**Business Session III**
**The Extra-Fine Cotton Market by 2020**

Chair: Mr. Jürg Reinhart, Chairman, Paul Reinhart AG

Panelists:
Mr. Mohamed Leheta, Trustco for Import & Export (Egypt)
Mr. Marc Lewkowitz, President and C.E.O., Supima (USA)
Mr. Mani Chinnaswamy, Managing Director, Appachi Eco-Logic, Cotton Pvt. Ltd. (India)
Mr. Brad Reinhart, J.G. Boswell Company (USA)
Mr. R.R. Vinod, Senior Vice President, Welspun India Ltd.

**Consumer Demand is Key**

The Chair noted that world extra-fine cotton production has been trending downward for several decades. In the early 2000s, world production was about 750,000 tons; this season ICAC forecasts world extra-fine cotton production at 450,000 tons. He asked what is the future of world extra-fine cotton production?

Mr. Reinhart reported tree crops provide higher returns than cotton per liter of water in California, and pistachio and almond plantings have increased in recent years. In addition, California is in the midst of a severe drought, and agriculture is considered a low-priority for water allocations by the state of California. Consequently, row crops, including cotton, are struggling to maintain area. Prices and water availability will dictate the level of Pima production in the United States by 2020, and if there is water availability, U.S. Pima production could be about 100,000 tons.

Mr. Leheta noted that Egyptian cotton production has declined in response to political turmoil and the reduction of subsidies since 2000. However, he said that the situation is improving, and he expects a rebound in production by 2020. He said that 2016/17 production would double the 2015/16 level and rise to between 100,000 and 120,000 tons with improved quality. By 2020, production could be as high as 150,000 tons if prices are attractive.

Mr. Chinnaswamy reported that farmers and ginners have not been happy with the prices received for hybrid varieties, but that Suvin has provided farmers with higher returns. He said that improved quality is the key to building market share for cotton. He said that there are enough high-income Indian consumers to account for all extra-fine cotton being produced in India, and even 170,000 tons might not be enough to satisfy demand.Mr. Chinnaswamy emphasized that consumers are increasingly socially and environmentally conscious, and cotton has an inherent advantage over polyester because of the story of environmental stewardship and social benefits farmers can tell.

Mr. Vinod noted that as a spinner he uses the cotton required to meet the contract specifications of his customers, and thus consumer demand is the key to increased use of extra-fine cotton. He said it was important to brand products to build consumer preference.

Mr. Lewkowitz agreed that consumer demand is key. He added that price volatility had a negative impact on cotton demand, including demand for extra-fine varieties. With the stabilization of prices since 2014, demand is growing again. He said that Pima demand is based entirely on consumer buying decisions.

The Chair noted that quality characteristics for upland cotton have been improving for decades and asked whether extra-fine cotton is really needed to make fine yarns. Mr. Reinhart agreed that upland varieties are indeed achieving better quality levels, but he noted that Pima varieties are also getting longer and stronger. Therefore, the quality differential between extra-fine and upland varieties is being maintained, and it might be possible to develop entirely new products using cotton. He said that his research suggests that long term demand for Pima is at least 80,000 tons per year.

Mr. Vinod said that polyester is not yet competing directly with extra-fine cotton, but he said that it is important to protect farmers from low or variable prices so that they will continue to produce.

Mr. Leheta and Mr. Lewkowitz both emphasized the importance of branding fibers to build consumer preference. They noted the importance of building trust with consumers.Mr. Lewkowitz said that farmers and branding partners pay for the Supima program, and direct consumer advertising is incredibly expensive. Therefore, it is important to find appropriate partners to communicate with consumers.Panelists felt that it was not useful to encourage government funding of promotion activities.

Panel members reported that gene mapping technologies are being used to verify barbadense cotton content in products labeled as being made of extra-fine cotton. These technologies are being used to prevent content dilution by unscrupulous textile producers. There was a concern about consumer acceptance of increased costs associated with compliance testing.