

African Ginners Need Long-Term Relationships



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The extraordinary price volatility during the 2010/11 cotton season has undermined the familiar trading pattern and changed the way cotton will be traded in the future. Knowledge of the market and close linkages with reliable partners based on mutual trust will be the key for success.

This is a challenge but also an opportunity for African cotton. Serious spinners are looking for stable supply and relationships, and so too are visionary African ginners. While the majority of spinners will continue to buy on reputation and price, a range of spinners exist who have a preference for African cotton. Among them, some spinning factories would like to develop longer-term relationships with preferred suppliers they know and trust. Their aim is not to buy origin, but rather, cotton ginned in a specific ginnery they know and appreciate. Such spinners would be ideal targets for African ginners who would like to develop lasting relationships with preferred buyers.

The ITC supports this relationship building when it is coupled with activities to improve quality and reduce contamination. ITC works with preselected, committed ginners to understand the requirements of identified preferred spinners. Spinners get to know the gin and farm operations, have the possibility to engage in improving cotton quality at the gin level to ensure they get what they need, and see the bales for their spinning operation being produced. Spinners have a direct involvement in the quality assurance process at the ginnery and indirectly with contract farmers, building transparency along the value chain, confidence, and finally, trust.

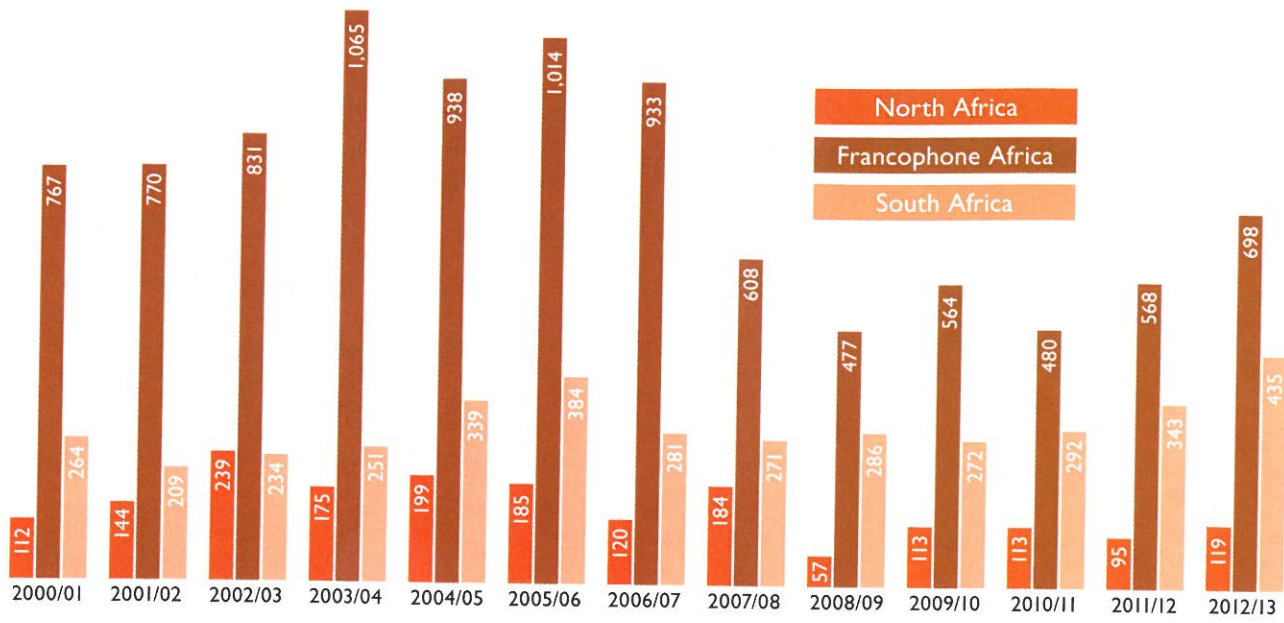
Visionaries Needed to Show the Way

Visionary spinners and ginners can create a multiplying effect on both sides. Other spinners will join when they see that their competitors secured long-term, reliable supply with improved quality features and economical prices. And other ginners will follow if they see that long-term markets could be developed with improved quality – and potentially higher prices.

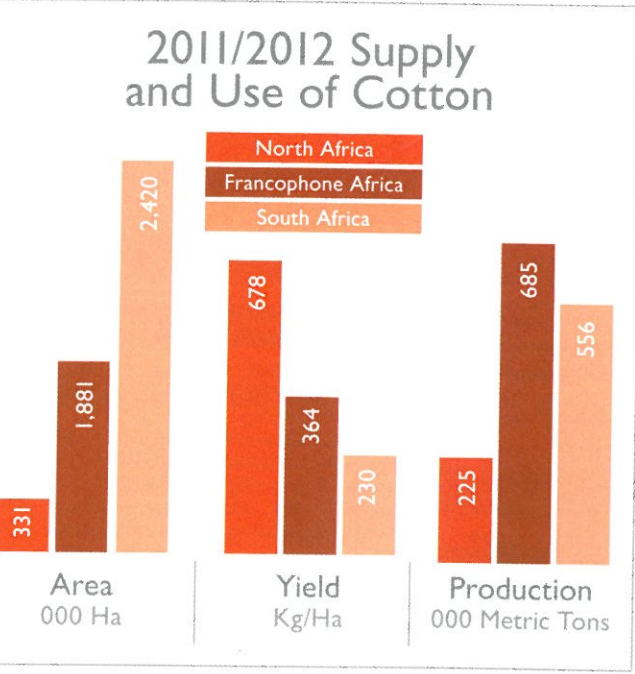
Serious spinners are looking for stable supply and relationships, and so too are visionary African ginners.

To exploit this opportunity, three major trade-related challenges need to be overcome:

1. African cotton is suffering from a negative (often unfounded) image. Africa needs to improve its quality image to advance its market standing.
2. Banks, which often pre-finance the crop, play a role in how African cotton is traded. Banks keep ownership of the crop as collateral until it is sold to someone they consider a reliable client. Moreover, banks do not offer flexible trade finance or credit instruments needed by ginners to manage their cash flow. Many African ginners buy seed-cotton on limited credit to quickly gin it and almost immediately sell the lint (often on a free-on-truck [FOT] basis). With the incoming money, they buy new seed cotton. Such a system



Exports of Cotton Lint
000 Metric Tons



is geared towards a short-term vision only.

3. International merchants, who quasi-exclusively trade African cotton, promote their services and knowledge rather than promoting a specific origin, let alone African cotton. As a result, independent ginners have little knowledge of the world cotton market and don't receive direct feedback on their product.

Moreover, vertical integration between traders and ginners has increased. In order to supply spinners on a regular basis, trading companies have invested

directly in ginning operations. Some hold minority or majority shares in cotton companies and therefore have decision-making influence or authority.

Such an ownership structure, however, is not conducive to building long-term partnerships for three reasons:

1. Traders are not always in favor of creating a transparent environment between producer and consumer;
2. cotton for more direct sales will only be available at higher market prices, as the trader has the first choice and will usually be able to sell the cotton at the prevailing market rate; and
3. a ginner will need to offer a regular and constant supply of cotton every year to preferred spinners in order to build long-term partnerships. If the company can supply one year but not the next year, these relationships cannot develop.

Overall, with the engagement of visionary leaders on the supply and demand side, traditional habits and patterns can be overcome.

Developing closer relationships and partnerships between African producers and spinners would be a big step toward "uniting for a better trade." 🌐

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