

COTTON ASSOCIATIONS AND THEIR ROLE IN INTERNATIONAL COTTON TRADE.

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Abstract

Participants in international trade in many countries are organized into national cotton associations, many with an international character. The membership of some associations include both domestic and foreign organizations and individuals. Cotton associations serve the interests of cotton producers, buyers, sellers and consumers by providing trading rules and mechanisms to resolve trade disputes. Cotton associations promote and facilitate cotton trade in a fair and orderly fashion to the benefit of a sound world cotton economy. In addition to maintaining trading rules, cotton associations provide other important services, such as technical and quality arbitration, traditional and HVI classing, fora for international conferences and discussions of cotton affairs, training seminars around the world, market information and statistics.

Twelve of the largest cotton associations with similar objectives compose the Committee for International Cooperation between Cotton Associations (CICCA). Each of the CICCA member associations act independently, but use CICCA as a forum for discussion and collective action when appropriate. CICCA promotes trading rules and arbitration practices of its member associations and stands for the concept of sanctity of contracts. CICCA publishes a directory of all firms affiliated with its member associations. Membership in the 12 CICCA member associations accounts for more than 960 firms. It is estimated that members of these associations handle over 90% of world cotton trade.

The Liverpool Cotton Exchange

An estimated 60% of all international contracts, representing an estimated 3.7 million tons of cotton, are made subject to By-laws and Rules of the Liverpool Cotton Association. Over 360 firms from 61 countries were registered with the LCA as of 1995, with the largest number of 73 member-firms based in the USA. 50 firms are based in the United Kingdom and 47 in Switzerland. There are 91 individual members of the LCA, including 66 residing in the UK. The membership of the LCA includes buyers and sellers of cotton, international merchants, government marketing organizations, spinners, banks, cotton controllers and others involved in cotton business. The origins of the LCA date back to 1841 when Cotton Brokers in Liverpool formed an association and drew up a

set of trading rules. In 1882 merchants joined brokers and formed a new association named "The Liverpool Cotton Association". The LCA trading rules are universal in terms of application to contracts between any two countries for sale of cotton of any growth.

One of the major functions of the LCA, as well as other associations, is to reduce risks involved in international cotton trade and to provide an effective mechanism for settlement of disputes arising between parties involved in trade. The Association provides a set of By-Laws and Rules which are almost universally accepted and cover all aspects of international trade. About 600 official copies of the Rule Book are in use around the world. Contracts made subject to Liverpool Rules are dependant upon Liverpool Arbitration in the event of dispute between parties. The LCA provides a well-established two-tier arbitration system for both quality and technical (non-quality) disputes. In the first instance, the two parties each appoint a Liverpool Member to act as an Arbitrator. Having considered the evidence placed before them, the two Arbitrators will make an award. In the event one of the parties disagrees with the award, an appeal may be filed with the Association.

In the second stage, an Appeal Committee makes a decision on the matter in dispute, and awards made by the Appeal Committee are final in most cases. Contracts written under LCA rules are subject to the Laws of England, however arbitration awards can be enforced at law in most cotton trading countries throughout the world. Effective arbitration benefits buyers and sellers and contributes to fair trading, smooth execution of contracts and the resolution of differences. By becoming a registered member of the LCA, companies indicate their willingness to accept and uphold fair trading practices and to honor arbitral awards.

During 1994, a total of 31 disputes involving 36,879 bales of cotton from 9 origins were referred to quality arbitration in Liverpool. Quality appeals were held on 5 of the disputes involving 3,634 bales. During the same year, 51 technical arbitration awards and 7 technical appeal awards were published, involving firms from 26 countries. For comparison, there were 61 quality disputes involving 105,033 bales and 13 quality appeals on 7,937 bales in 1993. Technical arbitration awards reached a record of 54 during 1993 and dealt mostly with contract breaches by buyers, or sellers not willing to deliver.

In the event a firm is refusing to abide by an arbitration or appeal decision, the firm is included on a default list, which is distributed among all members of the LCA and 11 other principal cotton associations world-wide. The defaulting firm may be suspended from registration with the LCA. During the first nine months of 1994, there were 17 reports of unfulfilled awards and 21 during 1993. The default list is reviewed annually based on the settlement of disputes.

The LCA has the largest share of registered firms which are based overseas, compared with the other cotton association in the world. In fact it is the only association with a majority of member-firms based overseas. The international nature of the LCA was strengthened in 1993, when the By-laws and Rules of the LCA were amended to give overseas members rights equal to those of UK resident-members in elections to the Board of Directors and committees, and in the ability to participate in the arbitration process and other regulatory activities of the LCA.

One of the most important functions of the LCA is training it provided on aspects of international cotton trade. The LCA holds an annual seminar in Liverpool and has also conducted 12 seminars in different countries, the most recent being Vietnam and Uzbekistan. The seminars are devoted to the principles of contracting, arbitration, futures and options trading, banking and other aspects of international cotton trade.

The LCA also serves as a forum for international discussions of world cotton affairs and cooperates closely with other cotton associations and international organizations, such as ICAC, ITMF and CICC. The LCA annual dinner is one of the major world cotton events and is usually attended by more than 500 members and guests of the Association.

The LCA provides cotton laboratory testing, including HVI testing. The LCA publishes a bimonthly Value Difference's Circular, which contains quotes differences for grade and staple for various growths, applicable in case of Quality Arbitration and Appeal. The LCA also issues a Directory of membership, Contract and Arbitration Award forms and other publications.

The American Cotton Shippers Association

The American Cotton Shippers Association (ACSA) is the national trade association in the USA of cotton merchants, cotton shippers and exporters of raw cotton and of firms allied with these services. Its membership is composed of five Federated Associations: Arkansas-Missouri Cotton Trade Association; Atlantic Cotton Association; Southern Cotton Association; Texas Cotton Association and Western Cotton Association. ACSA has about 150 member-firms which handle an estimated 80% of the cotton sold to domestic mills in the USA, or about 1.9 million tons, and 90% of US cotton exports, or 1.9 million tons, as of 1994/95. It makes ACSA an organization of the largest cotton merchandising industry in the world. Many of the ACSA members are also members of the LCA and other world cotton associations and are accounting for the bulk of international cotton trade handled by members of those Associations.

ACSA was organized in 1924 and joined with the American Cotton Manufacturers Association to formulate the Southern Mill Rules. ACSA, as does the LCA, actively promotes fair trading practices, sanctity of contracts and requires strict adherence to contractual obligations and arbitration awards. ACSA provides an environment of fair trade through established rules and industry practices that encourage favorable resolution of all disputes. In conjunction with the American Textile Manufacturers Institute, ACSA maintains the Cotton States Arbitration Board in Memphis. and has its own representatives on the appeal boards of cotton associations in Germany, France Belgium, Netherlands, United Kingdom, Spain and Japan and have arrangements with the Bombay Appeal Board to be represented. ACSA is actively involved in evolving regulations, rules and arbitration procedures, governing cotton trade with importers of US cotton, dealing with cotton associations and exchanges.

Representing the cotton trade in the major exporting country, ACSA actively promotes increased cotton use in the USA and throughout the world, promotion of US cotton in major importing markets is a substantial part of the ACSA efforts. ACSA is very active in international cotton affairs and was one of the initiators of the Committee for International Cooperation Between Cotton Associations. It represents the US cotton trade in various international fora, such as ICAC and ITMF.

One of the most important functions of ACSA is to represent interests of the US cotton merchandising industry before the US Government and Congress, advising government agencies of the industry's views on existing or proposed regulations and national laws. ACSA collaborates with producers, processors and users of cotton in formulating farm programs and marketing provisions affecting the commodity. It cooperates with other sectors of the cotton industry on issues related to cotton trade establishing specialized committees on Quality and Standards, Gins, Compresses and Warehouses, Futures Contracts, Domestic mills and others. Policy issues of ACSA are discussed at its annual conventions attended usually by about 500 participants.

The Bremen Cotton Exchange

The Bremen Cotton Exchange was founded in 1872 and now represents 230 merchants and users of cotton, including 147 in Germany and 83 abroad. The largest number of foreign firms-members of the Exchange, totaling 20 reside in Switzerland, 12 members reside in the USA and 9 in Austria. The Bremen Cotton Exchange provides International trading rules, technical and quality arbitration, traditional and HVI classing. The Exchange conducts fiber testing and research, and expert surveys. Trading Rules of the Exchange regulate trade in raw cotton, linters, cotton and man-made fibers wastes and provide basis for quality and technical arbitration and

effective means for settlement of disputes. A quality arbitration is carried out by two sworn classers, and their decision may be appealed. It is estimated that volume traded under the Bremen rules, mostly in Germany, Switzerland and Austria, exceeds 300,000 tons. In 1994 quality arbitration dealt with 600 cases, involving 60,000 bales of cotton, while technical arbitration issued 11 new awards.

Biannual International Cotton Conferences held by the Bremen Cotton Exchange are dealing mostly with technical issues and are very popular events, attended by a large number of participants. The Exchange organizes seminars where participants receive training in cotton classing and other technical subjects. In 1969 the Bremen Fiber Institute was founded, which works as a laboratory of the Exchange. The Institute is equipped with HVI test line and ultra-modern spinning and weaving equipment. The Institute's research is focussed on cotton fiber properties for processing.

The Bremen Cotton Exchange provides statistics and information on the domestic and international cotton market, technical issues, value differences, freight and insurance. The Exchange issues an annual report and the Bremen Cotton Report every two weeks.

The Associazione Cotoniera Liniera e delle Fibre Affini in Italy

The Associazione Cotoniera Liniera e delle Fibre Affini dates back to 1883 and has 270 member-firms operating in raw cotton marketing, cotton and linen spinning, weaving and finishing industries in Italy. It is estimated that members of the Association account for 70% of the volume handled by the represented industries. It translates into 250,000 tons of cotton imports. The Association is organized into several sections dealing with corresponding industries. The Raw Cotton and Other Fibers Section is focusing on cotton issues. The Association provides a wide variety of services to its members. Raw Cotton Arbitration Chamber operates within the Association and serves to resolve disputes arising from cotton contracts based on the trading rules. The association has a technical laboratory equipped with modern instruments used for cotton fiber tests and research. Substantial efforts are devoted by the Association to the promotion of cotton and linen products through exhibitions and trade fairs.

The Association represents the industry interests related to international trade, trade duties and quotas, currency and customs regulations. It provides training and consulting services to its members, including financial analysis and market research, insurance and currency markets analysis. The Association is a major source of economic and statistical data produced by its Economic Research and Statistics Bureau. The Association has a variety of publications on cotton and linen technical and economic

issues. The two volume statistical yearbook contains national and international statistics on production, trade, stocks, consumption of cotton and other fibers. There are monthly statistical publications with data on trade employment and output in the spinning sector.

One of the major functions of the Association is to negotiate the national collective labor contract for the industry. It maintains contacts and negotiates with Italian government authorities and trade unions in the industry. The Association provides specialized consulting services on direct and indirect taxation and fiscal issues.

Association Francaise Cotonniere

Association Francaise Cotonniere (AFCOT) is more than 100 years old and has 73 members, including 40 firms residing in France, 7 individual members and 27 foreign firms. Among the foreign members, 10 firms are based in Switzerland, 5 in Belgium and 5 in the USA, including the 3 largest US cotton cooperatives. Membership includes cotton merchants, agents, shippers, controllers, transport organizations, ports, banks and spinners. AFCOT is ruled by a board of directors composed of 11 members, usually merchants and controllers. The Advisory Committee for Arbitration and Supervision of the Types has 7 members. The Committee on Differences has 9 members and evaluates value differences monthly.

AFCOT publishes Le Havre General Rules which regulate contracts for the sale of cotton and Arbitration. It is estimated that around 100,000 to 120,000 tons of cotton are traded annually subject to the AFCOT Rules. AFCOT has a laboratory, which is equipped for fiber testing. The Association issues a news bulletin to its members with trade statistics and other cotton related data. The annual dinner of AFCOT is attended by 250 cotton representatives from France and around the world.

The Belgian Cotton Association

The Belgian Cotton Association is composed of 15 Belgium based merchants, brokers, spinners and controllers, and 22 firms are registered as associate members, including 3 merchants and 2 cooperatives from the USA and 4 firms based in Switzerland. Major functions of the Association include maintenance of trading Rules and Arbitration. The Association has an Executive Committee of the Chamber of Arbitration, which issues value differences for cotton of different origins. Twelve arbitrators serve in Quality and Commercial Arbitrations and Appeals. The annual report of the Association includes data on Belgian and international cotton markets.

The Gdynia Cotton Association

The Gdynia Cotton Association was founded in 1938 and is composed of 112 members, including 78 based in Poland

and 34 in other countries. Membership includes 41 cotton textile mills, 50 merchants and 6 research institutions. The Association, is a member of CICC and shares its objectives. The major activities of the Gdynia Cotton Association are quality and commercial arbitration, classification of cotton of various origins, laboratory testing and cotton classer training. Gdynia Rules describe in details cotton arbitration and testing procedures. It is estimated that up to 80,000 tons of cotton is traded under Gdynia Rules. The Gdynia Cotton Association for is the only cotton association in Eastern Europe and has expertise in testing cotton from Central Asia and other origins. The Association collects statistics on cotton imports and consumption in Poland and publishes it annually.

The Japan Cotton Traders Association

The Japan Cotton Traders Association is composed of 25 Japanese cotton importers, 7 domestic raw cotton traders and 47 firms engaged in related businesses, such as shipping agents, transportation and warehousing, banks and insurance. Members of the Association handle the bulk of cotton imports in Japan. The major objective of the association is to strive for a sound development of cotton import and domestic trade, trying to improve the basic terms and conditions for trade. The Association is entitled to settle any claim or dispute which may arise in connection with the import and domestic trade of cotton. JCTA makes recommendations to the government and its agencies and cooperates with other international associations and organizations on issues related to cotton trade. JCTA conducts research and collects statistics related to cotton and issues a number of publications, including a statistical yearbook.

Centro Algodonero Nacional in Spain

Centro Algodonero Nacional (CAN) in Spain was founded in 1887 in Barcelona. It represents all the sectors related to marketing of raw cotton and its sub-products. The major objectives of the Centro are to create fair trading conditions and to promote the sanctity of contracts. Rules of the Centro are internationally known and recognized as Barcelona Contract. The Centro is a signer of the Universal Standards Agreement and has the capacity for quality arbitration and appeals. It has a laboratory which can perform fiber testing. Membership of the Centro includes 92 individual members, 11 member-firms and 2 associate members. Member-firms and about 30 individual members are operating as cotton merchants, agents, or brokers. It is estimated that most of the sales of cotton in Spain, or about 150,000 tons, are made subject to Barcelona rules.

The Karachi Cotton Association

The Karachi Cotton Association (KCA) was established in 1933 to regulate and facilitate domestic and export trade in cotton. It has about 250 members, including cotton,

growers, ginner, textile mills, exporters, commission houses and others. The KCA is ruled by a 21-member board of directors, out of which 17 are elected annually from the membership of the KCA and 4 are nominated by the Government and represent Ministries of Agriculture, Commerce, Finance and Industry. The Rates Committee of the KCA appointed by the Board establishes daily spot rates based on cotton transactions throughout the country. By-Laws and Rules of the KCA regulate cotton trade and provide arbitration of disputes between parties. Estimates on volume traded subject to the Rules of the KCA are not available, however almost all cotton exports by the private sector are handled by member of the KCA.

The KCA provides traders with contract forms and adopts standards for cotton. The Association issues a Daily Cotton Market Report, containing information on spot prices and other statistics related to cotton. The KCA advises the government on various aspects of cotton policy and maintains liaison with ginner and textile mills. The Association founded the KCA Institute of Cotton Grading and Classing, which provides training to representatives of cotton industry.

The East India Cotton Association

The East India Cotton Association (EICA) was established in 1922 and is one of the most representative in India. It has about 400 members including buyers, sellers, brokers, exporters, importers and other participants of the cotton market. By-Laws of the EICA provide trading rules for spot and forward sales of cotton. The Association is managed by the Board of Directors through various sub-committees. There are 18 regional associations and 10 marketing societies registered under it. The Rules of the EICA provide mechanisms for arbitration and settlement of disputes. The EICA has a panel of Sworn Surveyors, an Umpire and a provision for appeal. The EICA promotes the sanctity of contracts and fair international cotton trading practices.

One of the major functions of the Association is to prepare and maintain grade and staple standards of all varieties grown in India. The Association has a laboratory for fiber quality evaluation. The Daily Rates Committee fixes and releases daily prices for various descriptions and staples and grades. The EICA publishes other market data in its weekly bulletin. It is estimated that volume traded under the Non-Transferable Specific Delivery Contract of EICA in 1993/94 was about 55,000 tons.

The Alexandria Cotton Exporters Association

The Alexandria Cotton Exporters Association (ALCOTEXA) had 15 member-firms as of July 1995, including cotton trading and ginning companies. All exporters of Egyptian cotton are members of the association and all exports of cotton from Egypt was subject to the terms of the Egyptian Contract. The Association has a

Board, Management Committee, Expert Cotton Classers and Government Sworn Experts on the Arbitration and Appeal Boards. All export sales from Egypt are based on Egyptian Testing House Terms, and arbitration is provided in Alexandria. The export volume subject to the Egyptian Contract depends on export supplies; in 1993/94 exports from Egypt reached 120,000 tons. Twice a year the ALCOTEXA publishes The Egyptian Cotton Gazette, which contains a variety of statistics on Egyptian cotton, articles and data on trade, policy and technical issues. ALCOTEXA is a member of CICC and promotes the sanctity of contracts and fair trading practices in international cotton trade.

The Bolsa de Mercadorias & Futuros in Sao Paulo, Brazil

The Bolsa de Mercadorias & Futuros in Sao Paulo, Brazil was founded in 1917 and is an exchange where gold, currencies and a number of agricultural commodities, including cotton, are traded in futures and cash markets. As far as cotton is concerned the Exchange has the elements of a cotton association of traders and as such is a member of CICC. The Exchange plays an important role in regulating domestic trade, exports and imports of cotton in Brazil. The Exchange provides classification services and establishes standards for Brazilian cotton. The Exchange settles disputes between traders and provides arbitration. A special committee at the Exchange fixes value differences for different grades in relation to basic Type 6. The annual volume of contracts registered with the Exchange is estimated at 350,000 to 450,000 tons during the 1980s, with domestic sales accounting for 80%. The Exchange is collecting and publishing statistics related to cotton and is active internationally in promoting the sanctity of contracts and fair trading practices.

There are many other cotton associations in the world serving the interests of different sectors of cotton industries in many countries. This paper focused just on several cotton associations, which play significant and visible roles in regulating international and domestic cotton trade in major cotton producing and importing countries. By-Laws and rules of these associations are internationally recognized and used in contracts for the sale of the bulk of cotton traded internationally, exceeding by some estimates 90% of world trade.

The associations reviewed in this paper differ in organization and representation, some serving mostly exporters, or producers and others importers and spinners. But all play a major role in promoting orderly and fair trading practices, the sanctity of contracts, reducing risks, effectively resolving disputes arising between participants, providing arbitration facilities. Other major functions of these associations include classification and testing of cotton fibers, research and promotion of cotton fiber. A number of the associations reviewed, such as ACSA, play

an important role in formulating national cotton policies, which have a significant impact on international trade in cotton. Information, statistics and training provided by the associations is a valuable contribution to a better understanding of the complexities of the market, which many participants of the cotton trade can benefit from. Many associations serve as a forum and facilitate international cooperation and discussions of matters related to cotton, which help to resolve international problems and promote world cotton trade in an orderly and fair fashion.