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## Takeaways of 2022 CCA Annual Council Meeting

Provided by:



On April 15<sup>th</sup>, China Cotton Association (CCA) held its 2022 Annual Council Meeting online, with over 120 participants made of CCA's Council members, government officials and industry experts (please see appendix for participation government agency list and meeting agenda). The meeting mainly focused on CCA's works and efforts in 2021 and industry outlook and work priorities for 2022, which is to put continued efforts to promote and drive high-quality and sustainable development of the cotton industry. For sustainability, the council meeting passed the motion to establish an Administration Committee for the Cotton China Sustainable Development Program (CCSD) to take the lead on efforts moving forward.

### Key takeaways:

1. **CCA projects lower cotton consumption and imports in 2021/22, while the indirect purchase from SEA made by China Inc. will grow.** Currently, China's cotton and textile enterprises are generally running below production capacity, which has been affected by multiple factors mainly including the increasing raw material costs, COVID-19 control measures (on labor, production, and logistics), and geopolitical issues (on global trade and US sanctions). Consequently, the market for China Inc. is expanding in Southeast Asian countries alongside the production recovery in the region from pandemic, as well as not only resumed but also growing global orders temporarily shifted to China in 2021.
2. **China's cotton and textile supply chain faces great pressure and challenges,** including high cotton prices, unsmooth profit transmission from the upstream to the downstream, disrupted supply chain, weakening demands, and changing international supply. China's domestic demands for cotton consumption overall is hardly to see any major growth while the potential for prioritized usage of Xinjiang cotton to deal with export restrictions is high.
3. **Solid partnership and candid communication between US and China cotton industries are vital for industry development.** CCA emphasized that despite the deteriorating US-China relations, the exchanges and cooperation between cotton

industries were not and will not be interrupted. CCA values the discussion with the US cotton industry a lot, not only to facilitate the trade relationship but also in pursuing the common desire of promoting sustainability by working together, both the meeting with NCC/CCI in last December and recent meeting with ACSA in March were the highlights.

### Implications to US cotton

- Continue to strengthen communication and partnership with CCA at all levels, including utilizing the influence at senior executives from NCC, driven by the discussion on sustainability. The industry-to-industry relationship plays a vital role in cotton trade and development, especially when the political tensions are high, which is no doubt a common goal and responsibility of CCA and NCC.
- Stay tuned with China’s macro policies for social and economic stability and growth, as well as industry specific measures to stabilize cotton plantation, cotton textile production, distribution, and consumption given this is China’s top priority in 2022.
- Conduct ongoing evaluation on global trade landscape and dynamic in China and RCEP region, while step up the promotion of the US cotton among China Inc. to cultivate awareness and preference as they are the decision makers for cotton purchase.

For more details, please see the full meeting minutes below.

### China’s cotton market lowers consumption and import expectations

Mr. Wang Jianhong, Vice President and Secretary General of CCA introduced the latest updates of China’s cotton industry.

- **China cotton balance sheet:** according to CCA’s latest forecast, in 2021/22 China’s domestic textile market will be in downturn, and the **cotton consumption will be 8.05 MMT**, a decrease of 290,000 MT from last forecast. The price advantage of imported cotton has weakened and **cotton imports in 2021/22 are lowered to 2 MMT**, a decrease of 750,000 MT from the last forecast. Please refer to the balance sheet below for details.

China Cotton Balance Sheet by April 2022 (10,000 tons)

Cotton Year	Beginning Inventory	Output	Imports	Consumption	Exports	Ending Inventory
2021/22	814.7	577.39	200	805	1	786.09
2020/21	790.52	592.37	274.66	842.6	0.25	814.7

Source: China Cotton Association (CCA)

- **Cotton imports:** since 2021/22 market year, textile production in the Southeast Asian countries has recovered rapidly, and the prices of imported cotton have continued to rise. Consequently, China’s cotton imports have decreased significantly. In 2021/22

(from September 2021 to February 2022), China has imported 760,200 MT of cotton, a decrease of 52.6% year-on-year (y/y). Among the main import countries, Brazil ranked the first, with an import volume of 360,300 MT, accounting for 46.2%; the imports of US cotton were 258,000 MT, accounting for 33.1%, while the imports of Indian cotton were 42,800 MT, accounting for 5.5%.

- **The fluctuation of the price difference between domestic and imported cotton has increased, and the uncertain factors faced by the cotton market have further increased.** The cost of cotton planting in China has increased this year, among which the cost of land has increased by USD 62.8-125.6/mu (RMB 400-800/mu) compared with last year, fertilizer has increased by USD 18.8-23.6/mu (RMB 120-150/mu), pesticides have increased by USD 4.7-7.9/mu (RMB 30-50/mu), water costs have increased by USD 4.7/mu (RMB 30/mu), and the labor cost has increased by USD 7.9/mu (RMB 50/mu). Without significantly improved economy and recovery in the market demand, it is difficult for domestic cotton purchase price to rise above USD 3,612-3,926/ton (RMB 23,000-25,000/ton). The increasing price of imported cotton will bring greater cost pressure to enterprises using imported cotton.

### **Challenges faced by the cotton textile industry**

Taking into consideration all feedbacks from the speakers of CCA's Council members across cotton production, cotton trade, and cotton and textile manufacture, severe challenges face the industry chain, although the industry as a whole has some opportunities, such as forced upgrading of the entire industry chain.

- **Lower market performance.** As raw material costs rise, the profit transmission from upstream to downstream becomes more difficult in the short term. Currently, the sales of China produced cotton is difficult, the cotton inventory level of midstream is low, and the production of downstream enterprises has been restricted for production.
- **The impact of COVID-19 recurring outbreaks remains substantial.** Internationally, besides global inflationary pressures, the flow of people and logistics has been blocked and the interruption of logistics has caused troubles in many aspects. For instance, cotton restocking delays. Domestically, the supply chains between production area and sales area are not smooth, which increases logistics costs and leads to a high purchase price for end user. Meanwhile, the epidemic has weakened consumer demand, which has also affected textile orders. In particular, the ongoing COVID-19 outbreaks in Shanghai since early March have negatively impacted the people's day to day life and consumption, as well as those companies and distributors in Shanghai and neighboring regions. If the situation cannot be managed, China's overall economic growth will be at jeopardy, not to mention cotton and textile industry.
- **The international trade landscape is unstable and changed rapidly.** The industry has already suffered from high energy prices and significant increase of transportation costs, as well as COVID-19 pandemic in the past two years, which have led to reduced

market demand, the delay of orders, rising risks of default, as well as weakening demands. With the industry already has to deal with the political tension driven export sanctions from the US, the Russia-Ukraine conflict add additional uncertainties in global supply chain, which now seems will be a long-term situation.

- **Sanctions on Xinjiang cotton may be expanded.** Since 2018, the US government has put pressure and sanctioned Chinese cotton and textile exports out of Xinjiang, and the challenging situation might be more prominent in 2022 as the export orders from EU are increasingly altered by potential similar sanctions on Xinjiang cotton. In the meantime, those mills from the Southeast Asia countries are more competitive given less political impacts and better predictability on trade with no import restrictions or export sanctions.

### **CCA's suggestions for China cotton industry in 2022**

On behalf of CCA, Madam Gao concluded the meeting and made following suggestions that expect to bring to the attention of relevant government agencies:

1. To keep a close eye on the development of Xinjiang cotton target price (2023-2025) policy to advocate subsidize the cotton subject to quality. The Xinjiang cotton target price between 2020 and 2022 is USD 2,921/ton (RMB 18,600/ton) and mainly subject to production output.
2. To promote the inland cotton plantation in the Yellow River Valley and Yangtze River Valley despite the difficulties, especially the high cost (no or less subsidy) and low profit margin compare with other ag products, to increase the inland cotton output.
3. To promote the Cotton China Sustainable Development Program (CCSD) to guide sustainable development of the industry. The industry should see the value of CCSD not only as an initiative to protect to Xinjiang cotton in response to the restrictions in the short-term, but also an opportunity to improve domestic cotton in the long run.
4. To explore the opportunity to establish a commercial cotton reserve system, and/or corporate social responsibility reserve to better meet and satisfy companies individualized demands in the supply chain. For instance, distribution companies hope to purchase more Xinjiang cotton while textile enterprises preferer to purchase imported cotton from the national reserves.
5. To provide better financial support and guarantee (bank loans) to support textile enterprises to tide over the difficulties.

### **Appendix I – Agenda**

1. Council Meeting
  - a) Review the report on the candidates for the rotating President of the CCA Council.
  - b) Review the work report of the CCA Council.
  - c) Review and vote on the report on replacing the candidate of the Vice President of the CCA.

- d) Report the financial situation of CCA in 2021.
  - e) Report Council members' participation in the CCA events in 2021.
  - f) Review the proposal on the establishment of Administration Committee for the Cotton China Sustainable Development Program (CCSD).
2. China Cotton Situation Analysis
    - a) Analyze the current national cotton and textile production, purchase and sales situation and future market trends, and put forward relevant policy recommendations.
    - b) Production situation: new cotton planting and sustainable cotton production.
  3. Summary of the meeting

#### **Appendix II – Key government agencies**

- National Development and Reform Commission (NDRC)
- Ministry of Industry and Information Technology
- Ministry of Finance
- Ministry of Agriculture and Rural Affairs (MARA)
- Ministry of Commerce
- General Administration of Customs
- National Bureau of Statistics
- National Food and Strategic Reserves Administration
- Price Monitoring Center of the NDRC
- Research Center of Rural Economy of the MARA
- China Fiber Quality Monitoring Center
- China Cotton Textile Association