

Insights from ACSA Delegation visit to China

By Arthur Spellson, Australian Cotton Shippers Association

In March 2024, a delegation of six Australian Cotton Shippers Association (ACSA) Directors and one Cotton Australia Director travelled to China as part of the Australian Government's Export Market Development (EMD) program, for meetings with key industry bodies and to promote Australian cotton via a seminar in Qingdao. This is the first time ACSA has visited China in five years with the last visit being in March 2019, pre-Covid and pre-soft ban.

Our first stop was Beijing where we met with high-ranking officials from the China Cotton Association, the China National Cotton Reserves, China Cotton Textile Association and the China National Cotton Exchange. The delegation was warmly received and our hosts showed genuine appreciation for us making the effort to visit.

Many of the people we met with have a long association with ACSA and Australian cotton, and it was apparent that they are keen to re-engage and want to be importing and consuming Australian cotton.



ACSA delegation in Beijing with China National Cotton Reserves General Manager Mr Shen Peng and other representatives.

There have been some significant changes to market dynamics since ACSA last visited China, so it was interesting for us to have conversations around these points and the implications for Australia. One of the biggest changes has been the Uyghur Forced Labor Prevention Act introduced by the US Government in late 2020. The introduction of this Act means goods containing cotton grown in Xinjiang Province, now the source of more than 90% of China's cotton production, cannot enter the United States.

This has resulted in a more than 20% reduction in exports of cotton goods from China to the US and highlights the impact of geopolitical tensions on global trade flows. We are increasingly seeing changes to natural and historic trade flows as a result of changes in individual country's policies and

regulations. These changes are occurring as a result of political tensions but also because of climate change and waste management strategy.

In response to these pressures, the China Cotton Association explained that China has launched the China Cotton Sustainable Development (CCSD) project. CCSD is like Australia's *myBMP* program, with global certification body SGS being used to certify Chinese cotton production as sustainable. The creation of CCSD was in part necessitated by BCI withdrawing from China in 2021 due to human rights concerns in Xinjiang. In early 2023, 80,000 hectares was certified under CCSD and China Cotton Association realise that they need some form of sustainability certification if they are going to maintain access to global markets.

In each of our meetings we quizzed our hosts about the future of the cotton industry in China including production, imports and consumption. In relation to production, we discussed the global access challenges with Xinjiang cotton and also the Chinese Government push for food security and how it might impact cotton plantings going forward. We need to remember that Chinese cotton production is subsidised by the Chinese Government and the Government has influence over what crops are planted.

We were assured that cotton production in Xinjiang would be maintained at over 5 million MT (equivalent to 22 million Australian bales) and that it would not be impacted by the push by Government for food security. Xinjiang production was estimated at 6.2 million MT (27.3 million Australian bale equivalent) in 2023 and 5.5 million MT (24.2 million Australian bale equivalent) in 2022. The approximate 10% of Chinese production which is outside of Xinjiang, located in the more eastern states, is not so secure but this has been steadily declining for the past decade. Overall Chinese production is not expected to change much going forward, likely around 5.5 million metric tons per annum.

On the consumption side the China Cotton Association estimates Chinese cotton consumption at 7.9 million MT (34.8 million Australian bale equivalent) and imports of 1.7 million MT (7.5 million Australian bale equivalent). Chinese textile mills have been suffering from unfavorable margins in recent months, as have spinners in other markets. It was concerning to hear from the China Cotton Textile Association that cotton now accounts for only 35% of China's fibre consumption while polyester accounts for 42% and viscose a surprising 17%.

In 2023 China's main cotton import origins were USA at 38%, Brazil 25% and Australia 14%. Australia accounted for only 2% of imports in 2022 so we are headed in the right direction. While it is a sensitive and difficult subject to discuss, the China Cotton Association did not think importing Australian cotton was an issue for buyers now, but it was apparent in other discussions that some buyers still have concerns with customs clearance of Australian cotton. The China National Cotton Reserves indicated that they are keen to recommence buying Australian cotton for the China State Reserve.

Chinese cotton buyers use two different types of quota to import cotton. There is the Tariff Rate Quota (TRQ), subject to 1% duty, for 894 MT each year which the Government has to issue as part of their agreement with the World Trade Organisation (WTO). On top of that, the Government discretionarily issues "Sliding Scale Quota", which results in buyers paying 5-40% duty based on the value of the cotton, with higher valued cotton paying less and cheaper cotton paying more. For this reason importers look to use Sliding Scale Quota on the generally more expensive Australian cotton. China Cotton Association suggested 1.2 million to 2 million metric tons of Sliding Scale Quota will be issued in 2024. This is not assured but if it is the case then we should see good volumes of Australian cotton go to China from our 2024 crop.

The restrictions on Xinjiang cotton into the US means garment manufacturers selling to the US have to use yarn or fabric made from cotton other than Chinese cotton. This increases the demand for imported cotton and cotton yarn but has also pushed some US buyers, who were reliant on China, to establish alternative supply chains in order to manage this risk.

The seminar ACSA held in Qingdao was extremely well supported with over 300 people in attendance. The delegation gave presentations updating the audience on Australian cotton production levels, exports, quality and sustainability. The presentations were well received, generating plenty of questions. The spinning sector in China has missed high quality Australian cotton and is keen to see regular supply back in the Chinese market.

While in Qingdao the delegation met with the General Administration of Customs of the People's Republic of China (GACC), formerly know as CIQ. This was an important meeting which we were fortunate to have as a result of assistance from CNCGC. Discussions were centered around GACC procedures for inspecting cotton upon arrival in China and also concerns that some ACSA members have around import permits to China. Overall the meeting was worthwhile and GACC were appreciative of our visit.

These visits to our export markets are vitally important in helping to keep Australian cotton at the forefront of the world cotton trade. With the assistance of Austrade and the Department of Foreign Affairs and Trade (DFAT), ACSA has been carrying out at least one of these trips per year for more than 25 years. An ACSA delegation will be visiting Bangladesh in May of this year, another important market for Australian cotton.



Question time at Qingdao seminar.

Ends