Proceedings

of the meeting held
in Mauritius
on October 12, 2008

Participation

ITMF Spinners Committee

and

Representatives of Cotton Associations & the Cotton Trade

In the Chair: Andrew Macdonald (Brazil)
## Participants

<table>
<thead>
<tr>
<th>Country</th>
<th>Name</th>
<th>Company/Association</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Van Mol, Pierre</td>
<td>FEDUSTRIA</td>
</tr>
<tr>
<td>Brazil</td>
<td>Cunha, Haroldo</td>
<td>ABRAPA</td>
</tr>
<tr>
<td></td>
<td>Macdonald, Andrew G.</td>
<td>TAVEX Corporation</td>
</tr>
<tr>
<td>China</td>
<td>Chen, Qiuyan</td>
<td>Huafu Holding Co. Ltd.</td>
</tr>
<tr>
<td></td>
<td>Sun, Weiting</td>
<td>Huafu Holding Co. Ltd.</td>
</tr>
<tr>
<td>Germany</td>
<td>Hammer, Henning</td>
<td>Otto Stadtlander GmbH</td>
</tr>
<tr>
<td></td>
<td>Trede, Axel</td>
<td>Albrecht, Müller-Pearse &amp; Co. (GmbH &amp; Co.) KG</td>
</tr>
<tr>
<td></td>
<td>Vogt-Jordan, Wolfgang</td>
<td>Albrecht, Müller-Pearse &amp; Co. (GmbH &amp; Co.) KG</td>
</tr>
<tr>
<td></td>
<td>Wellmann, Jan B.</td>
<td>Bremer Baumwollbörse</td>
</tr>
<tr>
<td>India</td>
<td>Gajaria, M.P.</td>
<td>GTN Textiles Limited</td>
</tr>
<tr>
<td></td>
<td>Kotak, Suresh A.</td>
<td>Kotak &amp; Co. Ltd.</td>
</tr>
<tr>
<td>Italy</td>
<td>Bonadei, Romano</td>
<td>Fondazione Industrie Cotone e Lino</td>
</tr>
<tr>
<td>Kenya</td>
<td>Bedi, Jaswinder</td>
<td>Bedi Investments Ltd.</td>
</tr>
<tr>
<td>Korea Rep.</td>
<td>Chung, Kee-Soo</td>
<td>Spinners &amp; Weavers Association of Korea</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Vijayshankar, M. N.</td>
<td>Recron Malaysia Sdn. Bhd. (Reliance Group)</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Ali Mohammad, Bashir</td>
<td>M/S. Gul Ahmed Textile Mills Ltd.</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Bexell, Anna</td>
<td>IKEA Supply AG</td>
</tr>
<tr>
<td>UK</td>
<td>Hughes, Kai</td>
<td>The International Cotton Association, Ltd.</td>
</tr>
<tr>
<td>USA</td>
<td>Curlee, Jesse W.</td>
<td>Supima</td>
</tr>
<tr>
<td></td>
<td>May, William E.</td>
<td>American Cotton Shippers Association (ACSA)</td>
</tr>
<tr>
<td></td>
<td>Nicosia, Joe</td>
<td>American Cotton Shippers Association (ACSA)</td>
</tr>
<tr>
<td></td>
<td>Powell, Marsha</td>
<td>Cotton Council International</td>
</tr>
<tr>
<td></td>
<td>Terhaar, Allen A.</td>
<td>Cotton Council International</td>
</tr>
<tr>
<td></td>
<td>Turner, Dean B.</td>
<td>Cotton Incorporated</td>
</tr>
</tbody>
</table>
Opening Remarks
The Chairman of the Committee, Mr. B.K. Patodia, presented his apologies in writing. Therefore the Director General proposed to the Committee to invite Mr. Andrew Macdonald to act as Chairman during the meeting. The Committee accepted unanimously this proposal and thanked Mr. Macdonald. The Acting-Chairman then welcomed the members of the Joint Cotton Committee (JJC) in Mauritius and thanked everybody for attending the meeting.

Commercial Future of HVI Classing for the Cotton Trade and Testing Tolerances for all the Tested Characteristics
With regard to the question of commercial tolerance/variations for all the cotton characteristics which may be tested with HVI instruments today, the Chairman stated that at present only micronaire and strength are covered in the international trading contracts. For other cotton characteristics such as uniformity or short-fibre index, values and tolerances are not included in the international trading contracts. This therefore opens the question as to which guidelines the arbitrators should follow in a case of arbitration.

Of course values and tolerances of such characteristics can be included in contracts by the contracting parties if desired which would eliminate the problem.

The Committee therefore discussed whether tolerances and discounts for cotton characteristics such as uniformity and short-fibre index should be included in standard cotton contracts. It was agreed initially that if certain cotton characteristics are of commercial relevance to the textile industry, these values and respective tolerances could be included in a contract on an individual basis. However, the Spinners Committee expressed its concern that cotton contracted under the specifications of instrument testing without tolerances and discounts stipulated could lead to disputes if a default position was missing in the rules. It was therefore suggested that the ITMF Spinners Committee works out a proposal with regard to the commercial value of variances in specific characteristics so that the arbitrators could have an orientation should they need to arbitrate a dispute.

ACSA representatives were of the opinion that the two contracting parties should decide on an individual basis whether they include other cotton characteristics with respective tolerances, and allowances. However, they agreed to review the question of how to arbitrate such a dispute where no basis for variances had been agreed upon.

Fraudulent Marking of Products and DNA of Cotton
The Committee agreed that fraudulent marking of products with regard to country of origin and brands is hurting the cotton and textile industry alike.

Nowadays it is almost always possible to identify the cotton growth even in a garment. A New York-based company has established a DNA data base of all the different cotton origins which allows them to identify the cotton growth of samples of cotton yarns, fabrics and garments. It was stated that the cotton and textile trade might be faced with enormous repercussions if DNA detection is possible/available and applied at the retail end. Also a German-based company offers a service to analyze cotton/yarn/fabric:


Possible legal consequences of fraudulent marking of products are the withdrawals of licenses (i.e. Supima or Egyptian cotton).
With regard to organic cotton the Committee supported the idea that the ITMF should study
the system of certification of organic cotton along the entire chain – from the raw material
through to the garment – in order to better understand the problem and in the meantime it
was agreed that ITMF should inform its members about the possibilities and consequences
of DNA analysis of cotton growths.

The Future of Organic Cotton
The Committee shared the opinion that the growth of organic cotton will continue in the future
though it still represents only a very small percentage (smaller than 1% of world cotton
production). In the past months the premiums for organic cotton over conventional cotton fell
from 100% to only 10%. The markets downstream are not as willing to pay higher prices as
before.

It was mentioned also that the European Committee for Standardization (CEN) is currently
working on a definition for organic cotton.

During the meeting Mrs. Anna Bexell, Global Cotton Coordinator, IKEA, presented the
approach of IKEA and how it looks at cotton. She explained that various organic and/or fair
trade organizations have been considered as partners but in the end IKEA decided to
support the so-called Better Cotton Initiative (BCI; see: http://www.bettercotton.org/site.php).
BCI is committed to promoting more favourable social and environmental conditions that will
not only benefit farmers, but will extend throughout their communities. How farmers will grow
Better Cotton will depend on each farmer, community and/or region. According to her,
approx. 230,000 tons of organic cotton had been traded in 2008. For 2015, approx. 500,000
tons are expected. At present IKEA sources its organic cotton from India and Pakistan with
the objective to trace 100% of the organic cotton. She pointed out that organic and fair cotton
organizations and BCI have similar objectives but different philosophies how to achieve
these. In addition, the terms “organic” and “fair traded cotton” have suffered in the past
because of misuse.

Mr. Nicosia confirmed that there is no trading of organic cotton between traders.

It was also noted that the main problem of organic cotton is the lack of volume and large-
scale growers. It was also stated that certification costs could be reduced to a minimum, if
done at the grower’s level. Once the source of the cotton can be identified 100% as organic
cotton then downstream certification should be reduced to a minimum.

Report from the ICAC Task Force “Commercial Standardization of Instrument
Testing of Cotton” (CSITC)
Mr. Macdonald informed the Committee about the latest results of the CSITC round test. As
a main result he pointed out that the average results of the instrument testing were very
close to the ones from the USDA. This is very encouraging since it proves that HVI testing
has reached a high standard world-wide and is a reliable means to test cotton
characteristics.

Bale Packaging
Like the Spinners Committee also the Joint Cotton Committee agreed that the size of the
bale does not necessarily need to be standardized since it would involve a lot of investment
in the area of ginning. It was of the opinion that the trading partners would find a solution
regarding the ideal bale size.
On the other hand it agreed that the density of cotton bales should be considered for standardization. Mr. Vijayshankar promised to provide information to the Committee on the issue of ideal size and density of cotton bales.

Mr. Vijayshankar suggested that bale covers made of cotton should be used to cover the raw cotton world-wide. During the Spinners Committee in Cairo in 2007 he presented data on the type and specifications of bale covers from all regions. If, however, cotton bale covers cannot be used due to commercial constraints, then transparent HDPE film should be used as in the case for viscose fibres. As HDPE films do not fibrillate there is no danger of contamination. On the other hand polypropylene, jute, coloured plastic material, etc. should not be used for covering raw cotton bales. Ideally, cotton bale covers should have minimum specifications of 150 grams/square meter to provide adequate protection if all 6 sides are covered.

The Committee was informed that the National Cotton Council (NCC) is conducting a survey on pros and cons on different materials for packaging.

**Risk Management in the Textile Industry**

The Committed raised also the question of risk management and how the textile industry could better protect itself from market risks. Mr. Nicosia, ACSA President, explained that risk coverage with regard to cotton was and is available, but that it has been regarded by most trading partners as too expensive and spinners are generally not prepared to pay the extra costs. The main reason for not applying risk reducing instruments is a lack of finances and the low margins in the industry. Especially after the enormous increase of volatility in the cotton market (cotton futures) hedging became very expensive. Therefore, most spinners are forced to live with the risk of volatile cotton prices.

January 2009