing Weight -----		24, 035½ Kos.
0 Bales Short Delivered (See Rule 110) at -----	Lbs	
0 Missing Bands, At -----	Kos. per 10 Bands	
900 Existing Bands -----		24, 035½ Kos.
Less:		
For Excess Weight of Bands -----	0 Kos.	
(9 lbs. per bale allowed)		
" Excess Tare (See Rule 109C) -----	0 "	
" Excess Tare (Amicably Settled) -----	0 "	
" Sea-Damage 1/3 of -----	Kos. On B/C 0 "	
" Country-Damage 1/6 of -----	Kos. On B/C 0 "	
Insurance company not liable if damage amounts to less than 3%— (See Rule 109-4.)		
" Wet in Wrapper on -----	B/C 0 "	
" -----	"	
" -----	"	
		0 Kos.
		24, 035½ Kos.
	at 45. 35—	53, 000 Lbs.
<u>Gain</u>	In weight, gross..	0 Lbs.
<u>Loss</u>	Less 6% Tare	0 Lbs.
<u>Gain</u>	In weight, net. . .	0 Lbs.
<u>Loss</u>		

DERIVATION OF FINAL-SETTLEMENT WEIGHT

After the amount of tare and the gain or loss in weight have been ascertained, the final-settlement weight can be calculated. The shipper draws his draft for the price multiplied by the gross invoice weight less 6 per cent. In this case the draft is calculated on 50,323 pounds. There was no gain or loss in weight, so the final-settlement weight in this instance is the net invoice weight, 50,323 pounds.

If the above shipment had gone to Liverpool under the mutual-weight contract, the shipper would have been paid for 50,244 pounds, a difference of 79 pounds in favor of Bremen.

CLAIMS

Claims on cotton shipped to Bremen on c. i. f. terms are usually a result of (1) shipment of quality other than that sold, (2) overtare, (3) overweight and underweight, (4) damage, (5) damp, or (6) false-packed or unmerchantable cotton.

All tare claims must be made at time of landing and must be determined before the cotton leaves the quay. They are independent of weight settlements, and the weight of bands is determined and settled independently of the weight of the canvas. In making up a tare statement, the actual weight of bands is used unless their weight is

less than 900 pounds (408 kilos). If the weight is less, 900 pounds is deducted regardless. Loose bands are included in the calculation. Claims for loss in weight because of excess canvas are made if its weight is more than the $3\frac{1}{8}$ per cent of the gross invoice weight less the 1 per cent franchise and the weight of bands. An overweight or underweight of bands can not be balanced against an underweight or overweight of canvas. Tare claims are due at the time they are determined and are settled at the invoice price.

All weight claims under the c. i. f. and 6 per cent and 1 per cent franchise with mutual allowances for weight are determined on the quay as the cotton comes off the ship. The Bremen merchant pays for the net invoice weight (gross invoice weight less 6 per cent) less deductions for loss in weight and overtare in either bands or canvas. The seller must guarantee that the gross landing weight shall not be more than 1 per cent less than the gross invoice weight, but there is no penalty if such is not the case. If the gross landing weight varies more than 5 per cent from the gross weight allowed, 53,000 pounds for Texas, etc., the buyer may make a claim. The settlement for the excess variation over 5 per cent must be made at market value on the last day of landing. This wide margin gives considerable advantage to the shipper and may cause the buyer loss. If the price is such as to cause the shipper a loss, he ships the minimum. If he is making a profit, he ships the maximum. The buyer has difficulty under such circumstances in making his hedges an exact cover for his purchases, for no variation is allowed in the purchase and sale of contracts for future delivery. This will become of increasing importance as the buyer hedges more in Bremen, because of the weight limits in the Bremen futures contract.

All damage claims must be determined before the cotton leaves the quay. They are classed as (1) country damage, (2) sea damage, and (3) all other. Damage claims may be covered entirely, but the policy usually covers only damage above a particular average; but if the damage exceeds the minimum, the insurance company is liable for the total and not merely the excess damage.

Some cotton is sold to buyers in Germany on what is known as the c. i. f. and 6 per cent tare and 1 per cent franchise terms. These terms are like the ones already described except that there are no mutual weights. This means that if the shipment loses in weight, the buyer claims for the loss. If it gains in weight, the gain belongs to the buyer.

All claims for damp on c. i. f. cotton must be proved at time of landing, or not later than the time of sampling, which must be done before the cotton leaves the quay. All ascertained damp must be deducted from the landing weight. Damp claims are of two sorts, external damp and internal damp. Unless the two parties to the contract, or their representatives, agree as to the amount to be allowed for damp, it is settled by an expert of the Bremen Cotton Exchange. All amounts allowed are settled for at the invoice price and are due when established.

False packed or rebaled cotton must be claimed for at the time of landing if the condition of the bale is detectable by sampling or otherwise. A deficiency of 2 per cent or less shall not be considered unless the number of such bales exceeds 5 per cent of the lot. If the

fault is not detectable on the customary examination, the claim is valid any time within 100 days, provided the buyer reports immediately after it is discovered. The seller has a right to take back the cotton at the market value on the day he declares his intention to do so. If bales are improperly compressed, buyer shall have right to compress them at seller's expense or hold him accountable for any loss caused by faulty compression. No padding, or taking cotton off bales, is permissible unless to make the weight of the bale conform to the minimum or maximum weights required for merchantability.

All claims for quality must be made within four weeks from last day of landing of the cargo (the day the last bale is unloaded). No time is stated within which the award must be made. It is based on values prevailing in Bremen or, if such values are unobtainable, then it is determined according to ruling prices in international trade on the last day of landing of the cargo. The award is due when established by arbitration or appeal.

INVOICING BACK

Invoicing back is a remedy rarely resorted to in the case of cotton sold on c. i. f. terms. If the seller fails to ship the cotton within the time stipulated for shipment, clearance, or sailing, or if the shipping documents are not as prescribed in the rules, the buyer has the right to close the contract. The buyer must give notice in writing, or by telegraph if the party does not live in the same place, of his intention to close the contract. The day of closure is the day after issue of notice. The contract thus closed must be settled for at the market value on the day of closure plus a penalty of 2 per cent on the invoicing-back price. If it is an "on-call" contract and the price has not been fixed, the settlement is based on the last closing quotation prior to the day of closure. If the parties at interest can not agree on the closing price, it is settled by arbitration. If the actual weight can not be ascertained, then the standard contract weights, as specified in the rules, prevail.

If the seller fails to render an invoice or some other written declaration of marks and ship's name within six weeks for cotton from the United States, or within two weeks from European ports, from the time specified for fulfillment, the buyer may close the contract. If he does not, and if particulars are not furnished within 14 days thereafter, the contract is considered canceled.

Should either party to a contract declare his intention not to fulfill it before the time for the delivery of the cotton, the other party has the right to close the contract by invoicing it back, if he does so within four days; or he may reserve the right at that time to close the contract at the end of the available time for fulfillment. If he fails to give notice within four business days prior to the last day for fulfillment, the contract is considered canceled.

PRICE COMPARISONS

Space will permit the listing of only the important factors to be considered in making an exact comparison between the price of spot cotton in the United States and Bremen. (1) For price comparisons to be accurate they must be based on the same quality of cotton.

(2) The quantity base must be the same. In the United States prices are based on gross weight. In Bremen spot-cotton prices are based on gross weight, but with specified maximum tare. (3) The freight costs, rate of exchange, and other similar charges must be accounted for. (4) The effect of the time element, especially on storage, interest, and insurance charges, must be evaluated. (5) The type of contract and the method of figuring the weight outturn may account for a difference in price of several points. In Bremen, for example, most of the cotton is sold with the 1 per cent franchise clause. The freight is calculated on the invoice weight, and that is usually greater than landing weight. (6) The method of fixing differences for grades, colors, and staple lengths, and the differences prevailing at the time of settlement may become very important, especially on sales that are to average a specified grade.

COTTON CONTROLLING IN BREMEN

The physical equipment, the layout of the market, the methods of doing business in Bremen, and the work of some of the leading firms have led to a high degree of development of the controlling business for the American shipper as seller, and of the business of forwarding cotton to the mills in the interior. The shippers deliver their sales of cotton on c. i. f. terms to the Bremen merchants through an agent called a controller. These same merchants pass the cotton on to the spinners in the interior through another agent called a forwarding agent, or "spediteur." It turns out, therefore, that most of the handling of the cotton is under the supervision of the experts of one or both of these agencies.

The recognition given to this service and the efficiency with which it is being performed are undoubtedly important factors in the growth of the Bremen cotton market. The controllers, who represent the American shippers, and the forwarding agents, who represent the spinners, have membership in the exchange. They thus have a voice in making rules and in forming policies where their clients are directly involved.

However, all supervision is not exercised by the same type of organization and with equal efficiency. There are really three types of control service in use. (1) A few American shippers with branch houses or associate firms in Bremen ship to themselves and receive the cotton on their own account. (2) Other shippers employ spediteurs. These people not only control cotton, but they own most of the warehouses. (3) Most of the cotton coming to Bremen is controlled by firms which confine their business entirely to representing the shipper in the delivery of cotton.

The most important services performed in Bremen by the controllers are as follows: Supervising the weighing, sampling, and taring; serving the shipper by giving advice; and furnishing other forms of expert service such as are required where the shipment, or some part of it, is threatened with penalty because of damp or deficiency of quality.

The weighing of cotton in Bremen is done by the importer on the quay, usually as the cotton is delivered from the ship; freight is calculated on the invoice and not on the landing weight. There is, therefore, only one weighing at time of landing. It is important

that no mistake be made, for there is no way of detecting errors by checking these weights by any other weight than that marked on the invoice, and that is not a very accurate check.

The sampling must be done on the quay. It is important that the samples be drawn to represent the bales accurately. They are drawn by the buyer in the presence of the controller and are sealed by them jointly. If the buyer has the cotton arbitrated, the shipper must usually depend upon the controller to examine the samples after the award has been made and to give his judgment regarding the advisability of appeal.

The value of this part of the service depends upon the skill with which it is performed. Even the supervision of the drawing of samples requires a man with some knowledge of cotton, but the one who is to review the work of the expert official classers in the Bremen arbitration rooms must not only be an expert classer of the first order, but he must also know cotton values and the mood of the market.

The assessment and settlement of damp, country-damage, and sea-damage claims in Bremen are not so important as formerly, but there are still numerous claims. Most of them are claims for damage less than 3 per cent, and the insurance company is not involved in such claims. Since the shipper is billed for one-sixth of any country damage and one-third of the sea damage, it is highly important that claims should not be made unjustly. Country damage may develop in a shipment after it leaves the place of shipment, especially if it is sent on a through bill of lading. The shipper's best protection under such circumstances is adequate representation at the port of discharge.

When this business is organized on a large scale, it will become an invaluable information bureau with respect to the rules and conditions of trade in the different markets of the world. Except in a few cases, perhaps, the shippers are not in a position to keep in touch with what is taking place in the different markets. Rules and practices are constantly undergoing change. Each market is making its own differences for grade, color, and staple. When one organization controls enough of the cotton, it will be possible for that organization to collect valuable data bearing on insurance, and on gains or losses in weight of bales; and more accurate comparisons of prices in the several markets can then be made.

SALE OF COTTON ON SPOT TERMS IN BREMEN

In addition to the rules already described, sales of spot cotton in Bremen are subject to the following provisions.

TENDERING COTTON

The seller of spot cotton in Bremen is entitled to tender and deliver such cotton either on the quay or in a warehouse. The tender of cotton on a spot contract must be made in one lot or in lots of not less than 10,000 kilos. The cotton may be tendered at Bremen, Bremerhaven, or Geestmünde.

The seller is bound to tender the cotton within 10 days from the consummation of the contract and to hold it ready for delivery. If the buyer so demands, the seller must tender and deliver the cotton without delay. When the cotton is tendered, it is understood that

the bulk of it is ready for delivery. If, after the consummation of a contract, either the seller or the buyer is unable, because of strike or lockout, to fulfill his obligations, the fulfillment of the contract is suspended until after the removal of the obstruction.

If the buyer delays in taking delivery of the cotton and the seller sends him a written notice, he has the right to have the cotton received at the expense and risk of the buyer by someone appointed by the managing director. In addition, the seller has the right to have the cotton sold by a sworn broker in the open market after a lapse of two days from date of notice of intention, in which case the buyer must reimburse the seller for all loss, plus interest and expense.

BUYER'S RIGHTS AND OBLIGATIONS

The buyer has a right to demand that a set of samples be drawn at the place of tender, though he must pay for the cotton at contract price and, in addition, he must pay the cost of drawing samples. The buyer is bound to receive and take delivery of the cotton immediately after tender if delivered from the quay, and within 10 days if delivered from a warehouse. Cotton is received when it passes over the scales. The delivery of the cotton on the quay is completed when the buyer has received it and has been handed the delivery order; if the cotton is delivered from a warehouse, the delivery is complete as soon as the warehouse receipt has been indorsed and handed over to him.

If the seller delays in tendering or delivering the cotton, the buyer is entitled to close the contract by invoicing it back. If the buyer wishes thus to close the contract he must give notice to the seller of his intention within four business days from the day on which the cotton should have been tendered or delivered. If such notice is not given and the cotton is not tendered without delay, the contract is considered canceled. If the cotton is destroyed after being tendered but before delivery is taken, the contract must be closed by invoicing back without penalty. The invoicing-back price is the price prevailing on the second business day after the loss.

QUALITY RESTRICTIONS

Rules governing the qualities of cotton which may be tendered against a contract which specifies the different limitations as to what may be delivered are very liberal. If cotton is sold on sample or description to equal a particular grade, the buyer is bound to take any grades below the specified grade, according to market value, but the seller must pay the buyer a penalty of 2 per cent of the invoice value on all bales that fall off more than one grade, unless the number is negligible, say about 5 per cent. If the bales below the specified grade are as much as two grades below in value, when figured on the whole lot, the seller must pay an additional allowance of 4 per cent on the invoice value of the lot, or the buyer may invoice it back.

If the cotton is sold to average a particular grade without a special guarantee clause, the bales that fall below must be taken by the buyer at their market value. If the deficiency amounts to as much

as two grades on the whole lot, then the seller must pay an additional penalty of 4 per cent on the invoice value of the whole lot.

If the clause "nothing below" is written in a contract calling for an average of a particular grade, the buyer must take the bales below the grade specified at their market value; but if such bales are more than 5 per cent below, then the seller must pay an additional penalty of 2 per cent of the invoice value of the falling-off bales. If the deficiency in grade amounts to the value of two grades or more, taken as an average for the entire lot, the seller must pay an additional allowance of 4 per cent on the lot, or the buyer has a right to invoice the lot back.

CONTRACTS FOR STAPLE

Staple descriptions in the spot market are given in millimeters. If cotton is sold as of a specified length of staple, with a rejection clause, the buyer has the right to reject lengths below that description; but he must do so before taking them over. The seller has the right to substitute other bales for those that fall off.

If cotton of 28/30-millimeter staple length and upward is sold with a guaranteed length of staple and it is agreed that an additional allowance must be payable for falling-off bales, the allowance, unless otherwise agreed, is 10 per cent of the award for the deficient staple.

PAYMENT FOR COTTON SOLD ON THE SPOT

The due date is the date of sale. The price must be paid not later than the day on which the cotton is received. This does not prevent the merchant granting credit to the spinner in some form. In fact, much business is done by the arrangement of such credits.

If payment is not made on date of sale, business done in reichsmarks bears interest from that date at 2 per cent above bank rate. If payment is not made in full on the day of delivery, the seller has the right to claim a bank commission in addition to the rate of interest. The interest rate on transactions in foreign coinages is published by the "committee for the fixing of differences in the value of American cotton."

Notice to pay or receive payment in spot transactions must be given before 12 o'clock on the day preceding day of payment.

SPOT COTTON SOLD FOR FORWARD DELIVERY

The following additional rules apply to cotton sold for forward delivery. A rule here that covers the same point as a previous rule takes precedent in this type of transaction.

The place of delivery is the quay or warehouse in Bremen, Bremerhaven, or Geestemünde. The delivery must be tendered in one complete lot or in quantities of not less than 10,000 kilos in any one place.

In the forward-delivery contract, "prompt delivery" means delivery within three business days; the "beginning of the month" means from the first to the fifth day, inclusive; the "middle of the month" is from the thirteenth to the seventeenth, inclusive; and the "last

of the month" is from the twenty-fifth to the last day. "First half" and "second half" mean the same as in c. i. f. transactions.

If the cotton is not delivered within the time specified, the buyer has a right to close the contract by invoicing it back. He must declare his intention to do so within four business days after the last day specified for fulfillment. If the buyer does not give the notice and the seller does not deliver the cotton within 14 days from the last day specified, the contract is considered canceled.

In case of local sales the cotton must be received within 10 days from day of tender. If it is a sale to the interior, the buyer must notify the seller, immediately after tender, how and by whom the cotton is to be forwarded.

The cotton is sold net weight. The weight is invoiced at 6 per cent less than the gross weight of the c. i. f. contract. A variation of $2\frac{1}{2}$ per cent in weight is permissible. If it is greater than that, the buyer may demand that the excess over $2\frac{1}{2}$ per cent be settled for at the market price on the last day of tender. If the contract calls for installment deliveries, each installment is treated as one weight settlement. If the weight is reduced below the $2\frac{1}{2}$ per cent margin by the removal of damage, no claim for difference in weight is permissible.

The due date is the date of tender, and the payment of the purchase price must be made not later than the date on which the cotton is received. On portions of the tender not ready for delivery, the due date is postponed until it is ready.

COTTON SOLD "TO ARRIVE" AND "LANDING"

The sale of cotton on contracts "to arrive" or "landing" is essentially the sale by a merchant of cotton he has bought or will buy on c. i. f. terms. The specifications as to date of shipment, notification, and delivery of documents, and the qualities receivable are the same as in c. i. f. contracts. The c. i. f. buyer simply sells what he has bought on the delivery terms prevailing in his own contract.

Delivery of cotton sold on "to arrive" or "landing" terms usually takes place at the quay, but it may take place at a warehouse or railroad station. The delivery conditions are the same as for spot cotton. Payment, likewise, takes place according to the rules governing the sale of "spot cotton."

THE BREMEN FUTURES MARKET

The futures market in Bremen, the "Bremer Vereins für Terminhandel in Baumwolle," is organized as a separate institution from the Bremen Cotton Exchange, the Bremer Baumwollbörse. The Bremen Cotton Futures Market Association has its legal situs in Bremen. It is housed in the same building with the Baumwollbörse, but it is operated as a separate institution. The two organizations have separate qualifications for membership and separate sets of rules. Each has its own set of administrative officers, though a man may be a member and an officer of both.

The clearing house, the "Bremer Liquidationskasse," is a limited company. It was organized in 1924 and is so linked with the futures market that a person can not be a member of one without being a member of the other. This association has a capital stock of 1,000,000

reichsmarks. This is divided into 1,000 shares, each share being worth 1,000 marks. Shares are made out to the bearer. Application for a share and membership must be accompanied by 25 per cent of the par value of the share. Further payments may be required at the discretion of the directors.

The association functions through a business manager, a board of directors, and a general assembly of all the members. The general assembly elects at its annual meeting the members of the board of directors. The board of directors elects the business manager, who has immediate charge of the details of operating the association according to its rules and regulations.

The board of directors consists of 13 members, only 7 of whom may be cotton jobbers, brokers, or commission agents. The directors are elected for a term of four years. After each election of three new directors by the general assembly, the board meets and elects its own chairman and vice chairman. In addition to the regular meetings, the board may be convened by the chairman or on the petition of three members of the board. The board of directors has the general oversight of the activities of the business director and of the capital and capital stock of the association.

The general assembly is the legislative body of the association. Moreover, the activities of the business director and the board of directors must be reported to and approved by it. Any questions involving changes in or additions to the rules, changes in the capital stock or the relations with the other associations, and other similar matters must come before the general assembly for decision. The business year of the association runs from December 1 to November 30.

The disposition of the earnings of the association is as follows: (1) At least 5 per cent, and at most 15 per cent, is set aside for a reserve fund until it becomes equal to one-fourth of the par value of the capital stock; (2) at least 5 per cent, and at most 10 per cent, is set aside into a special reserve fund to cover unforeseen losses; and (3) the remainder must be used first to pay a dividend of 4 per cent to the shareholders of the capital stock. If there is still a surplus remaining, 15 per cent goes to the members of the board of directors and the rest is paid as a superdividend on the shares or otherwise disposed of by the general assembly.

ORGANIZATION OF THE FUTURES MARKET

The organization of the Bremen futures market resembles that of the New York futures market more closely than any other of the futures markets, but even between these two there is great dissimilarity. Only the more fundamental underlying principles need be taken up in this brief description.

ARBITRATIONS

The general principles of arbitration for the futures market are the same as those in use in the Bremen spot market, already described. In case of disputes involving questions other than those of quality, the arbitrators must be members of the futures exchange. Any party

who wishes to appeal from an award must do so within three business days after a copy has been served upon him.

The classification and arbitration of the quality of cotton is done by the expert classifiers of the spot market, the Baumwollbörse, and not through facilities provided by the futures market. The price used in the daily settlement of differences is fixed by the daily quotation committee at 1 p. m. each day. It is based on sales, bids, and offers.

BASIS OF THE BREMEN FUTURES CONTRACT

The Bremen future-delivery contract contemplates the delivery of American cotton only. It is based on Middling White cotton of the universal standards and on Bremen's 28-millimeter staple.

SIZE OF THE CONTRACT

The contract is known as a 50-bale contract. It may be satisfied by delivering any number of bales from 46 to 56, provided the gross weight of no bale is less than 135 kilos or more than 300.

It is important to note, however, that it is a net contract which calls for 11,340 kilos. Only that exact number of kilos may be delivered at the contract price. As small a quantity as 11,240 kilos net or as much as 11,440 kilos may be delivered without penalty; but the difference of 100 kilos between 11,240, or 11,440, and 11,340 is settled for at the settlement price for the current month on the second day after the ascertainment of the weight, or the settlement price on the second day after tender if the cotton is tendered with a classification and weight certificate. Any deficiency in a tender under 11,240 kilos, to the amount of 500 kilos, may be invoiced back by the buyer at the settlement price with a penalty of 5 per cent. If the deficiency is more than 500 kilos, he may invoice the whole unit, 11,340 kilos, back at the 5 per cent penalty. If more than 11,440 kilos net are tendered against a contract, the buyer gets the excess without charge.⁴

PLACE AND TIME OF TRADING

The room in which the trading in futures takes place is in the cotton-exchange building on the ground floor. It is equipped with the usual telegraph and telephone booths, bulletin boards for recording its own bids, offers, sales, and other pertinent information, and the New York, New Orleans, and Liverpool prices, and places for posting official notices and information of interest to the members.

The business hours are fixed by the board of directors. At present there are two sessions each day. The first is from 11 a. m. to 1 p. m. The afternoon session is from 5 to 6 p. m. The beginning and closing of business hours is indicated by sounding a bell.

METHOD OF TRADING

The morning as well as the afternoon session of the market is opened by a call of an official of the exchange for bids and offers for purchase and sale of cotton for each of the 12 months traded in.

⁴ As a temporary measure which is now in force (1927) the contract calls for 25,000 American pounds in about 50 bales.

The call begins with the current month. Besides these two there is one other call. It is held at 1 p. m. Between calls trading may take place in any month. Trading in contracts for future delivery in the current month ceases on the third from the last trading day of the month with the fixing of the 1 p. m. official prices for that month. All offers to buy or sell must be made by audible outcry. The first one to accept all or a part of an offer consummates the trade for the amount accepted. If the acceptance of a portion and the whole of an offer occur at the same time, the one accepting the whole takes precedence. Trading outside the ring or outside of business hours is forbidden. Trading is done by asking (brief) a stated price. The opponent may bid (geld) another price, or the "geld" may be made first, as the case may be.

CURRENCY AND POINTS USED IN TRADING

As a temporary matter, all trading is done in American dollars, and bidding is in terms of cents and points, or hundredths of cents, per pound, as in the United States. Later, trading will be done in pfennigs and tenths of a pfennig per kilo.

WHO MAY TRADE AND THE KINDS OF TRADES

Any member or his firm has a right to accept an offer or a bid at the ring for the purchase of contracts for the future delivery of cotton. There is no rule limiting the kind of trades that may be entered into. At present the volume of business is small, and many of the transactions are straddles. This is due in part to the fact that the market is very young, having been opened only since January, 1925. Measured by the volume of spot business, this market should become one of the largest futures markets.

PRICE QUOTATIONS

The prices established at each of the three calls are duly recorded; but the official quotations, the ones upon which all settlements and other official calculations are made, are those established at the 1 p. m. call. The settlement price for the day-to-day settlements is figured out by the director of the clearing house bank. When sales are made for delivery in the different months, the prices of such sales become the official prices, and the margin to be put up is based on the difference between these and the official prices of the previous day. If only bids and offers are made on any day, it is customary to take the average of the two, if the market is steady. If it is declining, the bid may be used; or if rising rapidly, the offer may be used.

GRADE AND STAPLE DIFFERENCES

One of the most important differences between the Bremen and Liverpool futures markets, as compared with the American futures markets, is the manner of fixing grade and staple differences for cotton delivered on contract. In Bremen they are made by the valuation committee of the Baumwollbörse on the last trading day in January, March, May, July, September, and November for the next

ensuing two months in each case. This fixing of grade and staple differences in advance is known as the "system of fixed differences" and is an attempt to insure the hedger against what is known as "basis" risk.

RECORDING SALES

It is incumbent on the seller to see that the exact time and price at which each contract is sold is noted on the board of the exchange immediately upon its conclusion. These facts are also noted on two official contract slips made out by the seller and signed by both contracting parties, each of whom retains a copy.

It is the further duty of each party to a contract, not later than one hour after the close of business, or immediately after execution if delivery is for the current month, to fill out an official form and present it to the clearing-house bank, that the transaction may be recorded there.

If one of the parties fails to hand the memorandum of contract to the clearing house, or if the bank refuses to record it because of the fault of one of the parties, the opposite party has a right to liquidate the contract at the next session of the market and to charge a penalty of 5 per cent on the liquidation price.

GUARANTEEING OF ACCOUNTS

An important provision in the Bremen futures market is the guaranteeing by the clearing-house bank of all contracts that have been recorded with it and executed by a member of the exchange or a firm or duly appointed representative domiciled in Bremen. The contract can not be recorded until each party has deposited the original margin. The record in the clearing house shows (1) the date of entry, (2) the names of seller and buyer, (3) the price, and (4) the delivery month. The responsibility of the clearing house begins when the contracts are recorded. It ceases when final settlement has been made and the delivery order is returned to the bank with the signature of both buyer and seller.

When a contract is recorded, the clearing house must send to each party before 1 p. m. of the next trading day a "certificate of guarantee" for each unit, or 11,340 kilos. It shows the registry number, date of entry, name of party to the contract, price, delivery month, and a declaration on the part of the clearing-house bank that it assumes liability. The bank charges a fee for each certificate of guarantee, though the fee is smaller if the purchase or sale is offset the same day by an opposite transaction. The amount of the fee is fixed by the board of directors.

MARGINS

All margins are put up with the clearing-house bank. Original margins are required by each party to every contract except offset contracts executed during the same day. The margin must be put up within one hour after the close of the market except where the delivery is for the current month, in which case it must be put up at the time the contract is recorded.

The original margin required is \$250 per contract of 11,340 kilos, or approximately \$5 per bale. The clearing-house bank may increase

the amount of original margin required on contracts, and it may accept securities in lieu of cash; but it must have the rights of mortgage, and if the securities depreciate in value it may demand additional securities or cash to cover the depreciation.

Additional margins to supplement the original margin may be demanded by the clearing-house bank to the extent the original has been impaired. The amount is calculated by balancing all the profits and losses on all running contracts in force at the time the official-settlement prices, or the 1 p. m. prices, are established. This rule does not apply to contracts for delivery in the current month, for the bank in its discretion may call for special margins to cover such contracts. On the other hand, if the seller has deposited warehouse receipts covering a certified lot of cotton with the clearing house, additional margins are not required.

Additional margins called for before 3 p. m. must be deposited before 5 p. m., or if after 3 p. m., then before noon of the next business day, if they are less than 50 per cent of the original. If the additional margin required is 50 per cent or more of the original, the bank has a right to demand immediate payment.

If a party's account with the clearing-house bank shows a net balance, he may apply such balance to the payment of margins.

The Bremen rules provide for daily clearing and settlement. This means that where the price is going against a party, he must put up additional margins to counterbalance all losses based on the 1 p. m. official prices. All differences owed or receivable are settled at the time the contract is offset by the clearing-house bank as the opposite party to both buyer and seller. It is not customary in Bremen at present to draw out profits on daily balances.

The amount of the margins required by members of their non-member or associate member clients is arranged between them by mutual agreement. The rules make no specifications as to the amount, or whether any shall be required. They do specify that the agent shall have the right to call for original and additional margins, as is required of them by the clearing-house bank. If the client fails to respond immediately to the call for margins, the agent has a right to close the contract without notice.

COMMISSION AGENTS AND COMMISSIONS

The commission agent is liable to his nonmember or associate-member client as a party to the contract. The agent makes out and signs the official contract forms in duplicate and hands them to the client, who must sign them and return one to the agent. If the client fails to comply with these provisions, the agent may liquidate the contract for the client without notice.

The agent must render his client a settlement statement according to the rules of the bank and the exchange. In such statement the client must be paid interest on margins paid in and on credit balances at the rate officially fixed each Friday.

The rate of commission and regulations pertaining thereto are fixed at the general meeting and are binding upon all members. In case one member executes an order for purchase or sale for another, the rate of brokerage is 0.3 per cent. The commission for associate members is one-fourth per cent; and for nonmembers, five-eighths per cent.

LIQUIDATION OF CONTRACTS

As in other futures markets, there are two ways of liquidating contracts in the Bremen market. The usual way is by offset, that is, the seller or buyer of contracts for delivery in a named month buys or sells a like number of contracts for the same month before the maturity of the original contracts. The other is by delivering or receiving the required cotton.

Where the contract is liquidated by offset, the only two prices involved are the price at which the original transaction was made and the price of the offset transaction. Thus, if a member should buy a contract, 25,000 pounds at 23 cents per pound, and three weeks later should sell one for 24 cents, he would be entitled to a profit of 1 cent per pound on 25,000 pounds less the clearing-house, ring, and other fees.

The Bremen contract is interest bearing. If a party offsets a purchase or sale before the month of delivery, he must pay interest on any profits from the date the offset transaction was made to the first business day of the month in which it would have matured. The bank pays interest on losses for a like period.

A few contracts are settled by the delivery and receipt of spot cotton. The seller may tender any actual cotton available for delivery according to the contract in fulfillment of his obligations between 10 a. m. and 1 p. m. on any trading day within the month, except that all tendering must cease at 1 p. m. on the third trading day before the last for delivery under the contract, unless it is sold between 12.50 p. m. and 1 p. m. on the above third day, in which case it may be tendered not later than 1.10 p. m. on that day.

The qualities tenderable may be limited by either grade, staple, color, or character, or by a combination of these. No grade below the value of Low Middling White cotton is tenderable. Figure 7 shows the grades and colors tenderable so long as they do not fall in value below Low Middling. The 50 bales of cotton delivered in fulfilling a single contract may be made up of any number of tenderable grades.

Blue Stained	Gray	White Standards	Spotted	Yellow Tinged	Light Yellow Stained	Yellow Stained
		1 or M. F.				
		2 or S. G. M.				
3 B.	3 G.	3 or G. M.	3 Sp.	3 T.	3 L. Y. S.	3 Y. S.
4 B.	4 G.	4 or S. M.	4 Sp.	4 T.	4 L. Y. S.	4 Y. S.
5 B.	5 G.	5 or M.	5 Sp.	5 T.	5 L. Y. S.	5 Y. S.
		6 or S. L. M.	6 Sp.	6 T.		
		7 or L. M.	7 Sp.	7 T.		
		8 or S. G. O.				
		9 or G. O.				

FIG. 7.—Grades and colors of the universal standards for American upland cotton. The grades shown above the heavy horizontal lines are those which are tenderable (1926) on futures contracts in Bremen. The standards for White, Yellow Tinged, Yellow Stained, and Blue Stained cotton are represented in physical form. The standards for Gray, Spotted, and Light Yellow Stained cotton are descriptive standards; that is to say, they are descriptive of the grades of cotton which fall between the physical standards.

The staple-length base of the contract is what is known as 28 millimeter. The poorest or shortest staple deliverable is what is known as fair staple. As shown in Table 1, it is equal approximately to shy $\frac{7}{8}$ -inch American standard. The discount for fair staple as compared with 28 millimeter; the base, was 40 points in April, 1925. Premiums are paid for staple length if 50 per cent or more of the bales have a staple length greater than 28 millimeters, unless the bales have a value under Strict Low Middling. No extra allowance is paid for a length of staple greater than 28/30 millimeters.

Cotton below "fair staple," or unsuitable cotton such as short staple, thrashed, reginned, rebaled cotton or bollies, or factors' samples, are not deliverable; nor are bales containing more than 5 per cent sand or dust, provided the value is rated below Low Middling.

CONDITIONS OF A SATISFACTORY TENDER

Tenders are made by handing the notice of tender made out on an official form to the clearing-house bank. Cotton must be ready for delivery at time of tender. It is not necessary that it be officially classed at the time tender is made.

The notice of tender must show (1) the marks and numbers of the bales, (2) the name of warehouseman and place of storage, (3) the date of tender, and (4) the approximate value of the lot on the day of tender.

The notice of tender must be accompanied by a negotiable warehouse receipt made out on the official form. It must be for one unit calling for from 46 to 56 bales, and it must have the indorsement of the warehouseman to the effect that he undertakes for the account of the owner to keep the cotton insured against fire to the full extent of its value. There must be submitted, with the notice of tender, a cotton-classification certificate, if the cotton has been classed (or an appeal certificate, if the classification has been appealed), and the certificate of guaranty.

All tenders must be for cotton in square bales, stored in Bremen, Bremerhaven, or Wesermünde, with such warehousemen as are approved by the exchange and the clearing-house bank. The cotton for each contract must be delivered from one warehouse and by one warehouseman.

FAILURE OF SELLER TO TENDER

If the seller either willfully or through negligence fails to tender the cotton in due time, the clearing-house bank, or the buyer if it has not been recorded, must close the contract. In either case a penalty of 5 per cent on the "closing-out" price shall be imposed on the seller. The 1 p. m. price is used as the base for such closures.

TRANSFER OF NOTICE OF TENDER

When the clearing-house bank is handed the notice of tender in correct form, the time of receipt is indorsed on it and it is passed to a buyer whom the bank may select. No buyer can refuse acceptance, but should he have liquidated his contract prior to the receipt of the notice, or should he do so prior to the official fixing of prices at the 1 p. m. call, he may return the notice of tender with the applica-

tion for recording the sale, provided he does so immediately on receipt of the notice. The bank assigns it to another buyer immediately, who may also pass it on in the manner described, if he does so prior to 1 p. m.

BACK-DATE SALES

Back-date sales are provided to take care of emergencies and are authorized only by the clearing-house bank, which appoints a time limit for execution. It is to be used in case of inability of last buyer to take up the cotton tendered or of some other irregularity.

RECEIVING THE COTTON ON TENDER

When a party who has received a notice of tender wishes to receive the cotton, he returns the notice of tender with the certificate of guarantee issued by the clearing-house bank and makes a payment on account of 25 per cent of the value claimed in the notice of tender.

The clearing-house bank then hands him on an official form a permit for handling the cotton.

HANDLING THE COTTON

The handling of the cotton must be done by a forwarding agent appointed by the clearing-house bank. He is charged with the duty of looking after the interest of the receiver. The receiver must arrange for the handling of the cotton and must notify the tenderer, so that within three business days after notice of tender the actual work of handling may begin.

Weighing must begin immediately and before the cotton is sampled.

The allowance for tare is 5 per cent of the gross weight. The receiver may demand actual tare. The method of taring is the same as that used in the spot market, but the rules are different. The permissible weight of canvas is 4 per cent instead of $3\frac{1}{4}$; and the weight of bands, 20½ kilos for 50 bales. An excess weight of bands may offset a deficiency of canvas; or an excess of canvas, a deficiency of bands. Excess overtare is deducted from the gross weight. The cost of taring and of the services of the expert who selected the bales is borne by the seller if there is an overtare; otherwise, it is borne by the buyer.

Badly damaged or false-packed bales are not tenderable, but if such bales are found in not too great numbers at time of handling the cotton, they are taken with an allowance. The amount of damp or damage is determined by mutual agreement, or if that is not possible, then by a sworn expert of the cotton exchange whose services are obtained by application on official form to the managing director. The tenderer is held liable for false-packed bales for a period of 100 days after tender. A variation of less than 2 per cent of the value of the bale is not considered.

SAMPLING AND CLASSIFICATION OF COTTON TENDERED WITH CERTIFICATE OF CLASSIFICATION

If cotton has not been officially classed at time of tender, immediately after the bales are weighed, it is sampled by the forwarding agent under the supervision of the party tendering. Two sets of

samples are drawn in addition to the buyer's office sample. These two are marked "Set 1" and "Set 2," respectively, and are sealed by the parties interested. The sample papers show the names of the respective parties, the number of the lots, and the marks and numbers of the bales. These are sent immediately to the futures exchange, which in turn places them in the custody of the sample room of the Bremer Baumwollbörse. They remain there as long as the classification or appeal certificate remains valid. The cotton exchange selects one of these two sets for classification, and the other is sent to the inspection room of the Baumwollbörse, where the holder of the class certificate has a right to inspect the samples at any time.

The classification is done by the experts of the Bremen Cotton Exchange, the Baumwollbörse, on application of the tenderer. The application must be made on the official form and presented to the managing director of the futures exchange. It must show that the samples have been properly drawn and delivered to the Baumwollbörse. If the cotton is to be classed for staple, it must be so expressly stated in the application. Upon receipt of the application the managing director of the futures market requests the Bremen Cotton Exchange to proceed with the classification.

The classification is based on the average of the boxes of the universal standards for grade and color, Middling White being the basis. The staple is based on the Bremen conception of 28 millimeters as applied to cotton.

The classification certificates are issued in triplicate, and the outturn of each bale is stated opposite its number. Each party is given a copy, and the third copy is kept by the futures exchange.

Appeals from classification may be made to the managing director of the futures exchange by either party, provided he does so on the official form not later than the second trading day after the date of classification. The party making the appeal must notify the other party. Both parties must send in their classification certificates.

The appeal is made through the managing director to the Baumwollbörse. The procedure is then the same as in the case of spot contracts. The appeal certificate is issued in triplicate, and its results must be accepted by both parties.

The period of validity of the classification and of the appeal certificate is one year. The certificates are issued to cover each contract of approximately 50 bales, and not for single bales. If the lot is broken by sale of certain bales or otherwise, the certificate is invalidated. It is also invalidated if the standards are changed, if the lot is sold or damaged by fire or water, or if the lot or any part of it is declared untenderable.

Cotton may be tendered after it has been certificated. Any one who wishes to tender cotton with the classification certificate must apply to the director for an expert to supervise the weighing of the bales and the drawing of samples. The classification certificates are both sent to the owner of the cotton. He may appeal if he likes, in which case he must return the classification certificates. When the appeal classification is made, both copies are sent to him. If any one has taken up cotton on contract, he may retender it without reclassification within one year if the certificate is in no way invalidated; and

if he does so within a month, he may retender such cotton without reweighing if the notice of tender contains the notation, "parcel already handled."

The notice of tender of cotton already certificated must be accompanied by the classification certificate, or the appeal certificate if it has been appealed. The tenderer must also furnish proof that the lot tendered is the one called for.

TAKING DELIVERY

The receiver is bound to take delivery immediately upon the issue of the classification certificate or of the appeal certificate, if either party appeals. Taking delivery means the actual weighing over of the cotton. In the case of lots which have been passed upon, the cotton must be weighed over, and the buyer must take delivery within 10 days from date of tender.

PAYMENT

The first payment is made by the receiver when he returns the notice of tender issued to him by the clearing-house bank on account of the party making the tender. The amount of this payment is 25 per cent of the value of the cotton as estimated by the tenderer.

This 25 per cent of the payment is held by the bank as a guarantee that the contract will be fulfilled. On the fourth business day from date of tender the receiver must pay the other 75 per cent of the estimated contract value.

When the second payment is made, the clearing-house bank surrenders to the buyer the delivery order and the warehouse receipt. The payments by the buyer are immediately turned over by the bank to the tenderer, with the exception of any portion it may retain for its own security.

Final settlement is made between the parties on the basis of the weights at the time of weighing over and of grades as shown in the classification or appeal certificate issued by the official classifiers or arbitrators. The basis price for settlement is the noon settlement price on the day of tender. The differences applied for grade and staple are those prevailing on the date of tender. These differences are fixed by the committee on valuations in the spot market on the last business day in January, to apply in February and March; on the last day in March, to apply during the next following two months; and so on throughout the year.

EXPENSES OF DELIVERY

The cost of classification and appeal must be paid by the tenderer. He must pay warehouse and insurance charges until time of weighing cotton over. However, the buyer must pay to the seller, on the date payments are due, interest on all unpaid money from date of tender. The clearing-house bank pays interest on margins paid in current funds and on payments on account. The rate in the former case is established by the valuation committee on Friday of each week; in the latter case, by the board of directors. Table 2 gives itemized cost of delivering cotton on contract in Bremen.

TABLE 2.—Cost of handling cotton tendered against a Bremen future contract

Costs	Bremen	Bremen-	Bremen	Bremen-
	Reichsmarks per bale	haven per bale	Reichsmarks per 100 bales	haven per 100 bales
Receiving and warehousing:				
Electric crane dues ¹	0.16½	0.01¼	36.30	- 2.75
Receiving from stinner and placing in warehouse	1.15	1.33	115.00	153.00
Warehouse rent, per month	.20	.20	20.00	20.00
Fire insurance, per month	(?)	(?)	16.80	16.80
Port and statistical charges (approximate)			15.00	15.00
Tendering from warehouse:				
Delivering from warehouse	.76	.76	76.00	76.00
Selecting bales by number	.59	.59	59.00	59.00
Double sampling (2 sets)	.40	.40	40.00	40.00
Small charges on samples	.07	.07	7.00	7.00
Issuance of warehouse warrant	.15	.15	15.00	15.00
Fee for clearing house, per month	.10	.10	10.00	10.00
Fee for tendering	(?)	(?)	10.00	10.00
Additional charges:				
Cost of arbitration	.60	.60	60.00	60.00
Estimating damage (4 bales per 100)	.50	.50	2.00	2.69
Control of tare (10 per cent tare)	1.00	1.00	10.00	10.00
Examination of excess tare, if found	5.94	5.94	59.40	59.40

¹ Steamer electric crane at 36.30 reichsmarks for each 22,000 kilograms handled.

² Approximately 0.1 per cent per annum, based on valuation of \$12,000 per 100 bales.

³ The fee is 5 reichsmarks for each 50 bales.

⁴ If no excess tare is found, charges are to be paid by buyer.

The minimum cost for delivering cotton on a futures contract in Bremen is approximately 20 American points. If the cotton must be tared, the damage assessed, and the appeal made on classification, it may be much higher, or about 35 points.

TENDERING OR RECEIVING COTTON ON CONTRACT BY NONMEMBERS

All cotton tendered by an associate member or a nonmember must be offered through a member as agent who has power to act on his behalf in all matters involved. The client must put his agent in possession of warehouse receipts covering the lots to be tendered, not later than 11 a. m. on the third last day available for delivery under the contract. If he does not, the agent has a right to liquidate the contract. If the client is a buyer, he must give his agent necessary instructions regarding the fulfillment of the contract not later than the second trading day prior to the delivery month. When the cotton is actually tendered, he must hand the agent the estimated value before noon of the next day after tender. If the notice of tender has not been received on the fourth trading day before the close of the month, then the client must make payment prior to 11 a. m. on the third trading day before the close.

The procedure on the part of the agent is the same as if he were acting on his own account. The charges for classing, warehousing, etc., are the same as when members act on their own account. The only extra charge is the commission paid the agent.

The agent must allow his client interest on margins paid and on credit balances at the rate established on Friday of each week by the valuation committee.

DIFFERENCES BETWEEN BREMEN AND AMERICAN FUTURES MARKETS

The grade of the Bremen contract is based on Middling of the universal standards, and the staple on Bremen conception of 28

millimeters as applied to cotton. The basis of the American contract is Middling, and no staple less than seven-eighths inch is deliverable.

More grades and staples are deliverable on the Bremen contract, mainly because staple lengths from "fair staple," which is considered below the seven-eighths-inch minimum American futures contract allowance, to 28/30 millimeters are deliverable at the official differences.

Premiums and discounts for grade, color, and staple length, to apply in the settlement of futures contracts, are fixed two months in advance.

Bremen has a net-weight contract which calls for 11,340 kilos in about 50 bales. (Temporarily the contract calls for 25,000 pounds.) It is known as a 50-bale contract. Variations from the exact weight must be settled at the price of spot cotton on the second day after the weight is ascertained. A variation of more than 500 kilos may be invoiced back or settled for at a penalty of 5 per cent.

The contract is interest bearing.

The clearing-house bank guarantees the fulfillment of contracts when they are properly recorded.

The price is now quoted in cents and hundredths of a cent per pound, but later quotations will be in pfennigs and tenths of a pfennig per kilo.

The last moment for tendering cotton is 1.10 p. m. on the third trading day before the last trading day of the current month.

Cotton may be tendered previous to classification, but it must be in one warehouse and ready for delivery.

All cotton which has been passed by the classification committee must be weighed over, and the buyer must take delivery within 10 days from date of tender.

The first payment of 25 per cent of the estimated value is made when the receiver returns the notice of tender to the clearing house. It is held by the bank, which gives the receiver permission to handle the cotton. On the fourth business day from tender the receiver must pay the other 75 per cent of the estimated value. Final settlement is made when the class and weight of the cotton is determined.

The actual cost to the nonmember for delivering new cotton on contract in Bremen, including the commission for handling the cotton, is approximately 34 points. This does not include appeal fees or extra charges due to excess tare.

COTTON MARKETING IN THE NETHERLANDS

Prior to the World War, the Netherlands had no regularly organized cotton market with separate rules. The direct imports of American cotton before the war were less than 40,000 bales a year. Most of the business was done according to Bremen rules and Bremen arbitrations for disputes involving the quality of cotton. The imports were for home consumption.

The war upset trade routes and promised for a time to make Rotterdam, which was the Netherlands' cotton port, one of the largest cotton markets in Europe. Its imports jumped from 35,000 American bales in 1914 to 544,000 bales in 1915. The embargo reduced this to 10,000 bales in 1918, but since the war it has been able to hold its imports well above the pre-war level. During the season 1923-24

the total imports into Rotterdam were about 203,000 bales, an increase over the previous year of almost 100,000 bales. The average mill consumption of American cotton in the Netherlands is approximately 100,000 bales.

The unsettled conditions in Germany following the war gave Rotterdam an opportunity to organize and consolidate its gains. The country possessed a fairly stable currency, and was strong financially and ready to lend money on cotton. Bremen and American merchants established themselves in the market because it offered a good opportunity to open business, not only with the Dutch spinners but with the German, Swiss, and other spinners in the interior. Tariffs have cut off some of this prospective business.

THE PORT AND PORT FACILITIES

Rotterdam claims to be the second largest port in continental Europe. Facilities for handling cotton are good. Certain docks are set aside for handling cotton. The sheds are built to give ample lighting and are of a size to facilitate the weighing, sampling, taring, and other required handling of the cotton.

The time cotton is permitted to stay in the quay sheds without extra charge is not quite uniform throughout the port. One company permits the cotton to stay three days after the last day of landing; and another, three days after a lot is complete.

The warehouse where most of the cotton is stored, or through which it is forwarded to spinners, is directly across the roadway from the dock shed. Cotton is moved from the shed to the warehouse by a system of endless-chain carriers. By means of a system of control switches a bale can be sent to any desired compartment in the warehouse without extra handling. Only two men are required to move the cotton from the landing shed and stack it in the warehouse; one is in the shed to fasten the hooks on the bales, and the other is in the warehouse to release the hooks when the bales are put in the proper place.

The capacity of the warehouse is sufficient to house at one time all the imports of an ordinary year. It is provided with a modern cotton-classing room and a place to store samples. The fire-protection facilities are modern in every respect. The physical facilities for handling cotton in Rotterdam are as good as those at any other port in Europe.

RULES

The rules which govern the association were adopted in 1921 and came into force in February, 1922. The experiences of all the leading markets were drawn upon in the compilation of the rules, but they are more like those of Bremen than of any other market. It will be sufficient for the present purposes to call attention only to the points wherein they differ materially from those of Bremen.

MEMBERSHIP

Membership in the Rotterdam Cotton Association is not restricted to a particular trade or nation. It lists among its members bankers,

spinners, controlling and forwarding agents, cotton brokers, and cotton merchants. The countries most largely represented outside of the Netherlands are the United States and Germany.

TRADING

Rotterdam has no futures market. Its rules deal entirely with various forms of specific-delivery, spot-cotton contracts. As in Bremen, most of the cotton is imported on a contract specifying c. i. f. and 6 per cent tare and 1 per cent franchise. The cotton may be bought by a merchant who sells to a spinner, or it may be sold direct to the spinner by a firm doing an agency business. Most of the large American firms have such agents there. Prices are made to the importing agent or merchant in United States cents per pound. If it is "on call," as most of them are, it is based on New York futures. The trade is on buyer's call, and payment is made in either "cash on landing" or "90 days cash New York." Americans send a little cotton to Rotterdam for sale on consignment. The charges for carrying the cotton are not attractive; probably the chief reason is the narrowness of the market. Most business is done on description according to universal standards, but some business is done on type. Staple descriptions are in terms of millimeters. The quality deliverable on each description is essentially the same as in Bremen. In the majority of cases the merchants and agents prefer to buy specific descriptions of even-running lots. A miscellaneous shipment is difficult to handle because of the restricted outlet.

Spinners buy either on c. i. f. terms or "franco waggon" terms. They may buy at a fixed price, but the price is usually based on New York futures on their call. According to rules and customs, the price must be called before the month of call becomes the current month, or prior to the twenty-fifth day of the month preceding the month of call.

In the Netherlands it is customary to make the sale in Dutch cents per one-half kilogram, though it may be made in American cents per pound. Sales to spinners outside of the Netherlands are in the currency of the country of the buyer or in American cents.

The sale to the spinner is generally made at the spinner's mill. It is necessary for the Rotterdam firms to have agents in the mill centers. As a general rule, the cotton is offered to the spinner on the basis of a type or type samples, though some business is done on standard description. There are no spinners' brokers in the market. Payment for the cotton must be made in cash on the last day of delivery.

ARBITRATION

The method of settling disputes on quality in Rotterdam differs from the method in Bremen mainly in that paid experts are not employed in the classification of the cotton. The association elects the best judges of cotton from among its own members, who constitute a group from whom arbitrators must be chosen. Each of the parties at dispute selects an arbitrator from this group and sends his name to the secretary of the association, who notifies the members so chosen that they have been selected as arbitrators. This notification is accompanied with instructions as to when and where the

arbitration is to take place, and the contentions of the parties in disagreement. The arbitrators do not know by whom they have been chosen, and they are not able to identify the cotton as belonging to any particular individual, as samples are known to them only by serial numbers attached by the authority of the secretary.

APPEAL

The Rotterdam association is one of the group of associations which has adopted the universal standards for American cotton. Its method of handling appeals on quality is essentially the same as that of the other associations in the agreement. A list of parties eligible to act as members of an appeal committee is drawn up by the executive committee and submitted to the board of directors for election. The men proposed are regarded as the most expert judges of cotton. Decisions of the appeal committee are legalized by the United States Department of Agriculture.

The party making an appeal lodges it with the secretary of the association. The opposing party must be notified within six days. The executive committee appoints three men from the number eligible to serve on appeal committees. They are given the facts in the case and the decision of the arbitrators, but they do not know the names of the contending parties. The cost of the appeal is borne by the losing party. In 1925 the cost was 35 Dutch cents per bale, or approximately 15 American cents.

ROTTERDAM COTTON ARBITRATED IN OTHER MARKETS

Contracts of sale to parties in the Rotterdam market may specify that disputes on quality must be referred to another market for arbitration. The market most often specified is Bremen, though Liverpool is sometimes specified. When this is the case, the samples are drawn and sealed under supervision of both parties and sent to the specified market upon the order of the buyer of the cotton. All other procedure is according to the rules and customs of that market.

DIFFERENCES FOR QUALITY

The method of making and applying official differences in the settlement of disputes on quality is essentially the same as in Bremen. The committee charged with the responsibility, however, makes greater use of the official quotations of other markets, especially those of Bremen and the United States, than is customary in Bremen.

CLAIMS

All claims for tare must be made before the cotton leaves the quay. The amount of tare is determined by taring 10 per cent of the bales. One-half of the bales to be tared is chosen by the buyer, and one-half by the seller or his representative. Ten times the weight of the tare on the bales tared is taken as the weight of tare on the whole lot. An excess weight of bands is offset by a deficient weight of canvas, or an excess weight of canvas, by a deficient weight of bands. If the combined weight of bands and canvas exceeds the permissible

amount (9 pounds per bale for bands and $3\frac{1}{8}$ per cent for canvas), it is deducted from the settlement weight.

Weight claims must be made at time of landing. Any difference between landing weight and invoice weight is deducted from the latter after the 1 per cent franchise and the tare have been deducted.

Damaged claims, if the damage is detectable, must be made and the amount determined before the cotton leaves the landing shed. If the damage is not detectable at time of landing, claims may be made any time within 100 days.

Claims for quality made within 30 days from the last day of landing are recognized as valid. The claims are due when finally determined. All cotton is sampled on the quay, and the samples are properly sealed and delivered to the association, pending such claims or the expiration of the time limit for making them.

Claims of all descriptions are frequently settled in Rotterdam by mutual agreement. Most damage claims are settled in this way, as are many claims for overtare.

MARKETING AMERICAN COTTON IN FRANCE AND BELGIUM

THE COTTON INDUSTRY IN FRANCE

France was one of the first countries of Europe to develop cotton manufacturing. Even early in the eighteenth century there was a thriving domestic system of cotton manufacturing. Louis XIV and Colbert did much to promote its development, especially by levying tariffs on imported goods. From 1760 to 1890 France was not able to keep pace with England, though it had a remarkable development during that time. The imports from England threatened to smother the French industry, so the national government developed an energetic policy of high tariff protection on cotton goods. In some instances these duties were prohibitive. It also placed a heavy tax on the importation of textile machinery, and lesser duties on raw materials. For a part of the time, at least, a bounty was paid on exports (2).

The extreme extent to which governmental aid was used to build up the industry in the early part of the nineteenth century lost considerable of its favor by the middle of the century, but the policy of tariff protection of the home market for the home manufacturer has been consistently followed down to the present time.

In the main, the strength of the French cotton-manufacturing industry lies in the high degree to which it has developed specialties, particularly for the export business. France has never been a great exporter of manufactured cotton goods, and by far the larger portion of the exports go to the French colonies. Before the World War the total exports amounted to about 20 per cent of the production.

In March, 1925, France, including Alsace, had a total of about 9,500,000 cotton-spinning spindles. In 1845, with the present territory, about 3,500,000 spindles were reported; in 1860, 5,500,000. In 1880 there were a little over 4,500,000, due to the loss of Alsace; but in 1914, there were approximately 7,500,000.

France ranks next after England and Germany as a consumer of raw cotton. The annual consumption is approximately 1,100,000 bales. For the season 1924-25, it was 1,122,000 bales, and for 1923-24,

1,063,000 bales. About 70 per cent of these supplies are drawn from North America.

There are four centers of cotton manufacturing in France. The oldest of these is in Normandy. Rouen is the geographic and economic center of the industry in this region. Many of the mills are in small towns outside of Rouen, but most of them are along the Seine within a few miles of the city. The chief advantages of the region grow out of the ease with which it can get raw cotton from Havre and machinery and coal from England. The mills in this section use American cotton. With the exception of one, this is the smallest of the four manufacturing centers.

The most highly industrialized section of France is the Nord, of which Lille is the textile center. The approximately 2,000,000 spindles in the area are within the city itself or within 8 miles of it. The finest yarns made in France come from Lille, which is primarily a spinning center. Lille is the yarn as well as the cotton market for the district. The bulk of the Egyptian cotton used in France is consumed in Lille. Much of the Egyptian cotton comes through Dunkirk rather than Havre.

The next two districts, the "Est" and Alsace, are geographically one and will be treated together. The industry in this region was developed first in Alsace. The taking of that country by Germany in 1870 greatly stimulated development on the French side of the border, or the Est. The mills in these two regions are more widely scattered. They are usually small and are along the rivers where they can use water power. The center of the Alsace district, the cotton and yarn market, is Mulhouse, and that of the Est is Epinal, though there are a number of other places of considerable importance. Before the World War the Est had about 3,000,000 spindles and was thus the largest spinning and manufacturing district in France. Alsace had 1,900,000 spindles, so the two together now have more than half the spindles of France. They spin medium-count yarns, chiefly from American cotton.⁵

The fourth, or Rhone-Loire, region is essentially a weaving section. It is not far from Lyon. Most of the yarn comes from Lille and is used in making fancy colored goods and for mixing with silk or making imitation silk. There are probably not more than 100,000 spinning spindles in the entire district.

The cloth market for all of these regions is Paris. Most of the selling is done through selling houses or through brokers to selling houses. Paris is more than a cloth market—it is the distributing center for all manufactured goods. All roads lead to Paris. One can scarcely travel from one part of France to another without going to Paris; and if he should once do so, he would hardly do so again, because of the difference in quality of the service. On the other hand, the service to and from Paris in any direction is excellent. This makes Paris an excellent distributing center and contributes much toward explaining the forms of business organizations in France.

⁵ French yarns are numbered in 1,000 meter hanks per 500 grams. For instance, 27s means 27 hanks, or 27,000 meters, per 500 grams. To convert the French counts to English equivalents, multiply by twenty-seventenths.

ORGANIZATION OF THE COTTON INDUSTRY

The organization of industry in France is different from that of other countries of Europe. France is preeminently a country of privately owned and privately managed small business units. There are partnerships and private companies, but with certain exceptions there is nothing to compare with the corporation in the United States of America, the limited company in England, and the kartels in Germany. The owner of one of these small business units is usually the business manager, the buyer of the raw material, and the seller of the finished product. The cotton-manufacturing industry has an overhead organization which attempts to harmonize individual interests and to secure unified action in matters of common concern. This organization is known as the "Syndicat General." It was organized in 1901, and has two principal departments. The first one has to do with statistics of purchases, sales, and production; the second, with the claims of the cotton industry as regards tariffs and other national matters.

In addition to this organization, two others should be mentioned. The first of these is the Union Textile, founded in 1901. It is a union of local syndicates, which are more or less all-purpose organizations. The other association is the Association Cotonniere Coloniale, founded in 1903. It is modeled after the British Cotton Growing Association, and its purpose is to encourage cotton growing in the colonies.

The yarn and cloth markets of France reflect national conditions but have no great significance as indicators of world conditions such as the Manchester market has.

MARKETING RAW COTTON

The raw-cotton markets in France differ from those in North America more widely than do any other markets of Europe. There are differences in point of view as well as in the means employed to effect the desired ends.

CHAMBERS OF COMMERCE

In theory, at any rate, the general organization for commodity marketing in France has the conception of marketing as a public service more than is the case in either North America or England. The chamber of commerce is the official agency which has the general supervision of all commerce. It was given its official position in a decree of 1866. Since that date considerable legislation has been passed affecting these chambers, but the fundamental purpose for which they were organized has not been changed. One of these chambers may be established in any Department (civil division in the Republic) on compliance with certain prescribed rules. The government of the chamber is in the hands of locally elected directors. The electorate includes all those holding executive positions in commerce and industry, such as directors of companies, partners, exchange agents, and brokers.

The general powers and duties of these organizations are (1) to give advice to the Government on commercial and industrial

questions, (2) to present their views on such matters as tariffs and shipping and industrial relations, and (3) to provide certain commercial works and facilities, commercial usages, markets, and warehouses.

The chamber of commerce may borrow money for the carrying out of its plans, and its ordinary expenses are borne by taxation.

Commodity sections are formed within the chamber of commerce. These sections have their own separate organizations and rules. Each section elects its own officers and conducts its own business under the general provisions of the law and of the rules of the chamber.

LOCATION OF COTTON MARKETS

The chief spinners' markets in France are the central cities in the spinning districts. Rouen is the market for Normandy; Lille for the Nord; Mulhouse for Alsace; and Epinal for the Est. For the Rhone-Loire region there is no outstanding center and no place that could be considered a cotton market.

The merchants', or import, market is at Havre. Some cotton is imported through several other ports such as Dunkirk, Bordeaux, and Marseille; but there are no organized markets at these places.

SPINNERS' PURCHASES OF COTTON

The cotton spinners in France do not go to Havre to buy their cotton. The merchants in Havre have local representatives in the spinning centers, who visit the spinners at their offices or elsewhere and sell cotton to them direct.

The spinners' markets are not formally organized as raw-cotton markets. They have no rules, contracts, or committees or other officials required in the conduct of a raw-cotton market. The business is done on Havre contracts, according to Havre rules and settlement terms.

The spinners buy most of their cotton for forward delivery on call. The distance they cover to fill their requirements for raw cotton depends largely on the sale of their product, though spinners may take the risk and buy cotton on basis on call if they think the differences on their particular kinds of cotton are unusually favorable. Much business is done forward for delivery within from 6 to 12 months.

The right of call, the privilege of naming the time the price is to be fixed, is invariably given the spinner. The spinners prefer this because it relieves them of the responsibility of carrying a futures account and simplifies somewhat the bargaining in the sale of their yarn or cloth.

The spinners quote the prices on their goods in francs and call the price of cotton in the same currency. Prices are based on Havre futures. The price may be the actual purchase or sale price of the futures contract, but more often it is the official price ruling at the morning or evening call as specified on a named day. Prices of raw cotton are quoted in terms of francs per 50 kilos.

The description of the quality of cotton to be delivered in the fulfillment of a contract may be given in terms of recognized standards,

in types, by means of samples, or in a combination of these ways. Probably no other group of spinners uses the universal standards more consistently in describing the grade of their purchases than do the French. It has been asserted by reliable brokers and merchants that 80 per cent of the spinners describe the grade of their cotton according to the universal standards. The staple length of American cotton most generally desired in France falls within such narrow limits (good 28 mm. to 28/29 mm.) that it is comparatively easy to describe the staple length desired. In addition to describing the grade and staple length desired, it is customary to give the State of origin or the place of shipment.

Since the spinners buy their cotton subject to Havre rules and settlement terms, the more detailed analysis of the contract, the settlement of disputes, and other similar matters will be reserved for description under the subject of the Havre market.

THE HAVRE MARKET

Havre is the only organized raw-cotton market in France, and it is one of the oldest markets in Europe. The present organization was established in 1882. It is both a spot-cotton market and a market for futures contracts. It is, thus, one of the three futures markets in Europe, Liverpool and Bremen being the other two.

Havre is located at the mouth of the Seine River. It is the nearest of any of the French ports to all of the centers of the French spinning industry. When all things are considered, it has the best facilities for transporting cotton from the port to the French mills.

The Port of Havre has a depth of water sufficient to permit the largest ships to enter the docks and unload cargoes into the landing sheds. The dry-dock facilities, completed in 1925, can handle with ease the largest ships afloat.

Special provisions have been made for landing all cotton on the quays built especially for cotton. The quay shed at the cotton dock is the largest in any European market. The one shed, one story high, is estimated to accommodate 500,000 bales of cotton at one time. There is, thus, ample room for weighing, sorting, sampling, and taring the cotton before it leaves the quay.

Ships are unloaded by movable electric cranes stationed on the land. They handle from 3 to 5 bales at a time, and several can be trained on a single ship, so that it can be unloaded at the rate of about 4,000 bales a day. The shed is amply supplied with railway facilities and lifting machinery for putting cotton into cars. (Fig. 8.)

Cotton is permitted to stay in the quay shed without cost three days after last day of discharge. The cotton is weighed as it goes into the quay shed, and then the bales are placed in rows or groups according to bale marks. Weighing is done in kilograms, and weight is taken to the one-half kilogram. Weighing is done by public officials, but the weights and weighing are inspected by representatives of the buyer and the seller. The weighing apparatus is operated on the principle of the equal-arm balance, or weight for weight, as in Liverpool. The weights are called by the weigher and recorded by both the buyer and the seller. Either may ask for a checking of the

scales at any time. There is also Government inspection of the scales at least once a year.

Warehouses for cotton in Havre are well equipped and seemingly well planned and constructed for the efficient handling of cotton. They are estimated to accommodate approximately 600,000 bales. The city, through the chamber of commerce, owns warehouses with a capacity of 300,000 bales. These warehouses are built in unit sections. Each section, containing 25 or 30 safes, is built in the form of a rectangle. The outside walls are solid. All cotton must be put in or taken out through the entrance, which opens into an interior court. The total capacity of a section is divided into what are known as safes by fire walls and intervening open space supplied with car tracks. This space may or may not be covered. The capacity of each safe is about 1,500 bales. In order to use the safe to its full capacity, the bales must be stacked 8 or 10 high. The stacking is done by electric lifts.

Warehouse space is secured and paid for on application to the warehouse manager. Compartments or safes may be leased, but it is more customary to hire and pay storage on the quantity of cotton in storage. The cost of storage in August, 1925, was 3 francs, or about 14 cents, per ton per month. Storage for less than 15 days is charged for as 15 days. The storage charge does not include insurance, which is 45 centimes per 1,000 francs value per month, or about 2.1 cents per \$50 value per month.

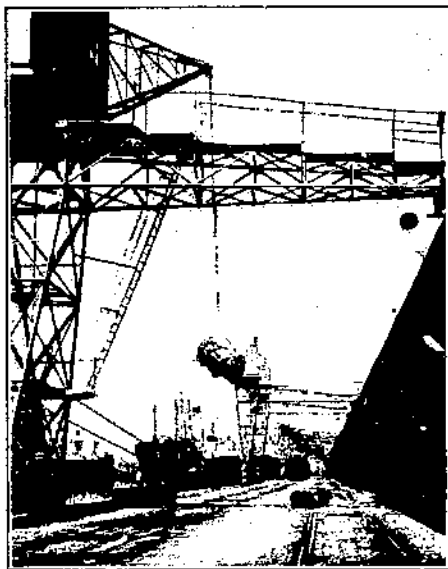


FIG. 8.—Water side of the quay set aside for cotton in Havre

ORGANIZATION OF THE HAVRE COTTON MARKET

The Havre market is organized differently from any of the others in Europe. The official market for all commodities is in the chamber of commerce building. Each commodity, like cotton, wool, and coffee, has separate sectional organizations. In Havre the cotton section is the most important.

The cotton section, or association, is composed of a number of groups. The two of most importance for this study are one composed of merchants and one composed of brokers. There are approximately 25 cotton merchants in Havre. The organization is open to anyone who has a reputable character and whose regular business is the purchase and sale of cotton. There are three organizations of brokers. One is known as the Society Anonymous of Senior Cotton Receivers. It has 31 members. The Society of New

Brokers had 19 members in August, 1925, and the Section of Sworn Cotton Brokers had 7 members.

The brokers must be French citizens. Each one must pass an examination which tests his ability and professional aptitude, and which is conducted by three members chosen in the societies by the presidents. The test is not very rigid.

According to the rules and principles of law, brokers are not supposed to engage in a merchandising business for themselves, especially in the business in which they are acting as brokers. The functions of a broker are recognized to be incompatible with those of a merchant. The Society Anonymous of Cotton Receivers weighs the bales. The sampling and taring and the loading into drays or cars are done by private firms. The workers may or may not be organized.

Viewed as a whole, the organization of the cotton market is rather loose. It involves the cooperation of the several societies. The activities of brokers are more limited than in the other cotton markets of the world, and the merchants are limited to their particular field of activity.

The general conduct of the cotton business in Havre is prescribed in a small volume published by the Society of Ancient Brokers, called "Le Havre Cotton Usages, Contracts and Rules" (7). These are very brief and do not give many of the details necessary to an understanding of the market. A great many of the minor operations and practices used in trading in cotton and in handling it are matters of custom, but for all practical purposes they are not different from written rules.

TRADING IN THE SPOT MARKET

The sale to spinners has been described in part under the discussion of the spinners' markets. Cotton is sold to spinners by merchants only. Most of these merchants are French, though other nationals may engage in the business of merchandising cotton to spinners. American firms are doing more business direct with the French spinners than are the merchants of any other foreign country, but the amount of this business is not great.

The French spinners buy most of their cotton on description for grade and staple. They buy also for forward delivery on basis, their call. This enables the merchants, through their agents, to sell cotton before it is shipped or even bought in the United States. Largely as a result of this practice, stocks of cotton in Havre are comparatively small. Figure 9 shows stocks in Havre at the end of each month, August, 1921, to July, 1926.

The sale of cotton by one party to another in Havre must be made through a broker. If a merchant wishes to offer cotton on the spot for immediate delivery, he places the samples in the hands of a broker. If one wishes for any reason to buy cotton already in Havre, he does so through a broker. Such sales are made almost invariably on actual samples.

Cotton sent to Havre by an American on consignment to an agent is sold as spot cotton. Most of the merchants designate specific grades in their purchases on c. i. f. terms from American merchants, but the Havre merchant often finds it inadvisable to deliver the cot-

ton bought for a spinner when it arrives. He may then be compelled both to buy and to sell cotton on the spot. Most merchants carry a small stock of cotton in Havre out of which to make replacements, or to sell if the value of cotton for spot delivery gets out of line with later deliveries. Sometimes the merchant may get out of a shipment a few bales of a better grade or a longer staple length than he has sold to his spinner buyer. He sells these bales on the spot and buys others to replace them or replaces them out of stock.

The market for spot cotton for immediate delivery is subject to wide fluctuations. As a rule the merchants attempt to supply their needs by purchases on c. i. f. terms, so that the spot market becomes a sort of second choice. These customs and conditions discourage those who would put cotton in Havre to sell on the spot.

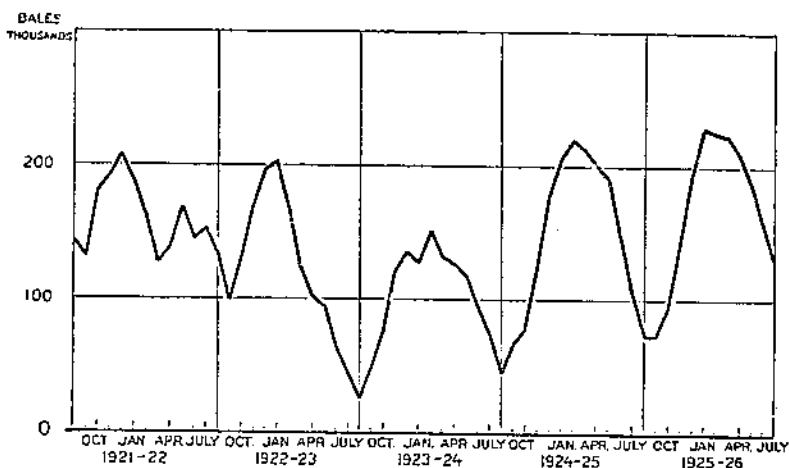


FIG. 9.—STOCKS OF RAW COTTON AT HAVRE FROM AUGUST, 1921, TO JULY, 1926

During this period stocks of raw cotton held at Havre on the last Friday of each month at no time exceeded 250,000 bales. The data used in the preparation of this graph are taken from the Annual Cotton Handbook (5).

SALE OF AMERICAN COTTON TO HAVRE ON C. I. F. TERMS

The contract between the American shipper and the Havre merchant is made through an agent usually spoken of as a c. i. f. agent. In most cases he is a French broker employed by the American shipper. No French firms have buying departments in the United States. If a shipper does a large business and deals in a large number of classes of cotton, he has an exclusive agent. On the other hand, one agent may represent several small shippers.

The American shipper offers his cotton on basis, points "on" or "off" the price of contracts for delivery in a named month, buyer's call, in cents per pound. The agent's business is to sell the basis. The buyer may select the contract month if he prefers, one other than that upon which the cotton is offered, provided he equalizes the price. If the seller is offering cotton 300 points on December and the buyer wishes it based on March, and March is 50 points under December, the price would be 350 on March. The function of the agent is really

that of a broker, but he performs many services not strictly required of a broker. In order to introduce a new shipper, the broker sometimes acts as a guarantor that the quality of the shipment will be as described and that claims, if any should be established, will be paid. Sometimes a small charge is made for such service.

The price is based on New York futures. There are no official rules governing the time and the manner of making the call. It is customary to call the price before the date of shipment. The price used is usually the following close. This, however, like the date of call, is a matter provided for between the buyer and the seller in a memorandum of agreement or merely by mutual understanding.

When merchants buy depends largely upon when the spinners buy, though merchants do not always confine the amount of their purchases to sales. They begin purchases of the new crop in appreciable volume in June, and by the end of August they have sometimes bought a good part of their year's supplies. Each year presents different problems, which have much to do with determining the time at which sales are made and the volume of sales at any given time.

DESCRIBING THE COTTON

Havre merchants buy much of their American cotton on description. The grade is described in terms of the universal standards. Since many of the spinners buy on such description, it offers the merchant protection; for if he buys the same description as he sells, he is in position to pass on to the shipper any claims that may be made on him by the spinner. Staple length is described in terms of millimeters. The great bulk of the American cotton used in France falls within rather narrow limits, the lengths most in demand being 28, 28, 29, 29, and 28/30 millimeters.

Types are still used to some extent in the early part of the season, especially, and for off grades and highly colored cotton. Cotton bought and sold exwarehouse is generally sold on actual sample.

Most of the cotton sold by Americans to Havre merchants is even-running. The outlet is not broad enough for a basis Middling contract like that often used in Liverpool. Wide variation from the description sold is sometimes severely penalized. If the cotton delivered turns out as a whole to be a full class below that sold, the buyer has a right to invoice back the cotton to the seller at the value of the day for the class sold, plus a penalty of $1\frac{1}{2}$ per cent, besides damage, if any.

THE HAVRE C. I. F. CONTRACT

Most of the cotton sold to France is according to the Havre c. i. f. contract. It provides for the usual c. i. f. terms and 6 per cent tare, with mutual allowances for weights. It is contract Form C of the rules. No official translation has been made of its terms.

The contract calls for the delivery of 22,000 kilos gross for each 100 bales of Atlantic cotton, 23,000 kilos in the case of Gulf cotton, and 24,000 kilos in the case of Texas cotton. A variation of 5 per cent more or less is permissible in the total weight and in the number of bales when sold with the clause "about." If the variation in weight is greater than the 5 per cent permissible, the excess is settled

for at the price of like cotton on the last day of delivery. The gross invoice weight must be within 1 per cent of the gross landing weight.

The shipping rules are somewhat different from those of the other markets of Europe. Article 7, which governs the terms of shipments, reads as follows (7):

In all contracts of shipment, the date of the bill of lading signed by the captain or by the agent of a regular line, shall be evidence of the date of shipment of the goods, provided the ship shall be loading in the port named, at the time the bill of lading is signed. In contracts for clearance, the date of the customshouse certificate shall be evidence of the clearance of the ship.

The latitude allowed to sellers by the introduction into the contract of the clause, "shipment on or about (date)," is eight days, to be counted from the date mentioned. If the cotton is sold for "prompt shipment" or "immediate shipment," it must not be shipped before contract date or more than 14 days later. Cotton sold as "shipping" or "shipped" must be shipped during the 14 days preceding or following the date specified. The seller must declare the name of the ship, the marks and classes of the cotton in fulfillment of contract of shipment, and the date of clearance and sailing, without a delay of more than four weeks from the extreme date stipulated.

According to the above rules, the time limit between the signing of the bill of lading and the actual shipment of the cotton is comparatively short, which means, among other things, that the American shipper must finance his purchases for export to Havre for a longer time than would be the case in other markets.

The penalty for violation of the shipping provisions is 1 per cent of the invoiced amount for a delay of not exceeding 8 days, and 2 per cent for a delay of 9 days or more. In case the shipment is made prior to the time specified, the penalty is one-half per cent of the invoiced amount for a period of not exceeding 8 days and 1 per cent for a period of 9 days or more. Any damage caused is added to the penalty.

The shipper must provide marine insurance to cover the net invoiced amount, plus 10 per cent and, in addition, the country damage and the sea damage. In all cases the insurance must equal the gross amount of the invoice, plus 5 per cent. When the contract is closed, the risks and profits of the marine insurance belong to the buyer.

ELEMENTS OF A GOOD DELIVERY

In France, as in the other countries of Europe, delivery under a c. i. f. contract has reference to the disposition of the proper documents, for they represent the value of the shipment. If the documents are not made out as required in the contract or are not sent forward within the time required, the seller does not make a good delivery, even though the cotton arrives safely at the port of destination and within the proper time. On the other hand, the seller makes a good delivery if the documents are in the proper order and go forward as required, even though the cotton is later lost at sea.

If the cotton is delivered, as well as the documents that represent it, the landing weight must be within 1 per cent of the invoiced weight, and the cotton must be equal in all respects to that described in the

contract and in the invoice. If the shipment of cotton is deficient in any respect, the buyer has a just claim on the shipper in accordance with the rules specified in the contract.

TIME AND MANNER OF PAYMENT

The payment for cotton sold on c. i. f. terms must be made at the time the shipper surrenders the documents. It may be made either in cash or in the form of a negotiable credit instrument, usually a sight draft for 90 days. The Havre merchant makes the payment in New York at the agreed price on the invoiced amount, less 6 per cent for tare. Usually the buyer arranges a dollar credit in New York through a bank in Havre (either French, English, or a branch of one of the American banks) and instructs the New York bank through the Havre banker when and under what conditions to make payments. Arrangements may be made for the payment for a specified number of bales, or funds may be provided as a revolving credit with specified limits and against specified documents to be presented to the bank. The payment on the invoice is usually not the final settlement on the lot, as that is based on the weight, tare, quality, and other conditions as determined in Havre.

RECEIPT OF DOCUMENTS AND COTTON IN HAVRE

Immediately after the documents have been received by the New York bank with which the French merchant through his local banker has opened dollar credit, they are forwarded to the bank in Havre with instructions to hold for the account of the American bank and to notify the buyer of their arrival. If, on the receipt of the notice of arrival of the documents, the importer notifies the bank to charge the same to his account and send the documents, that ends the matter for the bank. If a term of credit is arranged, usually 90 days' sight New York, the draft is held in New York, and the other documents are sent forward to the corresponding bank in Havre with instructions to have the cotton warehoused for account of the bank. It is customary to lend the documents to the merchant to do this work. Trust receipts are not required, because they are not recognized in French law.

In either of the above instances the importing merchant makes the proper arrangements for receiving the cotton and having it warehoused. The shipper's agent, as well as the shipper's controller, is usually notified as to where and when a ship is expected to dock and concerning the lots of cotton to be discharged. The buyer presents the documents, and the cotton is turned over to him. If he has paid the draft drawn on him for it, he warehouses the cotton in his own name; otherwise the warehouse receipts are drawn in favor of the bank.

HANDLING COTTON FROM THE QUAY TO THE WAREHOUSE

With few exceptions, all the cotton which goes to Havre is unloaded into the one large quay shed reserved for cotton. This arrangement greatly simplifies the problems of handling. The cotton is examined

for damp and other observable defects as it comes off the ship, or after it is weighed if by agreement, but in any case prior to its being removed from the shed; and the cotton is weighed as it goes into the shed. It is then laid out according to lot marks for taring in case the buyer thinks a lot has more than the permissible amount of tare; and for drawing the official samples for arbitration in case there is a dispute as to the quality of the cotton.

Weighing is done by the Society Anonymous of Cotton Receivers, but both buyer and seller may have, and in most cases do have, representatives to observe the work. Either may request a test of the scales or a reweighing when it is deemed necessary. Weighing is done in kilograms and to the half kilogram. The weight thus established is the weight used in calculating the final-settlement weight.

All tests for damp (either external or internal), damage, and other observable defects must be made before the cotton leaves the quay. Likewise, all tests for excessive tare must be made and established before the cotton is removed. Deductions for any of these causes must be determined and taken from the landing weight, the same being later carried to the invoice weight in making final settlement.

Sampling is done after a lot has been completed. Two samples are drawn, or one large sample is drawn and divided into two parts. Each sample is wrapped separately, and the two sets are wrapped in different colored paper. One is sealed by the buyer and seller jointly and sent to the arbitration chamber. These are the official samples used in arbitration. The other set of samples belongs to the buyer and is taken to his private sample room. He determines from an examination of this set whether he shall make a claim for deficiency in quality.

Taring is done after sampling. During the season 1924-25 almost all cotton was tested for overtare. The weights of bands and canvas are determined separately. The weight of bands permissible is 408 kilograms, approximately 900 pounds, per 100 bales. The weight is determined by weighing 10 or 20 bands, to arrive at the average weight, and multiplying this average by the number of bands, counting all loose bands, to secure the total weight. The amount of canvas is determined by stripping 10 per cent of the bales. The bales are selected by choosing a lot of 10 without previously examining the bales or knowing their weight. The tares are weighed separately. The tare on the 100-bale lot is taken as 10 times that on the 10 bales stripped. The calculation is based on landing weight after the weight of bands has been deducted.

The costs of weighing and sampling are paid by the buyer, except that the seller must pay for any control service he may employ. The costs of taring are paid by the buyer if no overtare is found and by the seller if there is any overtare. The actual work of sampling and taring is done by an independent society of workers.

Cotton must be removed from the quay sheds within three days after the last day of discharge of the ship. Customarily, it goes to the warehouse, though it may be sent direct to the spinner. If it goes to the warehouse, it is usually carried on horse carts or motor cars, though a small part is carried by railway. All charges must be paid by the merchant.

WEIGHT FOR FINAL SETTLEMENT ON C. I. F. SALES

It is not customary for the American to add to his invoice weight to Havre under the c. i. f. and 6 per cent mutual weight contract. Thus, if 100 bales are billed to Havre weighing 50,000 pounds, they would be invoiced net at 47,000 pounds. The draft drawn by the American shipper would be for the price times the net invoice weight.

STATEMENT OF TARE

The actual tare on a shipment of cotton to Havre is determined by stripping 10 per cent of the bales. These 10 bales, if the shipment is 100 bales, are chosen by the buyer and seller without reference to their weight. They may agree, for example, to take the third 10 to come off the ship. Ten or twenty bands are weighed to ascertain the average weight of bands. The weight of all bands is taken to be this average weight multiplied by the number of bands. The weight of canvas on the 100 bales is taken to be 10 times the weight found on the 10 bales.

The actual amount of tare, as determined above, is compared with the permissible weight to determine whether there is over or under tare. The permissible amount of bands is 408 kilos. If there is more than that, it is deducted as an item in loss in weight. The permissible amount of canvas is $3\frac{3}{4}$ per cent of the landing weight after the weight of bands on the bales has been deducted. If this is less than the tare as ascertained above, there is an overtare, and it becomes a loss-in-weight item as is shown in the weight outturn. (P. 63.)

Statement of tare

on bales of cotton ex S/S "....."
from tared on the buyers demand, and supervised by
us.

Existing bands 900, missing bands 0. 10 bands weigh 4.53 kos.

Nos.	Weight of canvas (kos)	Patches	Overtare calculation
			Gross landing weight..... 22, 675 kos.
			Less:
			900 bands at 4.53 per 10 bands..... 408 kos.
			22, 267 kos.
On 10 bales	79. 3		Weight of canvas..... 793 kos.
			Regular canvas 22,267 kos. at $3\frac{3}{4}\%$ 793 kos.
			Over-Tare..... 0 kos.

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STATEMENT OF WEIGHT OUTFURN UNDER C. I. F. AND 6 PER CENT WITH MUTUAL WEIGHTS, HAVRE TERMS

The weight-outturn statement shows whether there has been a gain or loss in gross landing weight as compared with the gross invoice weight. The gross invoice weight, as it appears in the shipper's documents, is accepted as final for purposes of this statement. The gross landing weight is the gross weight of the shipment at the time of landing plus the weight of missing bands and less deductions due to wet or damaged cotton and to overtare of either bands or canvas.

Statement of weight outturn

TOTAL WEIGHT NOTE OF 100 BALES COTTON Gross 22,675 kos.
 ex-steamers "_____ " from _____ discharged in HAVRE,
 weighed and sampled under our control for account of _____
 Receiver _____

Gross landing weight (900) bands on	22,675 kos.
bales short delivered	
bales "no mark"	
(gross landing weight kos.)	} at _____ lbs. _____ (average live net weight)
bales damaged and condemned	
(gross landing weight kos.)	
missing bands at _____ kos. per 10 bands	
claim upon vessel for broken bales	
less	<u>22,675 kos.</u>

Sand and gin fall _____	
Various _____	
1 6 of _____ kos. sea damage _____	} <u>22,675</u>
1 12 of _____ kos. country damage _____	
	<u>50,000 lbs.</u>

Last day of discharging _____	
Condition of bagging _____	
Weather during discharging and controlling _____	
Allowance for damp before weighing kos. _____	
Gross invoice weight _____	<u>50,000 lbs.</u>
less 1% franchise _____	

OUTTURN OF WEIGHT:	<u>50,000 lbs.</u>
Gross landing weight _____	<u>50,000 lbs.</u>
Gain in weight, gross _____	_____ lbs.
Loss _____	_____ lbs.
B/C less 6% tare _____	_____ lbs.
Gain in weight, net _____	_____ lbs.
Loss _____	_____ lbs.
per S/S _____	_____ lbs.

Bands weighing _____ lbs. allowed are 900 lbs. per 100 b/c under weight of bands for which you get no credit _____ lbs.
 HAVRE _____

FINAL-SETTLEMENT WEIGHT

The final weight for which the shipper is paid is the net invoice weight less any additions or deductions for gain or loss in weight. Gains occur only when the landing weight is actually greater than the invoice weight, after all possible deductions are made. A loss in weight might be due to the fact that the shipment had actually lost in weight, or it might be due to overtare of either bands or canvas, or to excess weight due to wet or damaged cotton. In the example given above, there were no gains or losses in weight, so that the final-settlement weight is the net invoice weight of 47,000 pounds.

The difference in the method of calculating the settlement weight on a c. i. f. and 6 per cent mutual-weight contract in Harve and in Liverpool makes a difference in final-settlement weight of several pounds. If the shipment had been sent to Liverpool, the shipper would have received payment for 47,351 pounds, as compared with 47,000 pounds in Harve. This difference is due to the fact that Liverpool figures net against net, whereas Harve figures gross against gross. If the shipper had sent his cotton to Bremen on the c. i. f. and 6 per cent and 1 per cent franchise, with mutual weight and added the amount deducted for franchise to his invoice, he would have been paid for 47,475 pounds.

SETTLEMENT OF DISPUTES ON QUALITY

Unless otherwise specified, disputes between a buyer and seller over quality must be settled by arbitration in Harve, according to Harve rules and customs.

The set of samples drawn and dressed in the quay shed at the time of landing, by the Society Anonymous of Cotton Receivers for handling cotton, wrapped in blue papers and sealed under the supervision of the buyer and seller, is sent immediately to the arbitration chamber (Chambre Arbitrale de Cotons). Its official place of business is at 38 rue Jules Siegfried and is provided with arbitration and appeal rooms.

The chamber of arbitration must be composed of at least 12 members. They are elected by the syndical chamber of the Syndicate of Commerce from among members of the three societies of brokers, on the proposal of these societies. They are elected in June for a term of one year beginning August 1, and members may be re-elected. Vacancies are filled in the manner of regular elections. The president of the Society Anonymous of Cotton Receivers is the president of the arbitration chamber. Four brokers in addition to the arbitrators are elected as administrators. The arbitrators serve in rotation, and three constitute a committee for arbitration.

The rules do not specify any particular qualifications for election to membership in the arbitration chamber. It is generally agreed that some of the best judges of cotton in Harve are members of the arbitration chamber.

The rules provide that the buyer must make request to the secretary of the arbitration chamber for arbitrations on quality within 8 days from the last day of landing. This time may be extended to 14 days by making what is known as an "arbitration reserve." The

party calling for arbitration must state the reason for his request and the facts upon which the arbitration is to be based.

The arbitrators do not know the names of the parties for whom they are arbitrating. The samples are delivered to them in rolls designated by serial numbers. They make their report to the secretary of the chamber, who in turn transmits the award to the parties in dispute.

Either party may appeal from the arbitration award if he does so within three days after the delivery of the award certificate. The appeal committee is composed of six brokers and eight merchants, or their legal representatives selected by the brokers, from a list submitted by the syndical chamber. It is divided into four sections, each section constituting an appeal committee.

By arrangement with the Secretary of Agriculture at Washington, the award of the appeal committee is officially recognized when given in accordance with the agreement entered into in 1923, and the supplemental agreement of 1925. The appeal committee is given the results of the arbitration and counterarbitration awards and the demands of the contending parties. It may require other evidence if it sees fit.

The Havre and Bremen systems of making awards on quality are similar. The fundamental characteristic common to the two systems lies in the fact that the technical classification of the cotton is done by a separate group from the one which fixes the relative values of the different classes. When the arbitration committee finishes the classification of a lot, the official differences for grade, staple, and color are applied, and the final monetary award is made.

THE MAKING OF OFFICIAL DIFFERENCES

There are two sets of differences in the Havre market; one is used in the spot-cotton market and the other in the futures market. They are made by different groups.

Differences which apply in the settlement of disputes in spot-cotton transactions are made by a committee composed of merchants, brokers, and spinners. The spot differences are made at irregular intervals, and each set of differences applies until superseded by another. The committee may be called to meet at any time on notice. Any member is permitted to attend, and all are furnished with a list of proposed changes and with a request for comments. The spinners often vote their opinions by mail or wire.

Differences which apply in the settlement of futures contracts are made for grade only. They are made in a general meeting of the cotton association, where each member is permitted to discuss proposed changes and to vote them. The differences are made on the last days of December, March, June, and September, to apply for the next following three months.

Members are required to report neither the differences which obtain in their actual purchases and sales nor the differences at which they are offering the several grades and staples. Differences prevailing in markets other than Havre are taken into account in making official

differences. The official differences prevailing in American markets and in Bremen are given most consideration. Offers of American firms through their agents, along with any other information on the subject, are given more or less weight.

The fees for arbitration, counterarbitration, and appeal are assessed in francs per bale. In August, 1925, the fee for arbitration or counterarbitration to determine the grade was 75 francs (about \$3.50) for 50 bales. There was an extra charge for classing for staple length of 28/30 millimeters or longer. Twenty francs went to each of the three arbitrators and the remaining 15 francs to the chamber. The fee for appeal was likewise 75 francs.

The cost of arbitration for spot cotton is borne by the one demanding arbitration if the lot passes; if it does not pass, the buyer and the seller divide the cost equally. The costs of counterarbitration and appeal are borne by the appellant. In case the arbitration is for cotton delivered on a futures contract, the arbitration and counterarbitration fees are borne equally by the buyer and the first seller. If the difference between the classification of the arbitrators and counterarbitrators is more than 5 francs per contract, the cost of the appeal is borne equally by the receiver and the deliverer; otherwise, by the one who makes the appeal.

CLAIMS

Claims may be made on the seller of cotton to merchants in Havre for a number of causes. The more important of these are (1) Loss in weight, (2) excessive tare, (3) deficient quality, (4) damp, (5) false-packed and unmerchantable cotton, and (6) country and sea damage. A loss-in-weight claim must be based on weight as ascertained at the time the cotton goes into the landing shed. Such losses are deducted from the invoice weight, and at the invoice price if the loss is 5 per cent or less. If it is greater than 5 per cent, the settlement price for such difference is that prevailing on the last day of landing.

Tare claims must be made and determined before the cotton leaves the landing shed. Bands and canvas are treated separately and both are independent of gains or losses in weight. Claims established are deducted from the net invoice weight at the invoice price. If a claim is established, the cost of taring is added to the allowance.

Claims for deficient quality must be made within 8 days from the last day of landing or within 14 days if a claim reservation is made within the 8 days. If a claim is established according to the Havre rules and customs, the amount of the deficiency is settled for at the official differences prevailing at the time it is established. The resulting money claims are due at the time they are established. If the deficiency is more than a full class on the lot as an average, the buyer has the right to invoice the lot back to the seller at the differences prevailing for the contract cotton at the current value, plus a penalty of 1½ per cent besides damages, if any.

Claims for external damp must be made at the time of landing and before the cotton is weighed. Such a claim is most likely to arise

when the cotton is being unloaded in the rain. It is customary for the buyer and the representative of the seller to agree upon the deduction to be made. If they can not agree, it is left to an expert of the Havre market. Claims for what is known as internal damp, or excess moisture inside the bale, are so rarely made that there are no rules regarding them.

Claims for false-packed and unmerchantable cotton rarely occur. If the deficiencies are not detectable at time of landing, such claims may be made when the deficiency is discovered. The claim is settled for at the prevailing price at the time the claim is established.

The Havre contract provides that country damage and sea damage must be completely covered by insurance and not amount to more than what is known as the particular average (6 per cent gross for country damage and 3 per cent for sea damage) which prevails in the other large markets of Europe. The insurance company, however, refunds only ten-twelfths of the country damage and four-sixths of the sea damage. The other two-twelfths of the country damage is borne by the buyer and seller jointly, or one-twelfth by each. The other two-sixths of the sea damage also is borne by the buyer and seller jointly. The buyer, on the other hand, loses nothing, as a rule, for he keeps the damaged portion without charge. All such claims must be made and determined before the cotton leaves the quay. The amount of damage is determined by an expert of the exchange and representatives of the buyer, the seller, and the insurance company.

COTTON CONTROLLING

The Havre market has comparatively few rules. Custom, private agreements, and personal relationships play important parts in the marketing process. The cotton-control service in the Havre market has some special problems because of these facts. Here, as in other European markets, several firms are in the control business.

In addition to their functions in observing the weighing, taring, sampling, and the assessment of damp and damage, the controller should be in position to give the shipper expert information on various other matters. It is especially important that he be able to give expert information to the shipper with regard to the quality of his shipment, so as to advise as to the correctness of arbitration awards. He should be able to interpret correctly the rules and practices touching any point which may involve the shipper's interest. There are also many statistical facts and figures which, if properly presented, would be of immense value to the shipper.

The shipper's agent is in position to help him in many ways, but it must be kept in mind that ordinarily it is easier to establish business relationships with shippers than with buyers, so the agent should not be expected to uphold the interest of the shipper on controversial points.

FORWARDING COTTON TO MILLS

The methods of buying cotton followed by the spinners in France have already been described. They make their purchases at least

6 to 10 weeks and often 10 months in advance of date of delivery on spot terms deliverable in Havre. This gives the merchant time to buy his cotton on c. i. f. terms from the agents of American merchants, land it in Havre, and make the delivery as agreed.

When the cotton arrives, the merchant has the samples drawn as already described. He takes his samples to his own sample room for classification. He has two objects in view in classing the cotton. He wishes to know (1) whether he is entitled to a claim from the shipper and (2) whether the cotton fulfills his contract to the spinner. The spinner, as has been shown, buys most of his cotton on description both for grade and staple. The merchant specifies the same class when he buys on c. i. f. terms from Americans through an agent, but even at that he is not always able to deliver to the spinner the cotton he received from the shipper. One spinner may prefer cotton of a different character from that required by another. The Havre merchant must thus rearrange the cotton in different lots for delivery.

When the time comes to make the delivery, he notifies the spinner's forwarding agent of his intent and readiness to deliver. The forwarding agent may examine the samples on the merchant's tables, reject certain bales, and accept others conditionally. When the bales are gotten out for shipment, two sets of samples are drawn. One set is sealed by the buyer and seller jointly and sent to the arbitration chamber. The other is for the use of the spinner, though, as a rule, the decision of the forwarding agent is final in so far as the spinner is concerned.

THE HAVRE FUTURES MARKET

The Havre futures market was organized about 1882. At present it is used very little by clients outside of France. Even before the World War, when the fluctuating rate of exchange was not a deterrent factor, it was not extensively used beyond the French border. It is generally said that the chief function of the market is price making and supplying facilities for hedging on the part of the spinners. French spinners, as a rule, buy on their call based on the Havre futures market. If the price is called before the cotton is bought in the United States, the French merchant must hedge in Havre to protect himself; if the price is not called, the only thing for him to do is to buy exchange for forward delivery to cover his basis. When he buys the cotton, he can either hedge it in New York or buy dollar credit and hedge in Havre. The price of the cotton may thus be based on the Havre market but not be hedged there. Many hedges are kept in New York and moved to Havre only when it can be done at a profit.

If the French spinner buys his cotton on his call based on Havre on a month for which grade differences have been fixed, the market offers him a fair hedge of the basis, in so far as it is determined by differences in grade. It would not prevent a loss in basis due to a general decline in cotton prices.

MEMBERSHIP IN THE FUTURES MARKET

The Havre market for trading in cotton for future delivery is a sort of dual organization. One phase of it is concerned with the

actual trading in contracts, the brokers' side of it; and the clearing-house bank (Caisse de Liquidation) is the merchants' side. Theoretically, these have an entirely different membership.

In Havre there is not a separately organized market for trading in cotton for future delivery as is the case in Bremen; nor is there a market like the Liverpool Cotton Association or the American futures markets, where capital stock and a limited number of shares control the number of members. Only a member of one of the three societies of brokers has a right to negotiate contracts for future delivery. These members, in turn, are permitted to buy and sell for clients only. There is no limit to the number who may become brokers except that they must be French citizens, pass the necessary tests of ability, and pay the necessary dues. Some brokers devote most of their time to the futures business. Others transact little or no business in futures.

EQUIPMENT OF THE MARKET

Trading in the futures market is done mostly in the big central hall in the bourse, except in the matter of calls, which are conducted in a small room. There is no trading ring and no board on which to record the sales, as in the other futures markets. The only prices recorded from time to time are those of New York and Liverpool. There is another board for recording the New York and Paris rates of exchange, and still another on which are posted various statistics. There is also a general reading room, which supplies the leading trade journals and directories.

OPERATION OF THE MARKET

Trading in the Havre futures market is done very differently from that in other futures markets. There is no formal opening. Trades may be made at any time, anywhere. The market opens generally at about 9 a. m. and closes at 5 p. m., or at the time the Liverpool market closes. The brokers have telephone booths in the large hall at one side, where they receive orders from merchants and others. There is no limit to the kind of orders given. Usually it is an order to buy or sell at a stated price as compared with New York. When the broker receives an order he at once lets it be known. Other brokers with potential or direct orders of an opposite character bargain with him. The trading is thus very largely private. One does not have to trade with another unless he wishes to do so.

The calls are the only officially recorded prices. There are two calls each day. The first call is at 10 a. m. and the other at 4 p. m. There is little actual trading at the call. Even the most active months are sometimes called and passed with only a few bids and offers. If a sale is made for a given month, the price of such sale becomes the official price for that month. If only bids and offers are made, the official price is usually an average, though not necessarily so. Merchants, as well as brokers, may attend the call. Merchants have a right to bid and offer if they wish, and if they make trades such trades are considered to have been made through the chairman, to whom are paid the regular brokerage fees.

The importance of the call is not measured by the number of transactions made. The spinners buy most of their cotton on call. They fix the price in most instances by designating in advance that the price will be the official price established at a designated call. It may be the opening call price for July delivery on, let us say, June 25.

A broker is not permitted to buy or sell contracts and hold them to himself in the clearing house, but he may temporarily take the opposite side of a contract. A great deal of this type of business is done. It is this method of handling purchases and sales which enables so much price fixing to be done on the call and yet so little trading. Thus, a broker who has an order to fix the price on a lot of cotton on the next call may actually make the sale, if the operator requires a sale, before the time of call; or he may make it later. There is always the possibility that he will make a small profit or incur loss in assuming this risk. There is, perhaps, less complaint among the French spinners against the Havre market than there is by the spinners of, let us say, the United States or England against their hedge markets.

Trades are made for delivery in the current month or for delivery in either or all of the next succeeding 11 months. Trading in the current month nominally ceases the last day of the month. In practice it is before this, for the notice of intent to deliver must be given 48 hours before delivery.

THE HAVRE CONTRACT

The Havre contract is based on Middling, universal standards for grade on a staple length of 28 millimeters or above and on character equal to Gulf cotton. No premium is paid for staple length in excess of 28 millimeters. Other grades may be delivered, provided that the grade is not of less value than Low Middling, universal standards. Cotton shipped from Atlantic ports or originating in the Atlantic States is charged a small discount.

The Havre contract is a net-weight contract. The amount specified is 11,000 kilograms in about 50 bales. The seller may deliver as much as 11,300 kilograms. All above 11,000 kilograms is settled for, however, at the current value and not at the contract price.

Prices are quoted in francs per 50 kilograms. Before inflation took place, the price variations were made in centimes.

The Havre contract is interest bearing. If profits are taken by purchase or sale before due date, they are discounted at the rate of $6\frac{1}{2}$ per cent. If losses are paid into the bank before due date, the one so paying receives a discount of $4\frac{1}{2}$ per cent. A translation of the contract follows:

CONTRACT E.

FUTURES

COTTON

Copy. Mr. X.----- on the motion of Mr. Y.----- Broker, to be registered at the CAISSE DE LIQUIDATION (Clearing House) to which clearing house he acknowledges the rights of----- and in conformity with its regulations.

No.----- And subject to the conditions regulating weights, allowances, special allowances for damaged cotton bales, tare, discounts, etc., now effective for spot cotton, and subject to the special conditions on the other hand governing futures sales and of the Regulations voted by the General Assembly under date of September 30, 1927.

Contract APPROXIMATELY ----- BALES OF COTTON FROM THE
 No.----- UNITED STATES, SHIPPED FROM GULF OR PACIFIC PORTS DIRECT TO HAVRE AT THE PRICE OF ----- the fifty kilograms to be delivered -----

MIDDLING BASIS (Universal Standard)

All tenders to be deliverable, shall be exclusively composed, either of cotton bales imported under D.18 ter permit not yet audited, for which bales the import duty shall have been paid immediately at the time of importation, exception to be made, however, in the case of cotton imported before April, 1927, which shall be deliverable under the two systems of permits existing before that date and on condition that the permits covering the cotton have not expired; or of cotton bales subject to the "Surtaxe d'Entrepôt" (bonded warehouse surtax) which surtax covers bales in Government warehouses or private bonded warehouses, but a tender must not be composed of bales which emanate both from stocks under D.18 ter permit or from stocks placed under the control of government or private bonded warehouses.

The present contract to be effective upon all operations which shall have been concluded during the month of September, 1923, and the subsequent months.

Tenders coming under the regulations of the preceding contract shall always be redeliverable in their entirety. Sellers are therefore authorized to put them in circulation and purchasers can not refuse them as long as any exist.

Tenders are to be delivered in toto with the exception of bales in which the damage exceeds 12 kilograms in weight, which bales are replaced according to Article 19 of the preceding contract.

The owners will not be allowed to replace the cotton bales imported under permit D. 18, which permit is about to expire. These tenders shall cease to be deliverable as soon as the permit covering part of the bales which compose these tenders has expired.

Futures from the end of ----- delivery ----- Possible duties at the expense of X.----- the purchaser.

The present contract is liable to telegram expenses in accordance with the established quota.

Havre, the ----- 192---

MARGINS

Every buyer or seller of a contract for future delivery in the Havre futures market must deposit an original margin with the clearing house. The amount of this margin is fixed by the clearing house. In August, 1925, it was 140 francs, or about \$6.50 per bale. Margins must be put up by the parties to the contract at the time the contract is delivered to the clearing house for registration for guaranty. It results, then, that those who buy and sell contracts on their own account are members of the clearing house. They carry a current account with it, on which they usually authorize the clearing house to draw, to keep up the margins whether on short or long contracts. Brokers may, and some do, become members of the clearing house and deposit margins for clients, especially if they are foreigners.

In addition to the original margins, buyers and sellers of contracts must put up variation margins to the extent that the price movement impairs their original margins. Variation margins are based on the price changes in the market as indicated by the morning and afternoon calls.

THE CLEARING-HOUSE BANK

The clearing house (*Caisse de Liquidation*) is a separate organization from the cotton association. It is an organization with capital stock, the shares of which may be owned by anyone. It serves both as a bank, a sort of survey company, and a clearing house; and it serves these purposes for coffee, wool, and other commodity markets as well as for the cotton market.

The bank charges a small fee for its services and makes in addition a small profit on the discount it receives or on advance payments of profits and losses by members. Thus one who has made a profit of 100 francs will get 93½, whereas the loser pays 96.

Losses on a contract must be kept good with margins by the holder. Profits on contracts are not paid until the contracts are liquidated, and then they are discounted at the rate of 6½ per cent.

The Havre contract is thought to be exceptionally safe. No loss has ever occurred because of its inability to fulfill its obligations. It makes little difference to the buyer or seller who the opposite party to the contract happens to be, for the responsibility is really carried by the bank. The failure of the broker who negotiates the contract would likewise be of little consequence if the party who employs him makes sure that the contract is duly registered in the clearing house.

LIQUIDATION OF FUTURES CONTRACTS

The buyer or seller of a futures contract may fulfill his obligations in two ways, as is done in other futures markets. In most cases he liquidates by buying back or selling the contracts already sold or bought. Since the clearing house is a responsible party alike in all contracts, contracts canceled with an offset may be cleared immediately.

Settlement of contracts by the delivery or receipt of spot cotton is not so readily accomplished. The delivery may be made any time during the month called for in the contract. The party making the delivery must give 48 hours' notice of his intent to deliver, and he may not give more than 5 days, Sundays and holidays not counted. The delivery notice is given to the clearing house. It is immediately passed to the member with the oldest contract. If he does not wish to take up the cotton, he must return this notice "within a reasonable time" showing a sale of a contract for a like delivery month. This in turn serves as a notice of delivery, and it is served on the holder of the next oldest contract. No one is compelled to accept after 5 p. m. a tender which requires delivery to take place the following morning, nor after 11 a. m. if delivery is to take place in the afternoon of the same day. If a notice of tender rests in a receiver's hands because of the above limitations, he must take the cotton or obtain from the first seller a delay permitting the transfer of the delivery notice to proceed. In the latter case he must pay interest

and warehouse, insurance, and any other charges caused by the delay.

The notice of tender must state the price quotation of the day and the sum to be remitted by the receiver as a first payment. It is based on a net weight of 11,000 kilos less a discount of 2 per cent on the amount. It is due on the day of final arbitration.

The cotton tendered must be in one public warehouse in Havre and be free from charges. It may be tendered on the seller's classification of grade, on the arbitration chamber's grade, or on the grade of the appeal committee. If it is tendered on the grade of the seller, the buyer has a right to have its class determined by the arbitration chamber; and if not satisfied with that, he may have it passed upon by the appeal committee. The seller has a right to be present when the arbitration samples are drawn or to draw them jointly with the buyer. They must be sealed jointly, and they are delivered to the arbitration chamber by the buyer.

If the cotton being tendered has already been classed by the arbitration chamber and the seller can prove its identity, he can tender it on that classification. The buyer must accept it, though he may call for classification by the appeal committee. If it has been passed by the appeal committee, it may be tendered on that class without recourse. In case of such retenders, the official differences prevailing at the time of tender apply, regardless of former differences.

If the cotton tendered is rejected wholly or in part by the arbitration chamber as untenderable, any total or partial substitutions must be completed not later than the day following arbitration or appeal award. The substitutions must be composed of deliverable cotton; otherwise, the tenderer must pay the receiver a heavy indemnity per day per contract from the final day of substitution until settlement.

COTTON MARKETING IN BELGIUM

There are (1925) 1,764,000 spinning spindles in Belgium. That country's annual consumption of raw cotton is approximately 300,000 bales. In the two half years ended July 31, 1924, and January 31, 1925, Belgium consumed 299,000 bales. Of this amount 43 per cent was American, 53 per cent Indian, and 4 per cent "all other" growths of cotton.

Cotton enters Belgium directly by way of either Ghent or Antwerp. The latter city is at least one of the three largest ports on the Continent of Europe. It is at the head of deep-water navigation on the Scheldt. The largest ships can make the port. Ghent is at the head of a deep-water canal, and most of the cotton freighters are able to reach the port. It is a comparatively small city and has nothing like the shipping business, especially the exports, of Antwerp. It is thus much easier to get a return cargo from the latter place. Ghent is in the very midst of Belgium's spinning district, so very little transportation is required after the cotton lands.

THE GHENT MARKET

The Ghent Cotton Association was formed primarily to make Ghent a market for Belgian spinners. The Ghent market is new; the port, in so far as deep water is concerned, is new, as is also most of the equipment for receiving and handling cotton. The landing

shed is of concrete and has two floors. There is no free time in the landing shed. There is ample landing-shed space to take care of all arrivals. Most of the cotton going to Ghent is American. In the season 1924-25 it received over 150,000 bales of American cotton.

The warehouse space in Ghent is estimated to be sufficient to accommodate about 35,000 bales. The outside dimensions of the warehouse form a rectangle, and all compartments or safes open into the inside court. This court between the rows of safes on either side is about 60 feet wide and several hundred feet long. Railway accommodations are also provided. Space in the warehouse may be secured by lease or per bale rental.

RULES

The Ghent cotton market has no rules of its own making. It has adopted the Liverpool rules and uses the Liverpool continental c. i. f. contract with 6 per cent tare and 1 per cent franchise.^a Most of the cotton is bought subject to Liverpool rules and arbitration, though some is bought on Bremen terms and arbitration.

Ghent is a spinners' market. Most of the cotton is sold direct to spinners through agents of American firms. In most instances these agents are Belgians. In 1925 cotton was being sold in American cents and fractions of a cent per pound. The spinners purchase their cotton on buyer's call. The business is based either on New York or New Orleans futures. Formerly the call was made on the next following opening or closing price; but recently competition is forcing the agents of the American firms to permit the spinners to call the price on the previous New York close, provided they do so before Liverpool opens, and in not too large quantities at any one time.

Most of the cotton is bought on description based on the universal standards for grade, and on millimeter designation for staple length. Arbitrations on quality are settled on the terms and differences prevailing in the market which performs the arbitration. The market has no official differences of its own.

In the active season it is customary for the agents to call on the spinners twice each day. There is a general exchange or market hall, but very little trading is done there. The cotton trade, or at least the executive committee, is supposed to meet each week and transact official business. The meeting is usually informal.

Cotton is sampled when it comes on the quay after it is weighed. One of the two sets of samples is sealed by the buyer or his representative and the representative of the seller. The samples are held by the buyer to be sent to Liverpool or Bremen, as the case may be, if the buyer demands arbitration. The weighing in Ghent is done by an official, but the seller and buyer usually have controllers who observe the weighing. Claims for overtare are made, and the bales are tared before they leave the quay. It is customary for the buyer to select five bales and the seller five of somewhere near the average weight.

Most of the cotton sold to Ghent is for payment at 90 days' sight, New York. It is customary to call the price before date of shipment,

^a For a discussion of the Liverpool rules and practices see (1).

though in some instances it is not done. Little cotton is sent to Ghent on consignment. The stocks are small and are held chiefly for replacement purposes.

THE ANTWERP MARKET

Cotton has been passing through Antwerp for years, although no determined effort has been made to organize a cotton market there. It is a free port for goods passing through the country, hence its imports consist largely of "in transit" business. There are a few resident firms in the cotton business. They are mostly agents of American or other foreign firms, though some do a merchant's business. Some of these men would like to see an organization started which would promote the further development of the port as a cotton market. These few believe that, if organized, they could develop a considerable trade with the Rhine country, especially with Alsace, and that they could eventually develop an import market.

Importations of raw cotton to and through Antwerp during the season 1925-26 are reported to have exceeded 350,000 bales. Cotton from almost every cotton-exporting country in the world was included in these imports.

The dock area of Antwerp is large. No particular docks and quays are assigned especially for handling cotton. Often cotton is taken aboard ship in the country of export to fill out a cargo and is landed wherever the boat happens to be assigned for its main cargo. Such a method of handling freight reduces the port dues, but it makes the controlling and later handling of the cotton more difficult and expensive.

The business is done mostly on the Liverpool continental c. i. f. and 6 per cent tare and 1 per cent franchise contract with Liverpool rules and arbitration. The trading in American cotton in Antwerp is much like the trading in Ghent. There is no public weigher, and the cotton is weighed, tared, and sampled on the quay by the buyer. In most cases the seller has a controller to look after his interests, but there are cases where the seller has selected the same man as has the buyer. Often the buyer is a spinner in the interior. If such is the case, he employs a forwarding agent to represent him in receiving the cotton. The lack of organization in the Belgian markets and ports increases the importance of the controller's services.

MARKETING AMERICAN COTTON IN SOUTHERN EUROPE

The markets included in this discussion are Milan, Italy, and Barcelona, Spain, the only two organized markets in southern Europe. These markets are alike in that their rules and practices are modeled after those of Liverpool. They are essentially national markets.

COTTON MARKETING IN ITALY

THE ITALIAN COTTON ASSOCIATION

All phases of the cotton business in Italy are grouped in one large organization known as the Italian Cotton Association (*Associazione Cotoniara Italiana*), organized in 1894. There is no capital stock,

and no limit to the possible number of members. The six main separate organizations within this association are those representing the interests of (1) spinners and doublers (*Filatura e Ritorcitura*), (2) weavers (*Tessitura*), (3) finishers (*Finimento*), (4) industrial relations (*Industriale Mista*), (5) raw cotton (*Cotoni Sodi*), and (6) allied trades (*Aderenti*). Some important changes are contemplated under a new corporation act.

Each of the above organizations has its own corps of officers and conducts its business in its own way, except in the matter of a change of rules. All important changes in, or additions to, the rules must be passed by the section immediately involved and then finally adopted by the Italian Cotton Association before going into effect.

One section of the association does not have the same degree of interest in each of the others. The spinning section, for example, is often greatly interested in rules of the raw-cotton section, especially those dealing with such questions as taring, arbitration, and reimbursements, whereas it is not so vitally interested in the rules of the finishers. Where two sections have direct dealings with each other, they cooperate in establishing the rules and in enforcing them. In the settlement of disputes on quality, for example, the committee is composed at present of three spinners, one retired spinner, four members of the raw cotton section, and one representative of the American Shippers' Association.

The offices of the Italian Cotton Association are located at Milan, as are the offices of the different sections. The cotton business is centered largely in northern Italy, and Milan is the business center for the region.

IMPORTANCE OF ITALY AS A COTTON MARKET

Italy ranks fifth among foreign markets for American cotton. The annual imports from the United States have averaged for the five-year period 1922-1926 more than 600,000 bales. In 1926 they amounted to nearly 750,000 bales. Very little of this cotton, usually less than 1 per cent, is later exported to other countries.

The consumption of all cotton in Italy is approximately 1,000,000 bales a year. Italy consumes more Indian cotton than any other country in Europe. From August 1, 1924, to July 31, 1925, Italy's consumption of all growths of cotton in running bales was 1,002,000. Of these, 639,000 bales were American, 288,000 were Indian, 54,000 were Egyptian, and 21,000 were listed as "sundries."

The total number of spinning spindles in Italy in 1925 was estimated by the International Federation of Master Cotton Spinners' and Manufacturers' Associations to be about 5,000,000.

THE MARKET PLACE AND PORTS OF ENTRANCE

The remainder of this discussion will be devoted to a description of the raw-cotton market.

The raw-cotton market is in Milan, but little cotton is stored or handled there. Most of the cotton imported into Italy enters through Genoa. The controllers, who represent the shippers, and the forwarding agents, who represent the buyers, are located there. They weigh the cotton, sample it, and tare it, if necessary. The weights and other

facts concerning the shipment are sent to interested parties in Milan, and the samples for arbitration, if the lot is to be arbitrated in Milan, are sent to the association there. All types, samples, and other adjuncts of a cotton-sales office are kept in Milan.

Not all cotton imported into Italy enters through Genoa, even though the sale is made in or through a Milan office. Most American cotton is sold to Italian spinners before it leaves the United States, on type or description for forward delivery. If the cotton is destined for a mill in southern Italy, it may be shipped to Naples. If it is going to northeast Italy, Austria, or the Balkans, it may be shipped to Venice or to Trieste. Thus, although Milan is the cotton market for Italy, most of the actual handling of the cotton is done in the port cities.

ORGANIZATION OF THE MILAN RAW-COTTON MARKET

The raw-cotton section of the Italian Cotton Association has its own president, vice president, secretary, and board of directors. The latter consists of eight members, all of whom are sellers of raw cotton. The officers and the members of the section have a right to transact all business which relates to them alone. There is no capital stock and no limit to the number of members. In the summer of 1925, there were about 80 members. Candidates for membership are proposed by two members and elected by the board of directors.

The executive committee is the most important body connected with the handling of raw cotton in Italy. It is composed of the eight directors of the raw-cotton section and four representatives of the spinners' section. This body is also called the arbitration chamber. It is responsible for the provision of machinery and personnel for the settlement of disputes. It approves the list of names from which all arbitrators must be chosen. It appoints the persons who are to serve in the case of appeal in the settlement of disputes on quality. There are 9 of them: 4 are sellers of raw cotton, 3 are spinners, 1 is a retired spinner, and 1 is an expert appointed by the American Shippers' Association. The committee arranges each month the order in which the 9 members of the official list are to serve. The American expert serves as 1 of the 3 members of each appeal committee. Of the other two, one is a seller of raw cotton and the other is a spinner.

The Italian cotton market with Milan as the center is essentially a spinners' market. This means that the cotton is sold by the American or other exporter direct, or through an agent to the spinners, without aid or intervention of an importing merchant. Some of the spinners have offices in Milan and buy the cotton there. For the most part, however, the seller sees the buyer in his mill or office in the local city.

In order, therefore, to have a chance at all the business, the seller or his agent must have an organization of subagents sufficiently large to call on each spinner once each week or once a day if the spinner does a large business and is likely to be in the market. The country is divided into districts. Each subagent is given a district, the actual size and layout of which depends on many circumstances such as accessibility, nature of competition, and the ability and personal acquaintances of the agent. These subagents may, and usually do, represent more than one firm, especially where the cotton offered is not strongly competitive.

METHOD OF DOING BUSINESS

Since the American exporter is usually offering his cotton in several countries and in many markets, he finds it to his advantage to move the cotton as little as possible before he sells it. It is customary for him to sell f. o. b. to buyers in the United States and c. i. f. when he sells for export. If a stock of cotton of great proportions is held in a foreign import market, it is held by the foreign cotton merchant and not by the American shipper.

In most markets spinners prefer to buy out of stock, because they feel that they can then be sure to get what they buy. In Italy they have a different point of view. The spinners are accustomed to buying on merchants' terms, the standard c. i. f. contract, with virtually no rejections. They generally admit that they might receive a more even-running delivery if they bought the cotton out of reclassified stock in Italy, but they fear that the best bales would always be taken out and sold at a higher grade than the one on which the cotton was originally bought in the United States. In fact, this is the opinion of many spinners in England as well as on the Continent. Their greatest objections urged against buying direct from the American shipper are the risks and difficulties of establishing and collecting claims in the United States against the shipper; and the fact that some shippers sometimes "dump" cotton under the "no rejection" clause in the contract. There may be some justification for the dumping practice in a merchants' market; but not so in a spinners' market, for the spinner can not spin allowances. Such a practice tends to force the spinner to become a merchant or to cause the building up of a merchants' market.

Cotton is offered, to a small extent, in Italy, by native merchants who import cotton. They class or reclass it and offer it to spinners on spot terms.

A native or a foreigner may offer cotton in his own name, but on c. i. f. terms. There is more of this type of business than of outright merchandising, but at that it is not large. This is essentially a dealer's business. Under such a plan the spinner has all the advantages and disadvantages of dealing direct with the shipper, except in the matter of price making. The dealer, not the shipper, is held responsible for faults of any kind in the shipment. This type of business seems to be on the increase. Firms which normally do an agent's business may sometimes buy or take lots of cotton to sell on their own account.

The bulk of the cotton going to Italy goes direct from the shipper to the spinner, through an agent who offers cotton on terms fixed mostly by the shipper. The cotton is usually offered on c. i. f. terms. A few of the larger firms keep small stocks of cotton in Genoa. This can be done safely when the shipper has already booked orders for forward delivery. He can send the cotton to Genoa or some other port town and use it as a free stock to solicit new business with the spinners for immediate shipment out of stock, always taking care to have enough cotton to fill his orders for forward sales as they mature. The spinner may object to taking cotton out of stock to satisfy c. i. f. purchases on the ground that the man who bought spot would tend to get the best cotton in stock, but generally there is no objection to such deliveries.

The shipper who wishes to do business in the Italian market must either set up a branch house, or establish an agency connection. Most of the business is done through agents. The agent may be a foreigner or an Italian. Usually he is an Italian. The connection may be made in a number of ways. The shipper may go to Italy, the agent may visit the United States, or they may be introduced by a friend.

Spot cotton is offered in the market on "spot terms" or on c. i. f. terms. The cotton offered on spot terms may be at a fixed price or on call at an agreed basis. No one in the market makes it his main business to import cotton to sell out of stock either on spot terms or otherwise.

The bulk of the cotton offered in Italy is on c. i. f. terms. Most of it is on "basis" buyer's call. It is customary for the spinners to buy considerable amounts far in advance when they think "the basis is right," even though they have not sold their product. By the middle of June, 1925, some spinners had bought enough basis cotton to last them from 12 to 14 months. The price is based on New York, and the hedging is done there.

It is customary for the seller to do the hedging. The raw-cotton association has a rule to the effect that the price must be called prior to the 25th of the month preceding the call month, which is usually the first notice day for the delivery of cotton on contract in the following month. This rule is not followed strictly. If the spinner has not sold the yarn representing the cotton, it is customary for the seller to let him transfer the hedge as often as he likes, so long as he pays the costs of such transfer. Sometimes the cotton is spun before the price is called. The buyer may ask that the price be fixed any time prior to the month of call.

The methods of conducting the business between sellers and their agents and between agents and spinners are left more to private arrangement than is the case in any other market in Europe. The agent usually works out a sort of working agreement with his spinner customers covering points which are not mentioned in the official rules. The chances are that he will have a similar agreement with the American shipper.

Some spinners buy occasionally what is known as single or double options. An option is merely a right to make a purchase or sale at the prices prevailing at the time the contract is made. The double option gives the right either to buy or to sell at prices prevailing at the time the contract is made. It is customary to charge 100 points for single and 200 for double options. These are not related directly to the spot business but may result in purchases by the spinner of spot cotton. Those who sell such options may or may not hedge by the use of stop orders in the futures markets.

It is customary to let the buyer fix the price of his cotton bought on call on the previous day's close instead of on the price at which the hedge is actually bought in, as is the case in the United States and in England. Ordinarily this privilege must be exercised before the next day's opening of Liverpool and Havre, but here again competition stretches the rule to the breaking point. Some contend that the gains and losses to the merchant in this method of fixing prices will balance each other in the long run. It is doubtful whether

this is true under the conditions of rapid communication now existing, especially where holidays intervene. Merchants also restrict the number of contracts which may be called on any one day. Any number of reasons may be advanced for the spinner's preferring this system of price fixing, but in the main the spinners say it gives them more freedom and eliminates a part of the risk in making trades. By this method they avoid any doubt as to whether they actually get the execution price of the contract or the price of an earlier or later execution, as the case may be.

The form of c. i. f. contract calling for cost, insurance, freight, and 6 per cent tare plus 1 per cent franchise is used in Italy almost exclusively. The insurance must cover the cotton until 30 days after the last day of landing, unless otherwise stipulated in the contract. The amount of the insurance to be carried is stipulated in article 52 of the rules of the Italian Cotton Association (4) as follows:

For c. i. f. contracts, insurance must be covered by the seller for the net amount of the invoice plus 5 per cent if shipment is made on port bill of lading or on custody bill of lading.

If shipment is made on inferior through bill of lading, the seller must insure the net amount of the invoice plus 10 per cent.

For cotton sold "on call" or "on basis" if the price is not yet fixed on the date of the bill of lading, the seller shall insure for the contract value based on the closing of the futures market on the previous day, plus 10 per cent, and any further increase shall be insured by the buyer.

DESCRIBING THE COTTON

American cotton that grades within the limits is sold almost exclusively equal to the universal standards for American cotton. Grades outside those represented by the standards are sold on types or type samples. Little is sold on actual sample unless it is cotton which has been consigned to Italy for sale on the spot.

Staple description is given in terms of millimeters. There is no exact uniformity of description in the market. Each seller describes his cotton as he sees fit, so that one seller's full 28 millimeters may be equal to another's 28-29 millimeters, and may be even more desired by some spinners because of the character. Broadly speaking, the descriptions are more nearly like those in Bremen, but on the average probably not quite so high. One of the hopes of those who are fostering Milan arbitration is that it will tend to standardize staple descriptions in the market.

Color descriptions are on the basis of the universal standards in so far as they apply. It is customary to use supplementary phrases, such as "fair color" or "good color." These terms have never been defined and consequently have little significance.

No standards have been adopted in the market for Egyptian and East Indian cottons, the other two growths which are sold in Italy in appreciable quantities. Business in these growths is done on types furnished by the seller.

RULES AND CUSTOMS GOVERNING SHIPMENTS

Prior to the World War the Milan market had no rules and contracts of its own making. Business was done on Liverpool contracts and according to Liverpool rules and customs. In recent years the

members of the market have become interested in having their own rules and buying cotton and settling disputes according to such rules in their own city. The Milan rules, as they were in 1925, were designed to cover those practices which are different from those followed in Liverpool. The Milan rules do not specify or give a model contract to be followed by members. On shipments destined for Italy, if the contract does not specify settlement according to the terms of some other market, the settlement must be according to Milan rules and customs.

The customary rules governing c. i. f. contracts apply in Italy. The seller pays all charges for bringing the cotton to the quay at destination. The buyer must pay dock dues and all other necessary landing charges. In this respect the buyer takes delivery at the quay, but a complete delivery is not made until the cotton is weighed as it goes out of the landing shed into the railroad cars.

The provisions regarding the kinds of bills of lading available for making shipments are the same as in the case of Liverpool and Bremen, and the forms are defined in the same way. The Milan rules provide that if the buyer or his banker has not received the documents within one month from date of shipment, the buyer may demand that they be furnished within 10 days; if the seller does not comply, the buyer may close the contract.

RULES AND CUSTOMS GOVERNING DELIVERIES

The delivery of cotton sold on c. i. f. terms is governed partly by Milan rules and customs and partly by Liverpool rules and customs.

CONTRACT WEIGHTS

Cotton is sold gross weight. The standard contract in Texas, Oklahoma, and Arkansas cottons requires that cotton must average 53,000 pounds per 100 bales; Gulf cotton (including Orleans, Mississippi, Alabama, and Tennessee) must average 51,000 for each 100 bales. In all other sections each 100 bales must average 50,000 pounds. It is customary to buy in numbers of bales. If the number of bales invoiced corresponds to the number sold, there may be a variation in weight of 5 per cent from the standard contract. If the number of bales invoiced does not correspond to the number sold, then the weight of each 100-bale contract must be within 1 per cent of the above weights. The variation in weight above the amount permitted in the contract is settled for on the basis of the market price on the last day of landing for cotton sold on c. i. f. terms, and of the price on date of delivery for spot cotton sold for delivery in Italy.

QUALITIES DELIVERABLE

According to rules and customary practices, no rejections are permitted in Italy because of variation of the cotton delivered from the quality sold. Where a specific grade is sold in Milan, the shipper has the privilege of offsetting bales a half grade below with bales a half grade above the grade specified. All bales more than a half grade above are considered as only half grades for offset

purposes, and grades more than a half grade below must pay the full penalty without benefit of the offset. Better grades than called for in the contract will not offset poorer staple; nor will better staples offset poorer grades. In case the shipment is below the qualities specified for either grade or staple, or both, the buyer must take the cotton at the differences fixed for the value of such grades and staples on the last day of landing.

There is considerable complaint in the market, especially on the part of the spinners, that some shippers take advantage of the privileges of this rule to dump undesirable grades and then sometimes refuse to pay the allowances granted. Such a privilege, if abused to any great extent, tends to create unfair competition.

THE LANDING OF THE COTTON

Most of the American cotton which goes to Italy enters at Genoa. Most of it is landed at one quay and goes into one shed or warehouse called "magazine generals." The shed is a four-floor structure of fireproof construction; the floors, pillars, etc., of concrete. The capacity of this shed is approximately 75,000 bales.

The quay is long enough to accommodate four large ships at one time. The ship's tackle is used to break the bales out and bring them on deck. They are picked up there by electric cranes stationed on tracks on the land, and are hoisted into the shed. The crane handles two bales at a time. The bales are held by grabhooks. As many as six cranes may be trained on one ship. If more than four ships are in the harbor with American cotton at one time, one or more of them may unload the other parts of their cargo while waiting for a berth at the cotton dock. In an emergency, cotton may be landed at other quays and moved later to the cotton sheds.

The crane is operated by one man. In addition a man is needed on deck to unloose the ship's tackle and fasten that of the crane which hoists the cotton into the quay-shed warehouse. The cotton is stood on end in the door of the shed by dumping it over a bale which lies flat. The dumping and the unfastening of the tackle is done by a third man.

The cotton is met at the door by truckers. The number required to serve each crane depends upon the distance the cotton must be carried inside the shed. The bale is put on a hand truck, rolled a few feet, and weighed before it is stacked. It is raised off the truck with a windlass to which is attached a pair of scales made on the same principle as ordinary beam cotton scales in the United States. The weigher meets the bale as it comes, fastens one side of his grab, loops the rope fastening the two over the hook on the scale, and attaches the other side to the opposite side of the bale. When this is done, the man who operates the windlass raises the bale off the truck, and the weigher determines the weight. The weight is called out to a boy who stands ready to paint the figures on the exposed cotton at the side of the bale. The weights are not called back, and the work is supervised by neither seller nor buyer. A crew such as the one described can handle approximately 700 bales a day. The laborers received 30 lira per day (about \$1.10) in 1925.

After the cotton is weighed, it is staked in lots as invoiced by the shipper. The usual method is to stand the first layer on end, and

others are piled flat on these three deep to the ceiling. All this is done by hand labor.

It is customary for the cotton to go direct from the quay to its interior destination. This makes it desirable often to leave the cotton on the quay longer than is necessary in a merchants' port market such as Liverpool. The landing charges paid in Genoa cover storage on the quay for 28 days. The cotton is loaded directly from the quay into railway cars. It is handled by small electric cranes attached to the side of the building. These cranes can handle either one or two bales at a time.

SETTLEMENT WEIGHTS

The first payment is made on the invoice weight less 6 per cent tare. As already described, the cotton is weighed (at Genoa) by public weighers as it goes into the landing-shed warehouse. This weight is the final-settlement weight unless the weight at the time the cotton is taken up and forwarded from the quay shows a variation of more than 5 kilos on any one bale. In such cases the re-weights of bales are taken. The reweighing is supervised by both the seller and the buyer.

SAMPLING COTTON

Cotton is sampled for arbitration after it is weighed out for forwarding to its interior destination or, if before, due account is taken of the sample weight. Every bale is supposed to be sampled. The work is done by a crew in the employ of the forwarding agent or by men hired by him. The seller's representative supervises the work. It is doubtful whether the supervision can be performed to the entire satisfaction of all concerned until the system is changed or until the controller's staff is greatly increased. When business is brisk they are loading cotton out at many places. It would require, therefore, a large number of observers to follow accurately the weighing and sampling.

Each sample is rolled in a separate paper with the ends tucked in to conceal the cotton entirely. These are tied with a continuous string into bundles of 50 each. They are then put into a burlap sack, and the two ends of the string are pulled through the head of this sack and sealed. The samples are then ready to be sent to Milan or Liverpool for arbitration if desired by the buyer. Pending such action, the samples are held in Genoa by the forwarding agent.

FINAL SETTLEMENT WEIGHT ON A MILAN C. I. F. AND 6 PER CENT AND 1 PER CENT FRANCHISE CONTRACT

In Milan, as in Bremen, Havre, and other markets where the 1 per cent franchise is used, it is customary to add to the actual weight of the invoice sufficient to cover the 1 per cent franchise plus possible gains in weight. The draft is calculated on the gross invoice weight less 6 per cent.

TARIING AND TARE CALCULATIONS

According to the rules, cotton may be tared at the time of landing or delivery. In practice taring is done at time of weighing for deliv-

ery. The rules also provide that 10 per cent of the bales must be tared to establish the tare percentage, and that these 10 bales are to be selected by the seller and buyer, each selecting 5. This rule governing the selection is followed in Venice and Trieste, but not in Genoa. There the lots are recorded in units of 10. One of these units, with an average weight approximately equal to the average of the lot, is chosen for taring. Even after the bales are selected, many of the tare claims are settled by bargaining between the representatives of the seller and buyer.

The allowable tare, according to the Milan c. i. f. and 6 per cent and 1 per cent franchise, is 408 kilos on each 100 bales for bands, and for canvas $3\frac{1}{10}$ per cent of the gross landing weight after the actual weight of the bands on the bales has been deducted.

The actual tare on a shipment is composed of bands and canvas. The amount deductible for bands is determined by weighing 10 or 20 bales. Their average weight is taken to equal the average weight of the lot. The amount of canvas is determined by stripping 10 per cent of the bales. The weight of canvas on the whole lot is calculated by applying to the weight of the lot the ratio of the weight of the canvas on the 10 bales stripped to the weight of the 10 bales.

STATEMENT OF TARE

On: BING 100 Bales Ex S/S "America" from Galveston New Orleans to Genoa

ACTUAL TARE

Bale No.	Weight of bales	Weight of wrappers
61	211.5	9.4 kos.
62	268	8.3 "
63	219.5	7.6 "
64	208	9.1 "
65	291	9. "
66	231.5	8.4 "
67	259.5	10.1 "
68	219.5	8.6 "
69	217	8.7 "
43	208	8.8 "
KOS 2336.5		88 kos.

10 Bales Weight: Kos. 2336.5
 Less 90 Bands
 (10 Bands) = 4.500
 Kos. 40.5
 Kos. 2296.0

ACTUAL TARE IS KOS. 88

_____ Bales Weight:
 (Gross Landing Weight): Kos. 23,364.5
 Less Weight of Bands:(880) " 396
 Kos. 22,968.5
 At $3\frac{1}{8}\%$ = Tare Allowed: Kos. 818

If on 2296 kos Tare is: Kos. 88
 Then on 22,968.5 kos. Tare is: Kos. 880.5
 Tare Allowed _____ is: Kos. 818

Under Tare Kos. 62.5 = 138 lbs.
Over
 Overweight of bands Kos. _____ = _____ lbs.
 (9 lbs. allowed per bale) 138 lbs.

WEIGHT OUTTURN

In making up the weight outturn, the actual weight of bands is taken if it is 900 pounds or more per 100 bales; if they weigh less, 900 pounds is taken. If the actual weight of canvas is over $3\frac{1}{8}$ per cent, the buyer claims for the difference in the form of loss in weight. If it is less, the seller loses, for it is taken as $3\frac{1}{8}$ per cent, or no overtare. Any excess in weight of either bands or canvas is deducted from the gross landing weight. After it is deducted, the remaining weight is converted into pounds at the ratio of 45.35 kilos to 100 pounds, and that weight is deducted from the gross invoice less 1 per cent franchise to determine gain or loss in weight. The seller gets no credit for gain in weight under this contract.

WEIGHT OUTTURN STATEMENT

WEIGHT OUTTURN OF BING-100 BALES COTTON
 S. S. America From Galveston, New Orleans discharged in Genoa

Shippers:

Buyers:

MARK BING	100 BALES	Gross Invoice Weight	52,362 lbs.
Invoice No. _____		Less 1% Franchise	524 lbs.
Contract No. _____			51,838 lbs.
Gross Landing Weight	23,364.5 kos.		
Bales Short Delivered at _____ lbs.	0 kos.		
Loose Cotton Apportioned	4 kos.		
20 Missing Bands, at 4.500 Kos. per 10			
bands	9 kos.		
880 Existing Bands	23,377.5 kos.		

LESS:

For Excess Tare	{	Amicably Settled _____ kos.	
		As per Statement _____ kos.	
For Damp Ascertained on _____ B/C		_____ kos.	
For _____		_____ kos.	
			23,377.5 kos.
			@ 45.35 = 51,549 lbs.

Gross	$\frac{\text{Gain}}{\text{Loss}}$	in weight	289 lbs.
		Less 5%	_____ lbs.

Day of Arrival, January 26, 1926

LAST DAY OF DISCHARGING: Net $\frac{\text{Gain}}{\text{Loss}}$ in weight _____ lbs.
 4th February, 1926

THE STATEMENT OF WEIGHTS

The statement of weights sent by the buyer to the shipper gives a summary of the information contained on the invoice; the tare statement, and the weight outturn, and serves as a statement of claims of the buyer against the seller.

STATEMENT OF WEIGHTS

on 100 bales Cotton, Sale 15th December ex SS America
 Shipped by _____
 for account of _____

GROSS INVOICE WEIGHTS

Mark	BING	Bales	100	lbs.	52,362
"	"	"	"	"	"
"	"	"	"	"	"

TOTAL lbs. 52,362

less 1% franchise 524

lbs. 51,838

LANDING WEIGHTS

Bales	Mark	Missing Bands	Loose Cotton	Gross Weight
100	BING	20	4 kos	23,364.5 kos.
		20		23,364.5 kos.
		Missing Bands @ $\frac{20}{450}$ kos.		4 kos.
				9 kos.
				23,377.5 kos.

@ 45.35

lbs. 51,549

lbs. 289

less tare 5%

14

Excess tare

lbs. 275

138

lbs. 413

413 lbs. @ 27.85¢

\$115.02

Taring expense

4.02

\$119.04

SETTLING DISPUTES

The rules of the Milan association provide that all disputes with reference to the interpretation or execution of the contract between the interested parties must be settled by arbitration. Arbitrations may be grouped into two classes: (1) Those involving disputes on all matters other than quality and (2) those involving quality.

Disputes of the first class are settled in accordance with Italian law and are not subject to appeal; for such an award, when properly made and executed, has the same force in Italy as does the decision of a court of appeals.

Either party may ask for arbitration in the first class of disputes. The dissatisfied party applies to the arbitration chamber, the eight directors of the raw cotton association, and four members from the spinners' section. He must state the names and addresses of the parties, the questions in dispute, and the kind of arbitration desired.

Each party has a right to choose one arbitrator, but the choice must be made from an official list, the parties composing this list having been approved by the executive committee, which is the same as the arbitration chamber. The third arbitrator is appointed by the two arbitrators chosen or, if they can not agree, by the chairman or vice chairman of the executive committee. If one of the disputing parties refuses to appoint an arbitrator, he is appointed by the chairman or vice chairman of the executive committee.

On invitation of the executive committee, the two contracting parties must come together within 15 days from the date of request for arbitration, for compiling the agreement to arbitrate. The time may be extended by the executive committee. If the contracting parties refuse to define the terms and sign the agreement to arbitrate, the arbitrators themselves may do so.

The agreement to arbitrate must give (1) the names of the disputing parties, (2) the particulars of the question in dispute, (3) the list of questions to be decided, (4) the period within which the decision must be made, and (5) the signature of the parties in dispute.

The arbitrators are bound to no formal way of procedure, except that all communications with third parties must be through the arbitration chamber. They may demand the presentation of documents; summon witnesses, and interrogate the parties personally; or demand other forms of evidence, as they see fit.

The award must be agreed to and signed by at least two of the three arbitrators. The award must be in writing, and show: (1) The names of the parties, (2) the text of the agreement to arbitrate, (3) the considerations which led to the award, (4) the award, (5) the time the award is given, and (6) the assessment of the fees to be paid.

In order for the above award to have legal force, the original of the award must be deposited by one of the arbitrators, or a person having special mandate for this purpose, at the chancery of the court of the district within five days from date of issue.

ARBITRATIONS ON QUALITY

Legally there are two kinds of arbitrations for settlement of disputes on quality: One is for amicable settlement, and the other is designated executive arbitration. The latter complies with the same rules and has the same force as the first class of arbitrations previously described.

The application for arbitration on quality must be made to the arbitration chamber within 30 days from last day of landing on cotton sold c. i. f. terms or f. o. b. (loading port) terms; or 30 days

from last day of delivery in case of contracts calling for delivery (1) free at warehouse, (2) franco waggon, or (3) free at mill.

The arbitration samples must be delivered to the arbitration chamber within 40 days from the last day of discharge or delivery, as the case may be. This time limit may be waived by the executive committee in case of delay arising from causes beyond reasonable control of the parties involved.

The members of the arbitration committee are chosen in the same way as in class I arbitrations, except that a third arbitrator may not be appointed if the two arbitrators think it unnecessary to effect a decision. The third arbitrator, if chosen, may render a decision, provided it is within the limits fixed by the other two. If the decision is to have the force of a court decision, however, the procedure must be according to the prescribed form, and the decision must be signed by at least two arbitrators.

The decision must be rendered within 30 days from date of application for arbitration, or the defaulting arbitrator or arbitrators must be removed and new arbitrators appointed by the executive committee.

The fees and expenses must be paid before the parties are given the decision. The party calling for the arbitration must pay 300 lira when the application is made. The arbitration fee itself is entirely separate and is 200 lira for each 100 bales or fraction thereof. If no allowance is granted, the latter fee also is paid by the applicant; otherwise, it is divided equally between the two parties.

An appeal may be made from the above decision, provided it has not been carried out according to Italian law. Appeal must be made to the arbitration chamber within six days of the communication of the results of the arbitration.

The appeal committee consists of 3 members appointed by the executive committee. They must be appointed from a list of 9 men approved by the executive committee and the Secretary of Agriculture of the United States. The names of these 9 members are arranged each month in the order in which they are to serve. The list is made up of 4 agents, 4 spinners, and 1 expert representing the American shippers. It is generally agreed that on any appeal there shall be 1 agent, 1 spinner, and the American expert. This system was put into operation in the fall of 1925.

The appeal fees are 450 lira. If the appeal board confirms the award or reduces it, the fees must be paid by the appellant. If the appeal board grants no allowance, the buyer must pay, regardless of who appealed. If the allowance is increased, the expenses must be paid by the seller.

The appeal award is final. It may be made an executive arbitration on application of either party to have it drawn up in legal form.

The system of arbitration and appeal contemplated in Milan is unlike any other now in existence. It is like the Liverpool system in that, except for the expert, a select committee of men in the trade do the work. The members of the arbitration and appeal committees know the parties as well as the points at issue. It is like Bremen arbitration in that the arbitration and appeal committees render their decisions in terms of classification of qualities only. The actual monetary awards are arrived at by applying the differences fixed for

these qualities by the committee whose duty it is to fix differences. In these latter respects it is also like the system used in the United States futures markets.

OFFICIAL DIFFERENCES FOR GRADE AND STAPLE LENGTH

The differences for grade and staple length are fixed by a committee appointed for the purpose. The exact method to be employed under the new arrangement has not been finally determined, though the plan most in favor seems to be one giving the committee considerable discretion. They will first get reports of sales and offers from the agents in Milan. If these are deemed insufficient, they will have the privilege of considering differences in other markets such as those published in the United States, Bremen, and Havre.

Arbitrations for grade are based on universal standards in so far as they apply. The arbitrations on staple will be based for the present, at least, on the conception of the arbitrators.

The differences are fixed on Saturday and come into force on the following Monday. In the case of cotton sold on c. i. f. terms, the differences in force on the last day of landing apply in the case of arbitrations; on the day of sale, if for prompt delivery in Italy; or on the day of tender, if the cotton is sold for deferred delivery.

The cotton is graded in terms of half grades, that is, "shy" or "full." Half grades above the grades specified offset half grades below those specified. Grades more than a half grade above are counted only as half grades, and grades more than a half grade below can not be used for offset. Better grades than specified can not offset poorer staple; nor can better staples offset poorer grades. The seller can not claim compensation for better qualities than those specified.

ARBITRATION IN OTHER MARKETS ON COTTON SOLD IN ITALY

Until the fall of 1925 most arbitrations for quality on cotton sold to Italy were performed in Liverpool, though a few contracts were made subject to Bremen rules and arbitration. The trouble and delay occasioned by having to send samples into another market for arbitration has developed a spirit of give and take, so that most differences are settled by mutual agreement. If a spinner buys a lot of cotton from a shipper and it is not as good as the description sold, the spinner rarely buys from him again. The spinners frequently use the argument, "We can not spin allowances, and we are not in the raw-cotton business."

FINANCING COTTON SOLD TO ITALY

The usual terms of payment on cotton sold on c. i. f. terms to Italy are either sight in New York against receipt of documents or for 90 days' sight reimbursement in New York. If the price is called on or prior to the date of the invoice, the shipper discounts the draft at his bank in exchange for the documents. The bank sends the documents forward to its branch or correspondent in port of discharge, with instructions to have the cotton unloaded and warehoused in the name of the bank. The receiver pays all charges and gives the bank the landing or warehouse receipts, to be held until released

by payment. It is the business of the bank to see that all documents are in order and that they are kept in order.

If the cotton is sold on call and the price is not fixed before date of shipment, the bank can not discount the bill or draft, for none has been drawn. The shipper, in order to obtain possession of his capital, delivers the usual documents to the bank, plus a statement or some other evidence showing that the cotton is hedged. The bank will then make an advance on the shipment almost equal to its sale value in terms of futures. From that time the cotton is handled essentially as though the price had been fixed.

Some American merchants send cotton over on consignment, to be sold on spot terms. Such cotton may be handled as a transfer, but usually it goes through a form of sale to the Italian branch office, without the price being fixed. The bank handles the documents as it would in case of a sale.

Most Italian cotton mills are able to finance their operations without difficulty. Some few of them arrange their own credit direct with New York, especially through an Italian bank in New York or a branch or agency of an American bank in Italy; but most of them arrange their credits through their local banks. Most spinners prefer to buy their cotton 90 days' sight draft. Some, however, pay cash on landing.

COTTON MARKETING IN SPAIN

SIZE AND LOCATION OF THE MARKET

Most of the cotton manufacturing in Spain is done in Catalonia, the industrial center of the nation. Both the language and the customs of the people are different from those of other parts of Spain. The chief city and port of this industrial area is Barcelona, a city of approximately a million people.

This area consumes approximately 350,000 bales of cotton annually. The greater part of this, or about 250,000 bales, is American, and the rest is mostly East Indian and Egyptian, about 75,000 bales of the former and 25,000 of the latter. The proportions of the different growths used in any year depend upon their relative prices.

Some of the cotton mills are located in the city of Barcelona, but most of them are in the towns and villages outside. Many of them are in small towns on the rivers in the mountains, where they can be operated by the use of water power. The cotton for this entire district is landed at Barcelona. The only cotton market for the area is there. The market is formally organized into what is known as the "Centro Algodonero de Barcelona."

TYPE AND ORGANIZATION OF THE MARKET

The Barcelona market is primarily a merchants' market and it is a spot-cotton market only. The merchants buy cotton on c. i. f. terms and resell it direct to spinners or through brokers. The merchants buy direct from shippers in the United States or from their c. i. f. agents located in Barcelona. The number of merchants is not large; perhaps six or seven of them do most of the business. The

merchants do not always buy the cotton they sell for they may sell the cotton of well-known shippers through a form of agency. In most cases this type of business resembles that of a dealer more than that of an ordinary agent.

Two or three of the larger American firms have agents in the market who sell direct to spinners' brokers or to spinners. Citizens of Barcelona are employed as agents. The Barcelona merchants consider these agents of the American firms as competitors and will not buy from them on c. i. f. terms.

The spinners either buy through a broker, as in Liverpool, or from a merchant firm which has a spinners' buying broker as a member. Many of the spinners have offices in Barcelona, or come there when they wish to buy cotton. Barcelona is also the yarn and cloth market for the region.

Only citizens of Spain may become members. In Spain only merchants, brokers, and agents dealing in raw cotton are eligible for membership. The market has been organized about 25 years.

The rules are much like those of the Liverpool association. The c. i. f. contract used is the continental c. i. f. contract with the 1 per cent franchise as adopted by Liverpool. Barcelona has a spot contract of its own, but it is similar to the Liverpool spot contract. The c. i. f. contracts are usually drawn subject to Liverpool rules and arbitration.

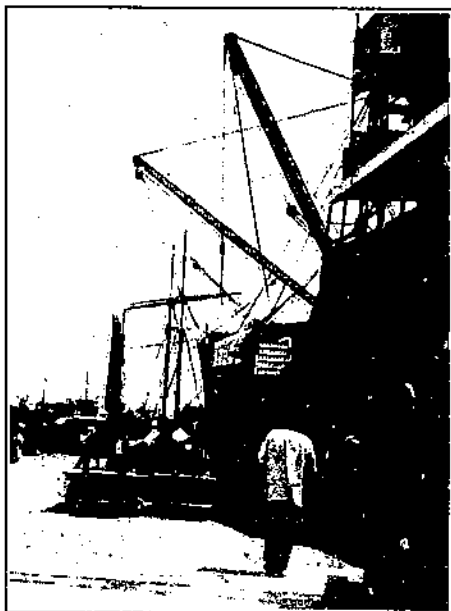


FIG. 10.—Discharging cotton from steamer in Barcelona

FACILITIES FOR HANDLING COTTON

The facilities for handling cotton in the port of Barcelona are not so modern as those in some of the other European ports. There are no cranes on the dock of the principal landing place for cotton to assist in discharging the ship. In most instances the unloading must be done entirely by the ship's tackle. The cotton comes off the ship one bale at a time. Only a few of the quays have railroad tracks. (Fig. 10.) The cotton is usually placed on two-wheel, one-horse carts, or on small motor trucks, carried some distance from the water's edge, and stacked according to marks. (Fig. 11.) It is rehandled by hand trucks in the weighing process.

When cotton leaves the quay it is carried by hand trucks to the cart or truck which takes it off the quay. The quay has no roof and is

not paved. In dry weather it is very dusty; and in wet weather it is very muddy because of the large amount of trampling.

The warehouse facilities in the city are ample, but the warehouses have not been built especially for handling cotton and have none of the newer facilities for handling it cheaply and quickly.

METHODS OF DOING BUSINESS

The Barcelona market is highly specialized. There are c. i. f. agents, merchants and their agents, and spinners' brokers; and each confines himself to his own field of activity. The market is narrow when measured by the number of classes of cotton used. This, together with the location of the market and the characteristics of the people, directs business along the lines of confidence and friendship.

These buyers prefer to buy from one firm, or at most a few firms, which they are reasonably sure will deliver to them what they require at a fair price.

It is difficult for a new firm to establish itself in the market, especially a foreign firm which proposes to deal direct with the spinners. It is reported that one spinner left instructions in his will that all cotton for his mill should continue to be bought through a named broker.

The merchants insist that shippers ship the exact quality of cotton they sell. They dislike arbitrations for quality, to obtain reimbursement for a poor shipment; and they dislike taring to avoid overtare. They insist that the allowances never compensate them for the loss sustained when a shipper sends poorer qualities than he sells. If a shipper persists in doing so, the merchant soon refuses to buy from him.

American cotton is sold on description if sold on c. i. f. terms. The grade is described mostly in terms of universal standards. Staple length and character are described in terms of millimeters. Cotton sold on spot terms out of stock is often on actual sample.

The merchants buy their cotton on "basis" buyer's call. It is customary for them to keep only enough stocks to serve immediate demands and to replenish them by continually making replacements. In some cases it is alleged that when they think the price is right they sometimes buy on fixed price, or call the price and carry the cotton unbedged. They have the right to call the price on the close



FIG. 11.—Cotton stacked in the open on the Barcelona quay

of the previous days, though it is generally understood that it will be for only a few contracts on any one day. It is a rule to call cotton sold on c. i. f. terms before date of shipment.

The price of cotton is quoted in cents per pound. The call is made on New York, and most of the hedging is done there. Prior to the World War hedging was done in Liverpool.

The form of c. i. f. contract most frequently used calls for c. i. f. and 6 per cent tare and 1 per cent franchise. A port bill of lading is preferred, but others are used. Approximately 20 per cent of the business is now done on mutual allowances for weight as in Liverpool.

The spinners buy mostly on spot terms for a flat price, though in recent years a big business is being done on "on call" terms. The right of call belongs to the spinner. He can call on the previous day's close up until 1 o'clock of the following day. This is after Liverpool opens. Competition has given the spinner many privileges in selecting the time he chooses to call the price. It is not customary for the spinners to buy very far ahead, and in recent years they have been doing a hand-to-mouth business.

QUALITIES OF COTTON USED

The grades of American cotton in demand in the market are Good Middling, Strict Middling, and Middling, in the order named. The staple is mostly 28 millimeters. This is considered to be full fifteen-sixteenths of an inch to 1 inch of good character. Complaints against staple deliveries have been rather general, and some have been very serious. In the main, if a merchant has been shipped low grade, short staple cotton, he must take a heavy discount when he resells it, or he must ship it out of the Barcelona market.

DELIVERY OF COTTON

Cotton sold on c. i. f. terms is delivered on the quay in Barcelona. The buyer pays the landing and all other charges. Actual delivery takes place when the cotton is weighed over on the quay. Each buyer goes to the quay for his own cotton, so forwarding agents are little used.

Cotton is not weighed immediately after it is discharged from the ship. The cotton is assembled in lots, and it is customary to wait until a lot is completed before it is weighed.

The cotton is weighed on a balance scale, weight against weight, as in England. The weighers may be public officials, but, as a rule, they are the buyers' employees. The scales are periodically checked by the shippers' controller representative. The weight established at this weighing is the final-settlement weight. The weights are taken down by both the buyer's and the seller's representatives. These two records check each other.

If the shipment is to be arbitrated for quality, the samples must be drawn and sealed before the bales leave the quay. The controller supervises the drawing of the samples and seals them jointly with the buyer. The merchants do not like to sample the bales and have arbitrations, as it may prejudice the reputation of the entire lot.

All claims for overtare must be made before the cotton leaves the quay, unless otherwise mutually agreed or specified. Sometimes the shipper or his representative agrees to pay all claims for overtare established by the the spinner. There is some risk in this; but, as a rule, the spinners do not make such claims unless the overtare is excessive, so it is thought the shipper comes out well, on the average.

If the cotton is tared, the work must be done on the quay. The tare is calculated on the landing weight and the bands and canvas are treated separately. The bands are deducted first. The actual weight of the bands is deducted if they weigh 900 pounds or more; 900 pounds are deducted, if they weigh less. The weight allowed for canvas is $3\frac{1}{4}$ per cent, figured on the landing weight less the amount deducted for bands. The bales are selected for taring by the buyer and the seller, each choosing five. In actual practice, little cotton is tared. Claims are usually settled by friendly bargaining.

SETTLING DISPUTES

All disputes arising between members over transactions in cotton are settled by arbitration in Barcelona, except disputes over quality, which are subject to Liverpool, or sometimes Bremen, arbitration or appeal.

The Centro Algodonero de Barcelona has an appeal board approved by the United States Department of Agriculture for the settlement of disputes over the quality of cotton shipped by Americans and described in terms of the universal standards, but so far all c. i. f. contracts have been drawn subject to appeal to Liverpool rules and arbitration. There is little arbitration of any sort.

TIME FOR MAKING CLAIMS

Claims for arbitration on quality for c. i. f. shipments must be made within 40 days from last day of landing. Claims for damp must be made and settled at the time cotton is weighed over to the buyer. Tare claims must also be made and settled at time of weighing, unless by special agreement. Claims for country and sea damage are made at time of weighing.

FIXING DIFFERENCES

In Barcelona differences for grade and staple are quoted by a committee of the Centro Algodonero. Each party in the market is requested to report the price he is asking spinners or their brokers for cotton.

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This bulletin is a contribution from

Bureau of Agricultural Economics.....	LLOYD S. TENNY, <i>Chief.</i>
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