



MEMORANDUM

DATE: November 9, 2010
TO: Bill May
FROM: Darren Chandlee
SUBJECT: The Chinese Government Emphasizes Intention to Maintain Order in the Cotton Market

Today all major media published a joint notice issued on October 29 by seven official sectors related to the cotton market, namely the National Development and Reform Commission (NDRC), Ministry of Agriculture (MOA), Ministry of Railway, China Co-op, State Administration for Industry and Commerce, Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and Agricultural Development Bank. The joint notice requested that their branches take measures to stabilize the cotton market.

According to the notice, severe problems exist in the market, such as relaxation of cotton quality management and speculation in cotton trading which is inflating prices. Recommended measures to combat these problems include: strengthening cotton market supervision (cracking down on illegal purchases, or those made without a license); enhancing quality supervision; improving railway transportation capacity (especially for shipments of Xinjiang cotton); managing financial support to ensure sufficient purchasing funds; and strengthening information services and market guidance.

We consulted with the China Cotton Association (CCA) and learned the following:

- Although the notice does not reveal any new or specific measures, it underscores the concern by officials operating in the cotton industry.
- To appease industry's request for sufficient import quote, NDRC may issue 2011 quota (TRQ and sliding tariff quota) soon.
- The record cotton prices have begun to be passed to downstream products including yarn, cloth, and even apparels.