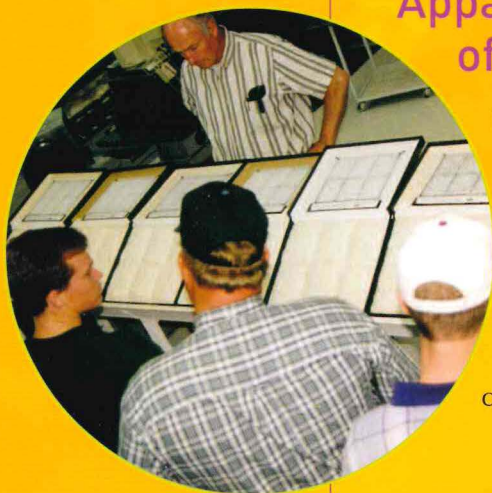




Cotton trade through private rules and bylaws

For cotton, like most agricultural export products, transactions rely on private rules and bylaws to secure contracts and settle potential disputes associated with their implementation. These systems have been operational for over 150 years and are very efficient due to the relatively high degree of equity between sellers and buyers. CIRAD conducted the first French analyses on the function of cotton private rules and bylaws and highlighted a previously unnoticed regulation adjustment that handicaps African cotton-producing countries.

Apparent simplicity of formal trade contracts



For a very long time, a handshake was enough to conclude a verbal agreement finalizing a transaction between a seller and buyer. Nowadays, however, formal contracts generally less than two pages long are drawn up to list the specific trade conditions, i.e. mainly the cotton quantity and quality to supply, along with the delivery date and site. The general terms and conditions of the contract are simply indicated by reference to the private rules and bylaws, which outline the terms, types of quality, two-party (buyer/seller) control conditions that apply to delivered cotton quantities and quality, or the settlement conditions in case of disputes.

Fibre grading standard boxes.
Ginning mill, Dumas, USA.
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Many private rules and bylaws of varied relevance

Many private rules and bylaws are in effect worldwide. In USA, different systems are found in almost every state involved in cotton production and trade. The Liverpool, Le Havre, Gent and Bremen rules apply in Europe—Europeans have not yet managed to adopt a single streamlined system as they have for coffee.

Private rules and bylaws are linked with professional cotton associations responsible for applying and safeguarding these systems. The Liverpool Rules, now called the ICA Rules and piloted by the International Cotton Association, apply to more than 60% of global cotton transactions. The Le Havre Rules—with the French Cotton Association (AFCOT) as custodian—control the sale of cotton by West and Central African cotton companies.

Limited scope to enhance the value of cotton quality criteria

Cotton quality is based on many criteria. In addition to fibre length and appearance features, many other technological characteristics can be measured (fibre uniformity, tenacity, maturity, fineness, etc.).

Private rules and bylaws integrate cotton quality enhancement by defining penalties that apply when the quality of supplied cotton is lower than that originally marketed by the seller, but there is no "compensation" in the opposite case (better quality supplied). However, all private rules and bylaws currently just include a few quality criteria with which sellers can easily comply.

Top stakeholders change the rules

Private rules and bylaws are showing signs of change worldwide in response to the increased number of rule violations and pressure to include more quality criteria. A private rule and bylaw system linked with the Shanghai stock market will soon be launched in China—the top cotton importing country. The implementation of this new system should have a more immediate impact on exporting countries.

In the West and Central African region, liberalization of the cotton industry has disrupted the cotton fibre sales market organization. CIRAD's analysis revealed that cotton is actually no longer sold to the end users (spinning mills), but transactions pass instead through an oligopoly of international traders. Some of these traders have managed to achieve vertical integration by buying out cotton companies, so now a majority of sales are simply intra-company exchanges (generally disadvantageous for the selling subsidiary). A concomitant insidious change in trade rules has also occurred that penalizes selling countries with respect to two-party quality control and reduced compliance to commitments for the removal of purchased cotton when world cotton prices are low.

Cotton gin. Ngong, Cameroon.
© G. Gawrysiak



For further information

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