MINUTES

SECOND BREAKOUT SESSION
Panel discussion: Challenges with Price Risk Management in Cotton
SUNDAY, 3 DECEMBER, 13:30 TO 15:30

Chair: Mr Atul Ganatra, President, Cotton Association of India
Moderator: Ms Lorena Ruiz, Economist, ICAC

Panellists:
Mr G. Chandrasekhar, Economist, Senior journalist, Agricultural policy commentator
Mr Banda Sunduzwayo, CEO, Cotton Board of Zambia, Zambia
Ms Antonia Prescott, Deputy Editor at Cotton Outlook
Mr Sanjay Jain, Past Chairman, Confederation of Indian Textile Industry
Mr Vinay Kotak Past Chairman, Confederation of Indian Textile Industry, Additional Vice-President, Cotton Association of India
Mr Haroldo Rodrigues Da Cunha, Former President of Abrapa and current President of AGOPA, Brazil

The sessions began at 13:30.

The panel discussion commenced with Antonia Prescott, Deputy Editor of Cotton Outlook, delineating the diverse risks evident at various stages, from the farm and trader levels to the intricacies of the textile chain. These risks extended to encompass economies at different developmental stages — be they developed, developing, or underdeveloped. The inherent vulnerabilities faced by each sector were further heightened by the compounding effects of the Covid-19 pandemic, the trade tensions between China and the US, ongoing conflicts, the spectre of climate change, and inflation driven by stimulus measures.

Adaptation to climate change, a significant risk for price management:
Haroldo, an agronomist from Brazil, highlighted the challenges posed by climate change in the context of price management. He explained that in response to climate change, Brazilian farmers are transitioning from cultivating cotton as a second crop after soybeans to making it their primary crop. This shift involves utilising varieties specifically bred for shorter durations. Mr Banda from Zambia shared insights with the audience, revealing that African farmers in Zambia have limited influence on price decisions but bear the brunt

of the resulting volatility. He emphasised that African farmers are being asked to adapt to the impacts of climate change, primarily driven by the actions of developed countries.

Action-oriented Information Dissemination to Farmers for Effective Price Risk Management:
According to insights shared by Sanjay Jain and Mr Chandrashekhar in India, where a majority of farmers reportedly own smartphones (though this claim is contested), there is a proliferation of information through approximately 15,000 WhatsApp groups within the farming community. However, a critical issue exists: Farmers lack the necessary skills and resources to effectively convert this overwhelming amount of information into practical knowledge, a gap that urgently needs addressing. Conversely, in Africa, farmers often lack access to digital information and do not possess smartphones. Instead, they heavily rely on television broadcasts. A suggested solution is to provide training sessions, guiding farmers on actionable measures developed from the available knowledge to be implemented in the upcoming period. This approach is especially relevant considering that African cotton-producing countries are currently more influenced by existing market prices (price takers) rather than being able to set their own prices (price setters).

Role of International Organisations and Governments in Mitigating the Impact of Risks:
Mr Chandrashekar proposed the establishment of an Asia Cotton Alliance to collectively determine cotton prices in the trade among Asian and South Asian countries. When Mr Banda from Zambia pointed out that the ongoing discussions on fixing prices were not applicable to Africa, Mr Chandrashekhar revised the proposed alliance to include Africa.
Addressing the changing dynamics in India, Mr Sanjay Jain noted a significant shift in the impact of price volatility on the market. He highlighted that what used to be a year's worth of volatility in cotton prices is now experienced within a week. Mr Jain called for the creation of an ICE (Intercontinental Exchange) mirror index, particularly tailored for India. As a trader, he emphasised resorting to increased blending of cotton was a risk mitigation strategy that he adopted. In contrast, Mr Banda, representing Zambia and Africa, shared that farmers in Africa tend to shift away from cotton cultivation in response to price risks.
Mr Haroldo proposed that organisations like the ICAC should provide training workshops to farmers on futures market, hedging tools, margin calls, and risk management strategies to help farmers to better navigate the complexities of agricultural commodity trading.

On the topic of arbitration, Mr Vinay Kotak highlighted that there are no provisions to recognise *force majeure* in the International Cotton Association (ICA) Rules & Regulations by way of bylaws. However, in the case of India, this provision is available in a contract and exempts a party from performing his contractual obligations. The ICA Rules divide arbitrations into quality and technical arbitration. Quality arbitrations relate to any dispute arising from examination or testing of cotton quality or characteristics, while technical arbitrations relate to all other disputes, such as non-performance. Mr Kotak explained the importance of the ‘Invoice Back’ clause, which refers to a situation in a trading or sales context where a buyer rejects a tender (a bid or offer). When this happens, instead of the buyer purchasing the goods on behalf of the seller, a financial adjustment is made based on the current market rate (spot rate) or another specified rate.

Meeting was adjourned at 15:30 hrs.

Summary Paragraph

All types of economies (undeveloped, developing, and developed) and all sectors of the cotton value chain face risks from low prices and volatility. Climate change will magnify those risks, and poor farmers in less developed areas will bear the brunt of the actions and decisions made by developed nations regarding global warming. Effective knowledge transfer will be needed to guide farmers on global best practices because their means of accessing information vary widely from one region to the next. Markets are now experiencing as much volatility in a single week as they used to in an entire year, so the need to train farmers on the futures market, hedging tools, margin calls, and risk management strategies is more important than ever.