Winter/Spring 2013

StaplReview



Possible **Restructuring**

Grower Meeting **Highlights**

Possible Restructuring



Meredith Allen
President & CEO

Due to the current large imbalance between world cotton supply and demand, the staff at Staplcotn has been preparing certain recommendations to the Board of Directors in anticipation of cotton acreage reductions in the Mid-South and Southeast. Staplcotn has a textile mill customer base for its members' cotton of between 2 and 3 million bales a year and is staffed to support this volume. We have been fortunate to have averaged this size volume over the last several years. However, until supply and demand are rebalanced, its members probably will not plant enough acres to produce 2.5 million bales annually. The objective of the staff recommendation to the Board is to maintain at least an annual volume of 2 to 3 million bales to enhance members' income, maintain market share with mill customers, and preserve economies of scale.

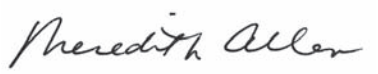
In order to accomplish the above, staff will ask the Board to recommend that our membership give authority to Staplcotn to purchase and sell cotton produced by non-member producers and non-producers such as The Seam or other cotton marketing companies. To accomplish this, certain changes must be made to Staplcotn's Articles of Incorporation and Bylaws in order to comply with requirements of the Internal Revenue Code.

Staplcotn was organized in 1921 under a 1917 Tennessee Cooperative Marketing law. These early laws were much more restrictive on cooperatives than newer laws passed by various states, including Tennessee, in later years. In short, we will be asking the Board to recommend to the membership that Staplcotn's Articles of Incorporation and Bylaws be modernized under current cooperative marketing laws. It is our understanding that most other marketing cooperatives have already done this or were organized later than Staplcotn and, therefore, can operate this way. Under the new structure, allocated profits to members on member cotton would not change and would continue to be non-taxable to Staplcotn. Profits on non-member and non-producer cotton would be taxable to the cooperative and the remainder could be distributed to current members or be retained as capital.

Just as producers are concerned about the loss of cotton production infrastructure (harvest equipment, ginning, warehousing, etc.), Staplcotn wants to protect our members' marketing infrastructure for Memphis/Eastern cotton.

If these changes are approved by our Board of Directors and recommended to the members for approval, a meeting of the membership will be called. If the changes are approved by a majority of our membership, the members will notice no difference. The Board of Directors will be the same and will provide the same oversight. Capital retains will continue to be revolved at the discretion of the Board of Directors, which currently is after 10 years.

The Board of Directors has been discussing the change and currently plans to vote to recommend or not recommend these changes to the members at their March Board meeting.



Clark Appointed as Director



Clay Clark

During the December board meeting, Staplcotn's Board of Directors appointed Clay Clark of Swainsboro, Georgia, to fill the unexpired term of Cleve Mobley who resigned from the board in December.

Clark is a partner in Screven Gin Company as well as a partner in Emanuel Peanut and Grain. He serves as director for the Emanuel County Farm Bureau and is on the board of Durden Banking Company. Clark attended the Emanuel County Institute and East Georgia College.

In addition to cotton, Clark farms peanuts and pecans. He has been a member of Staplcotn since 1995. He and his wife, Melanie, attend Old Caroochee Primitive Baptist Church. They have two children – a son, Landon, and a daughter, Rachel.

Grower Meeting Highlights

Staplcotn's annual grower meetings were held in January to share reports and projections to members in the Mid-South and Southeast. Thirteen meetings were held in centralized locations (despite hazardous weather conditions in some areas) to give members the opportunity to attend. Certainly, hearing these reports first hand is preferential, but for those who weren't able to attend, the highlights of the presentations are as follows:

Membership Rolls Streamlined

In anticipation of the possible change in bylaws that the board will decide whether or not to present to the membership during their March meeting (see Meredith Allen's article on left), the board directed Staplcotn's management to update the membership rolls. Staplcotn members who have not done business with the cooperative in at least one of the last three consecutive years would have their voting rights suspended and membership certificate cancelled.

Woods Eastland, Board Chairman, explained, "Membership rolls are kept in the name of the entity by which one is signed up with the FSA offices because we use a form G loan and are required to report to the FSA the cotton we redeem from the loan. So, there are people that may have been doing business with Staplcotn under one entity name four years ago, but now do business in a different entity name. The 'old entity name' may have received a letter stating that their membership was cancelled, but the 'new entity name' is still an active member and allowed to vote."

Warehousing

The Erwin, North Carolina, warehouse has been working extremely well for Staplcotn. The producers in that area had a huge crop this year. Not only is that warehouse beneficial for producer cotton, it is also used for staging cotton of different qualities for the textile industry located near there.

The Savannah, Georgia, warehouse has also been a very important part of the Staplcotn export operation. This warehouse is strictly for staging cotton and is near the port in Savannah – very beneficial when expediting overseas shipments in a timely and efficient manner.

Staplcotn's warehouse volume has increased somewhat this year. The expectations for the 2013 crop is that warehouse volumes will go down somewhat as plantings are being reduced. We do not anticipate it to go down as low as it was in 2009, but it should decrease somewhat from this year's volume.

Warehouse patronage earnings are projected to be similar to that of the last two years due to the necessary quick shipment of bales sold.

Stapldiscount

Stapldiscount continues to be extremely strong from a capital standpoint and remains competitive. Stapldiscount's fiscal year ends on January 31 and exact rebate earnings have not been calculated to date. Current projections are a net interest after the rebate of 4.33%, but management expects the rebate to be increased in order to reduce the net rate below 4.00%.

Marketing

Staplcotn's board charges the marketing staff and management to achieve an average price in the seasonal pool. They don't expect to hit the high in the market or even attempt to do so because it would certainly require speculation. Every year, Staplcotn's average prices are compared to the average price received by a farmer who is not a member of Staplcotn. Those figures are sent to us from NASS, a division of the USDA, and given to us by state. We have consistently done better than the average for many years. The 2011 crop gave us great opportunities to hedge cotton at high prices at planting time. As a result, we had a nearly 15 cent advantage over the average price. Although this year's results won't hit that 15 cent mark, confidence is high that Staplcotn's advantage will be one that members will be pleased with.

Supply and Demand

The projection for 2011 ending world carryover stocks last year was around 59 million bales. In the **2012 Supply & Demand Chart** at right, you will see that we actually began 2012 with 69 million bales – an increase from the projected amount by 10 million! This was primarily due to the loss of consumption as a result of $2.00 cotton. This situation resulted in a loss of a significant amount of market share to man-made fibers, particularly polyester. The 2012 crop is expected to have a carry-over of 81.72 million bales.

For the U.S., the numbers aren't quite as drastic. Expectations are that the U.S. will have ending stocks at around 4.8 million bales. The export numbers were raised by 400,000 bales because the export market has been good. The 2012 production numbers will probably increase slightly because we continue to be surprised by the increased yields we are seeing in the Southeastern U.S.

In order for the ending stocks to go down, the market would most likely need to drop so that the Chinese government will resume purchasing cotton. This is not expected at this time. Staplcotn is fortunate to have a very good relationship with many Chinese customers. China has projected their ending stocks to be over 40 million bales for 2012 which is about half the entire world ending

2012 Supply & Demand

	2010		2011		2012	
	World	U.S.	World	U.S.	World	U.S.
Beginning Stocks	46.50	2.95	48.78	2.60	68.85	3.35
Production	116.33	18.10	124.13	15.57	118.83	17.01
Imports	35.67	0.01	44.70	0.02	38.87	0.01
Total Supply	198.50	21.06	217.61	18.19	226.55	20.37
Mill Usage	114.06	3.90	103.09	3.30	106.06	3.40
Exports	35.54	14.38	45.92	11.71	38.89	12.20
Total Offtake	149.60	18.28	149.01	15.01	144.95	15.60
Residual	0.12	0.18	-0.25	-0.17	-0.12	-0.03
Ending Stocks	48.78	2.60	68.85	3.35	81.72	4.80
Stocks/Use	42.8%	14.2%	66.8%	22.3%	77.1%	30.8%

stocks. What they do or don't do with their cotton is what will determine where the market goes. China recently announced that they are increasing subsidies on grains but they have not announced an increased subsidy for cotton.

World Production vs. Consumption

As you can see from the chart at right, projections for the 2012 crop's production are that we will produce 118,830 million bales. If world consumption increases as expected by 2-3 million bales next year, we will still need to cut production by at least 10 million bales worldwide to stay where we are and not increase ending stocks.

The Export Market

U.S. exports are doing well, and Staplcotn is a major player in this market. We have established great relationships and an excellent reputation of service as we already have with the domestic mills. This is the reason that the staff has asked the board to consider the change in bylaws. We find it important that we have the volume and qualities they require so that we can maintain those relationships we have worked so hard to develop over the past few years.

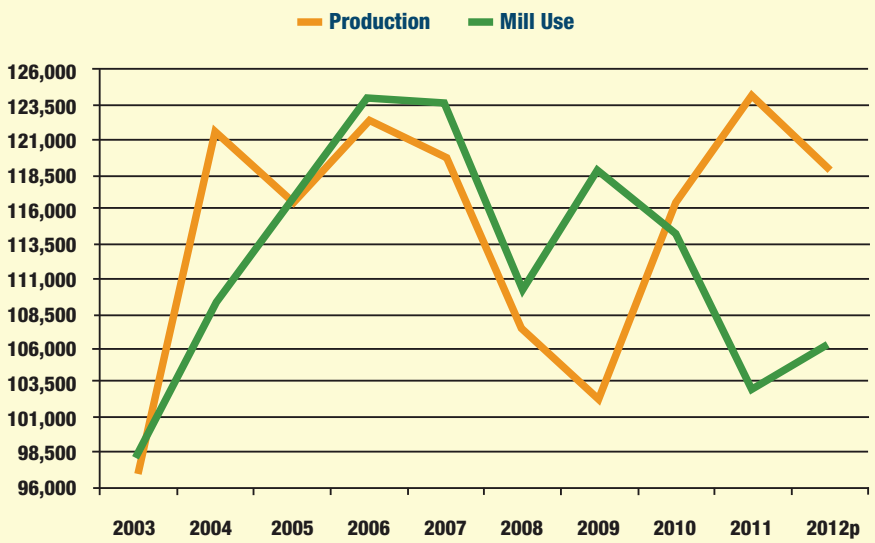
Line of Credit Amount Reduced

Prices and volumes that we are projecting for the upcoming year do not require the extensive line of credit that we secured in 2009 due to the margins and volatility of the market at that time. In order to reduce the amount of unused fees that the banks charge for this, we have asked them to reduce our line of credit.



Staplcotn staff welcomed a large group of attendees at the Leary, Georgia, meeting in January.

World Consumption



Eastland Honored with 2012 Harry S. Baker Award

At the National Cotton Council's 2013 annual meeting in Memphis, Staplcotn Board Chairman Woods Eastland was honored with the 2012 Harry S. Baker Distinguished Service Award. Named for the late California industry leader and past NCC President, the award is presented annually to a deserving individual who has provided extraordinary service, leadership and dedication to the U.S. cotton industry.

Eastland is a past chairman of the National Cotton Council (2005), a past president and chairman of Cotton Council International, and a past director of the Memphis Branch Federal Reserve Bank of St. Louis. He was a member of the New York Cotton Exchange board of managers and became a member of the New York Board of Trade's Board of Governors when it was formed from the merger of the Cotton and Coffee, Sugar and Cocoa Exchanges. He served one year as vice chairman of that Board.

NCC Chairman Chuck Coley, who presented the award, said that under Eastland's chairmanship, U.S. cotton industry consensus was maintained on critical trade issues. Under Woods' leadership, the NCC worked as part of a fiber/textile/labor initiative that was successful in convincing the United States to self-initiate World Trade Organization (WTO)-sanctioned textile safeguards that would impose a measure of discipline on Chinese shipments of textiles into the United States. In addition, U.S. officials were persuaded to make changes in provisions of the DR-CAFTA that led to NCC support for Congressional approval of that regional trade pact.



Woods Eastland, right, accepts Harry Baker award loving cup from outgoing NCC Chairman Chuck Coley.

Coley said Woods also met with Chinese officials in Beijing and Shanghai to build a better understanding of the need for mutually beneficial trade policies and to encourage them to join with the United States in consumer demand-building activities.

"These efforts served as the foundation for cooperative efforts between both countries that eventually resulted in a long-term relationship and memorandum of understanding between the Council and China Cotton Association," Coley said.

WTO Doha negotiations also were a primary industry focus during Woods' year as Council chairman. He traveled to Geneva twice and to Washington on numerous occasions to meet with key trade officials to discuss the latest developments in the trade talks and convey the cotton industry's message that cotton should not be singled out for different treatment from the rest of agriculture in the negotiations.

Following his service as NCC chairman, Woods continued to provide leadership. He chaired the NCC's Trade Promotion Authority Task Force, which was appointed in 2007 to consider and advise the Board on Trade Promotion Authority policy. He currently is an advisor to the NCC's Board and a member of its Operations Committee.

Other Staplcotn members and leaders who have received this prestigious award include Duke Barr, Bruce Brumfield, Robert Coker, Kenneth Hood, and Bob McLendon.

In Memoriam

LeRoy Wilson Baxley, Jr.

February 4, 1955 – December 9, 2012

It is with our sincere regrets that we announce the passing of Staplcotn Director LeRoy "Roy" Wilson Baxley, Jr., of Dillon, South Carolina. A board member since 2009, Roy was a valuable member and friend to the Association. He will be remembered with deep affection and appreciation. We would like to extend our heartfelt condolences to his family and friends.

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Barrier Selected to Two Posts

On January 17, Agriculture Secretary Tom Vilsack announced the appointment of Frederick Barrier, Staplcotn VP of North American Sales, to serve with 23 other members and 11 alternates to the Advisory Committee on Universal Cotton Standards. This committee is responsible for reviewing American Upland Cotton Standards and making recommendations to the USDA's Agriculture Marketing Service concerning establishment and revision of the standards.

Barrier has also been elected to serve on the board of Cotton Council International (CCI) in 2013. CCI is the export promotion arm of the National Cotton Council (NCC). This announcement was made during the NCC's annual meeting which was held in February.



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