

## **HOW DO WE PRODUCE AND HOW DO WE SELL IT?**

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### **Changing Markets**

The NCC asked me to talk today about changes taking place in our Industry and positioning for the future. I thought it might be useful to start with about sixty seconds spent on issues of the past and present.

Do you remember when classing cotton was an art and the only way to trade your cotton was by showing the actual samples? Do you remember when there were hundreds of cotton merchants to sell your cotton to? Do you remember when your cotton seed didn't have Roundup Ready or Boll Guard genes? Do you remember when China didn't dictate our trade? Do you remember when the dollar was the only currency we were concerned about? Do you remember when you had more decision making power over your farming operation than The World Trade Organization, Wal-mart, or Monsanto? Do you remember when our economy was measured by our manufacturing strength? Do you remember when business knew more about what was good for them than Robert Zoellick, the U.S. Trade Representative? Do you even know what a paper warehouse receipt looks like? I know you remember Boll Weevils.

Each of you could pick the issue that hits your hot button. Most of you here could give the fifteen minutes I have allocated today on any one of the mentioned. The point is ..... Every one of the topics mentioned represents a challenge or an opportunity the U.S. Cotton Industry has met.

The subject is what has changed? The problem with making this presentation is .....everything has changed, so where to start?

The nineties was the era of globalization, mergers and acquisitions. If you didn't get bigger, you got lost. Business life has changed dramatically over the past decade. In many cases we hardly know our trading partners. Start with good information systems....add good logistics and the Internet. You have the ingredients to do business anywhere in the world. Distance is no longer a deterrent.

China has developed a domestic electronic marketing place trading tens of 1000's of tons of cotton in 2003. The Seam is now trading electronically a G2B, B2B, and an International site. Electronic trading is obviously moving forward. This is a giant step. The standardization required to move electronic systems ahead is a move in the right direction. The next thing will be the further automation to the logistics and Banking Systems. Fewer paper documents, more efficient movement of information, better checks and balances. The entire Industry gains.

No group has taken greater advantage of these changes than Wal-Mart. Love em' or hate em' Wal-Mart blue printed the procedure. In the 80's Wal-Mart sales topped a billion dollars with more than 300 stores. By 2003 sales topped two hundred forty-four billion dollars from 4,775 stores. Wal-Mart is the world's largest company. Wal-Mart alone is China's 8<sup>th</sup> largest trading partner, (bigger than Great Briton or Russia). 138,000,000 people shop at Wal-Mart every week spending 7.5 cents of every retail dollar spent in the U.S. (except auto parts).

I'm surprised the Department of Homeland Security doesn't have troops installed at every Wal-Mart. Statistically, half the U.S. population shops there every week.

They have nearly perfected the supply pipeline and because of their size and commitment to low prices they have shifted the manufacturing paradigm. There has been a lot written and there will continue to be on this subject, but what we need to take from this is the full and certain knowledge that the business terrain for the Cotton and Textile Industry has changed forever. We can rail against the unfairness of it, and I assure you, there are plenty of issues to take high ground over. The truth is, only 35 percent of this years U.S. cotton crop will be consumed by the U.S. Industry. Requirements for just in time deliveries, automated re-order and restocking programs and package deliveries has required a lot of changes on the part of International Suppliers. These things didn't just happen. Taking cost out of the system is taking place at the most accelerated pace I have witnessed in my cotton career. This industry has already developed Electronic Warehouse Receipts, HVI Classification, Engineered Fiber Selection, and the Permanent Bale Identification system. We have a history of attacking and resolving problems.

Our domestic textile industry is bruised, but aggressively trying to develop key partnerships and alliances in the Caribbean Basin. They continue to try to shape trade policy that will allow them to be competitive. Cotton Council International is facilitating the introduction of trading partners through their Sourcing Summits, their Manufactured Products Program, and their Cotton Mark Licensee Program. Despite some setbacks, our industry will work through today's problems as well. Will

we look the same, no unfortunately we will not. The looming removal of quotas January 2005 will forever change the face of Textiles. The battle continues to find a place at the table for U.S. Textiles.

We have a farm bill that can be taken to the Bank. There is enough safety net in our current farm bill to protect producers from the unexpected. The change in farm policy to include a counter cyclical payment was much needed to ensure a solid revenue base for cotton production. It is fortunate that cotton prices have rebounded this fall and certainly we hope that market prices can take away the need for government payments. However, we have just completed four years of low prices and the price advance in New York we saw in October retracted eighteen cents from its highs. It is obvious there is no certainty to price levels for 2004. The cost of the farm program is greatly reduced when loan deficiency payments are not necessary and the cost of the counter cyclical program is reduced by market price. This farm bill is a true safety net. Because it is in place for the foreseeable future, hopefully, it will last the full six years it was passed for. I expect the U.S. will produce 16 to 18 million bales per year. I can tell you for sure in my part of the Southwest cotton growers are making plans for new gins, new irrigation systems and making permanent crop changes to add cotton acres. I promise none of these plans would be moving ahead without the current farm bill. We have to stay engaged in the process through the National Cotton Council.

Now, speaking of that 16 to 18 million bales we expect to produce in the years ahead. This means 10-13 million bales each year will need to find a home in the International Market. We have some challenges ahead on that front that need to be met. You cannot talk International Market without starting with China. They will consume every third bale in the world in 2003/04. They have an import license program which prevents market forces from working freely. As an Industry we need to continue to ask the Chinese Government to allow their mills regular access to the world market and conversely the world have regular access to Chinese Textile Mills. It is in their best interest as well as ours. Technical and Quality arbitration is also a key issue. Today you do business under Chinese trade rules and arbitration. I'm not sure if the Chinese are familiar with the term "letting the Fox watch the henhouse", but I'm going guess they get the concept. Their Banking terms are just as one sided as their trade rules and arbitration. Through the WTO agreement, quotas were removed on 29 items last year. The Chinese were quick to take the market share handed them. Check out what they have done in these categories where quotas were removed last year. If ATMI's assessment is correct, imports from China on these items where quotas have been removed, are up an average of 600 percent in one year. Remember, they are still paying the tariff rates; all that has happened is the removal of the quota. It makes you a little nervous doesn't it. It certainly makes our market access request seem reasonable to me. A two way street is not being abusive to the Chinese. We have to keep hammering this messages every chance we get.

The Chinese are getting the most attention this year because of their aggressive importing of cotton. They are expected to import at least 7,000,000 bales this year. You have to put this in perspective. When you add our total exports to our next largest customers, namely Indonesia, Turkey, Mexico, and Pakistan you still come up short of the total China will import this year. Needless to say we need to get this right. (Indonesia will import 2.2 million, Turkey 1.85, Mexico 1.5, Pakistan 1.3, India 1.0 )

The assets the U.S. has are unparalleled. We have the National Cotton Council, CCI and Cotton Incorporated. We have the New York Board of Trade; we have USDA's market information and the AMS Classing system. We have the University and State support systems. We have the transportation infrastructure. We have the systems the rest of the world would like to model after. I feel we take some of these things for granted on occasion. Let's don't fail to realize the opportunities and potential.

Our farm policy has been attacked under the WTO. The Environmental Working Group takes its shot at every opportunity. Our farm bill legislation is critical to the health of American Agriculture. We must continue to defend the farm program and educate the public on the importance of Agriculture. Our NCC staff does a good job of responding and providing sound support for our programs. Whenever, you see the need to respond to an ad or an incorrect statement, don't hesitate to call your National Cotton Council Representative. Let's continue to work together. Let's use our collective strengths. Let's remind our Congressmen we know more about what is good trade than the U.S. Trade Representative.