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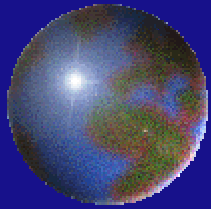
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U.S. Department of Agriculture  
Agricultural Outlook Forum 2004  
February 19 & 20, 2004

Meeting China's Cotton Mill Demands:  
A Western Merchant's Perspective

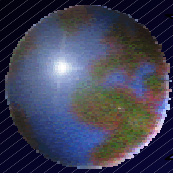
By

Gary W. Taylor



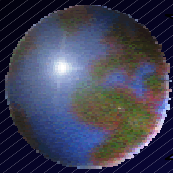
# **MEETING CHINA'S COTTON MILL DEMANDS**

**A WESTERN MERCHANT'S  
PERSPECTIVE**



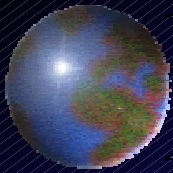
## **BACKGROUND AND INTRODUCTION**

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



# HOW DO CHINESE MILLS BUY CHINESE COTTON?

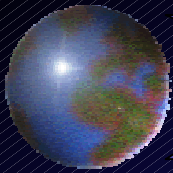
- Cotton and Jute
- Gin/merchant/mill privatization
- Governmental buying organizations
- Strategic reserves



# CHINA'S COTTON BUYERS

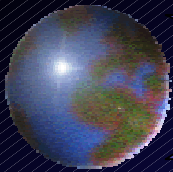
## MAJOR GOVERNMENTAL BUYING ORGANIZATIONS

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



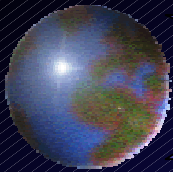
## MAJOR PRIVATELY OWNED (EXPORTING) MILLS

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



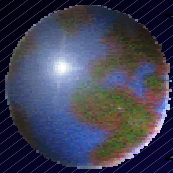
# STATE RUN MILLS

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



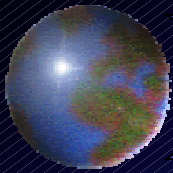
# **GROWTHS, QUALITIES AND QUANTITIES CHINA BUYS**

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



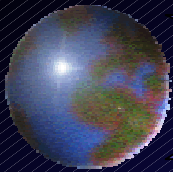
# MAJOR CHALLENGES/DIFFERENCES OF THE CHINESE MARKET

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



## HOW THE BUSINESS GETS DONE

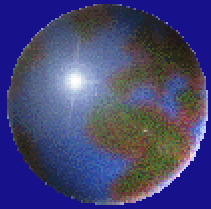
- Major merchants have a presence in China
- All merchants use agents
- Imports are priced relative to New York futures
- Much discussion regarding terms, credit, trade rules, etc.



# **A LOOK FORWARD**

## **WHAT CHANGES ARE LIKELY**

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



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