Joint Cotton Committee

Proceedings

of the meeting held
in Sao Paulo/Brazil
on October 17, 2010

Participation

ITMF Spinners Committee
and
Representatives of Cotton Associations & the Cotton Trade

In the Chair: Jeff Elder (USA)
Participants

Brazil
Rui Altenburg (Altenburg Industria Textil)
Ivan José Bezerra de Menezes (TBM)
Daniel Borger (Norfil)
Victor M.F. Borges (Cia de Fiação e Tecidos Cedro Cachoeira)
Rafael Cervone (Sinditextil / ABIT)
Haroldo Cunha (ABRAPA)
Ulrich Kuhn (Sintex)
Andrew G. Macdonald (AMCON S/C Ltda)
Les Miller (Linhas Bonfio)
Fernando Pimentel (ABIT)
Fernando Prudente (Bayer)

France
Hubert Du Potet (Fédération Française de l'Industrie Lainière et Cotonnière)
Benoît Hacot (HACOT et Colombier)
Christophe Lambert (T.D.V. Industries)

Germany
Henning Hammer (Otto Stadtlander)
Rainer Hammer (Otto Stadtlander)
Klaus-Jürgen Kraatz (Industrieverband Garne - Gewebe - Technische Textilien)
Jens D. Lukaczik (Cargo Control Germany)
Hendrik H. Van Delden (Gherzi van Delden)

India
Adusumilli Ramachandra (Vijayeswari Textiles Limited)

Int. Org.
Terry P. Townsend (International Cotton Advisory Committee)

Italy
Romano Bonadei (Fondazione Industrie Cotone e Lino)

Kenya
Barry Fisher (ACTIF)

Korea Rep.
Choong Hong Lee (Kyungbang Limited)
Kyo-Won Yoon (Spinners & Weavers Association of Korea)

Pakistan
Bashir H. Ali Mohammad (Gul Ahmed Textile Mills)

South Africa
Walter Simeoni (WS International Business Facilitation Services CC)

Taiwan, China
Steven S.C. Chen (Tah Tong Textile Co.)

UK
Nicholas P.F. Earlam (Plexus Cotton Limited)

USA
Victor Almeida (Buhler Quality Yarns)
Jeffrey Scott Elder (J.G. Boswell)
Gary Fitzgerald (Cotton International)
Allen A. Terhaar (Cotton Council International)

ITMF
Christian Schindler
Opening Remarks
The Chairman of the Committee, Mr. Jeff Elder, welcomed the members and guests of the Joint Cotton Committee (JJC) and thanked everybody for attending this meeting in Sao Paulo/Brazil.

Report from the ICAC Task Force “Commercial Standardization of Instrument Testing of Cotton” (CSITC)
The Chairman of the CSITC task force, Mr. Andrew Macdonald, advised that the round tests were now into their 6th year and were continuing to be a success in bring standardization as regards instrument testing of cotton, but requested the assistance of all the trade and spinners to encourage their companies and clients to take part in the trails. He informed the meeting that in the latest round test around 135 laboratories worldwide participated. The costs are very low and the benefit to the cotton and spinning community enormous. He emphasized the importance of a greater participation if the cotton industry wants cotton to be traded based on firm instrumental data, rather than the somewhat haphazard system of manual and visual classing. Forms for participation in the round tests can be obtained from the ICAC (http://csitc.org/).

Report from the Steering Committee of ITMF International Committee on Cotton Testing Methods (ICCTM)
The Chairman invited Mr. Terry Townsend, as the Coordinator of the Steering Committee of the ICCTM to report from the meeting of the ICCTM in Bremen in March 2010. He informed the meeting that the Steering Committee of the ICCTM consisting of 5 persons, namely Terry Townsend (ICAC), Jan Wellmann (Bremen Cotton Exchange), Darryl Earnest (USDA), Christoph Färber (Trützschler) and Andrew Macdonald (ITMF Spinners Committee), was re-elected in Bremen. At the meeting of the ICCTM the Steering Committee proposed to no longer “approve” or “recommend” instruments or methods as these words imply a commercial and scientific endorsement that the ICCTM is not in a position to provide. Instead the Steering Committee suggested the ICCTM should “recognize” those instruments and methods that are able to perform within allowable tolerances and that achieve results that correlate with a reference method.

For officially recognizing an instrument or test method, the inventor/instrument manufacturer has to provide information that allows the ICCTM to assess the instrument or test method.

The recognition is divided into a prototype recognition, where it is not possible to deliver data from comparisons of similar instruments, and a full instrument or method recognition, which definitely needs additional results from instrument comparisons.

The Future of Indian Cotton Exports
The Chairman had asked the President of the Cotton Association of India (CAI), Mr. Dhiren Sheth, to prepare a note that would explain the Indian cotton policy during the past few months as well as the positions of the various stakeholders:
NOTE ON THE COTTON EXPORT SCENARIO IN INDIA

Sequence of events

Indian cotton has been a part of the OGL (Open General License) since around a decade. This means that cotton can be exported from India without any restrictions.

On 22nd July 2008 the government introduced a system of registration with the Textile Commissioner’s office to facilitate collection of statistics.

In November 2009 the Indian textile industry began asking for restriction on exports.

The government however did not pay heed to their demands then.

The export registration figure crossed 7 million bales in early April 2010.

On 9th April 2010 the government imposed a duty or Rs 2500 per ton (around 3% on prices prevalent then). This was with an understanding to remove the duty at the beginning of the new season on 1st October 2010.

Registrations then crossed 8 million bales.

On 19th April 2010 the government suspended fresh registrations as well as shipments against contracts already registered.

The government took authority to impose export duty up to Rs. 10,000 per ton from Parliament without seeking sanction from it in the future while passing the Annual Budget in end April. However the government restricted the duty imposed to Rs. 2,500 per ton.

On 21st May 2010 the government removed cotton exports from the OGL list and put it on the restricted list. ‘Exports permitted under license’ was the restriction imposed.

The Cotton Association of India (CAI) was constantly pleading with government to at least allow the quantities that have been registered so that:

- sanctity of contract can be maintained
- the country is not termed unreliable
- exporters do not face disputes, claims and arbitrations

The government finally relented and issue licenses against all registered contracts.

After some time CAI asked for recommencement of duty free exports from the new season. CAI also urged the government to announce this intention well in advance.

The government issued a notification on 17th August 2010 putting cotton exports back on to the free list with effect from 1st October 2010. Registrations were to begin on 15th September 2010.

The government announced a interim quantity of 5.5 million bales to be permitted for exports.

The textile industry started asking for a delay of reopening of cotton exports.

The government delayed registrations to 1st October and actual shipments to 1st November restricting the shipment period to 15th December or 45 days from the date of registration whichever is later.

By 10th October 5.5 million bales were registered and the government suspended registrations.
Contention of the Textile Industry

Cotton exports from India should take place in a calibrated manner. The calibration should be month wise.

The quantum of exports should be determined after providing for a closing stock equal to 2 months consumption.

Maximum possible export duty of Rs. 10,000 per ton should be imposed on all exports.

Commencements of exports should be delayed till January so that enough cotton arrives into the market before exports begin.

India should not give away the home grown advantage to competing countries like China and Pakistan.

The Indian farmer is protected by a Minimum Support Price (MSP). Prices are anyway ruling much higher than the MSP.

Cotton exports are resulting in higher prices making yarn, fabric and garments unviable.

Contention of Cotton Association of India – CAI

Cotton should be freely exportable.

No export duty should be imposed on cotton.

There should be no quantitative ceiling imposed on cotton exports. There should be no artificially maintained closing stock or stock to use ratio. Domestic consumers are free to stock cotton as per their wish.

No sector of the cotton textile chain (yarn for fabric and fabric for garments) maintains a predetermined level of closing stock.

The Indian farmer should not be prevented from realizing an international price for his produce.

Cotton is not a food crop and therefore exports need not be controlled.

Cotton prices in India have risen because of high international prices and because of higher yarn prices.

Indian cotton has been the cheapest cotton in the world for most of the year.

Import of cotton into India is free and with nil duty. Mills can import cotton whenever required.

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Based on this note the meeting further discussed the role and consequences of the Indian policy on cotton exports and agreed that the ITMF should write a letter to the Indian government in which it expresses its concern about soaring cotton prices stating that unpredictable government interventions in cotton markets are distorting the international cotton markets negatively affecting the cotton and cotton textile industry as well as the image of cotton. Especially interventions that are suspending shipments against contracts already registered should be avoided at all costs as such actions undermine the sanctity of contract and thus the confidence in the markets. Based on the discussion and following the meeting a resolution was formulated which was presented to and approved by the Committee of Management:
The Joint Cotton Committee recommends that the ITMF should write a letter addressed to the Indian government that actions which distort the international cotton market gravely affects the world cotton and textile industry. The sanctity of contracts must be preserved at all times. Government interventions by restricting exports of contracts previously concluded destabilizes not only the trade but also the image of cotton.

Shifts in Global Cotton Production as a Result of More Attractive Alternative (Food) Crops

Mr. Fernando Prudente (Bayer CropScience, Brazil) gave a presentation (see document no. 2) on the importance of the seed quality and the application of best practices during the growing period for the quality of the cotton fibres. In his opinion demand for cotton is expected to grow also in the future and so is the demand with respect to the quality of cotton fibres. The cotton industry is not only looking for higher yields but also for better cotton fibre properties (i.e. dyeability, strength, etc.). Bayer CropScience is working on traits that are focusing on fibre properties that are relevant to the textile industry.

Mr. Nick Earlam (Plexus, UK) commented that the current rally in cotton prices is certainly a result of market fundamentals on the supply and the demand side of the equation as well as of investment/speculative money. Supply decreased in this season (2010/2011) for several reasons. First, cotton prices in the past few years were relatively low (in a range between US Cents 60-80 per pound) and therefore not very attractive for many farmers. In many countries farmers decided to grow alternative (food) crops that were promising higher returns (Brazil, USA, Turkey, etc.). In other countries (China, Pakistan) supply was lower than expected in this season due to unfavorable weather conditions. Second, stocks were already very low at the beginning of the season. On the other side demand was higher than expected this season as a result of the recovery of the global economy. While demand in many countries in the Western hemisphere is still relatively subdued, demand in most emerging countries (China, India, Brazil, etc.) is very strong. But also the policy of the Indian government to restrict cotton exports contributed to the strong price increases. Another factor that contributed to this unprecedented development is the amount of funds (from investment funds and speculators) that is flowing into commodities including cotton.

Since cotton production costs vary considerably around the globe (China: 2.2 USD versus India: 0.95 USD) this might lead to considerable changes in acreage available for cotton production in some countries. In China acreage might fall by up to -20% in exchange for food crops. Other countries/regions (i.e. Brazil or Africa) have certainly the potential to further increase acreage for cotton production. But also in those countries/regions cotton is facing competition from food crops. Furthermore, if per capita consumption continues to grow on a global scale – and this is rather likely – this will lead to higher demand and higher prices if the supply side cannot keep up with demand. Theoretically, if global per capita cotton consumption reached the average level of the US-consumer demand for cotton would jump from around 120 million bales (480 pounds/bale) to around 400 million bales. This amount of cotton will not be available and therefore cotton is likely to become a more expensive commodity than what we have been used to during the past few years. If cotton remains as expensive as it is at the moment it might eventually become a relative scarce commodity and hence almost a “luxury” fiber.

With regard to future markets Mr. Earlam stated that only approximately 15 percent of world cotton production can be delivered on the futures market, which means that 85 percent cannot. Since this is only one growth (USA) it is not a proper price discovery mechanism for global cotton as events over the last two/three years have proved. Furthermore, Mr. Earlam
commented that in general funds and speculators are a much needed element of a futures market. But if the market is too small their money can overwhelm the market if they put in too much of it. A global futures market would provide for delivery of multi growths (i.e. much more of the world’s production) and make sure that the market was a much bigger one for physical cotton and would come back to the physical price much more easily and would thus enable a better/safer price discovery mechanism.

**Organic and Fair-trade Cotton and Their Impact on Global Cotton Consumption**

The meeting discussed the impact of organic and fair-trade cotton and their impact on global cotton consumption. As organic and fair-trade cotton only represents about 1% of global cotton production its relevance in terms of supply is negligible. The Committee agreed that despite the fact both organic and fair-trade cotton are expected to continue to grow they are likely to remain niche products.

Nevertheless, there is the danger that organic and fair-trade cotton can have negative impacts on conventional cotton in general if in public the perception is formed that organic and fair-trade cotton is “good” and conventional/genetically modified cotton is “bad” cotton.

See also the discussion during the meeting on “BCI” and “Cotton as a Natural Fiber”.

**Proposed Changes of ICA’s Bylaws and Rules**

The Committee was informed of the reply of the International Cotton Association (ICA) on the proposed changes presented by Mr. B.K. Patodia (India) during the last meeting in Shanghai/China in 2009 (see document no. 1-ICA Reply on Bylaws & Rules-2010.09.03). Furthermore it was also informed about the comments of Mr. Patodia regarding ICA’s reply (see document no. 1b-letter from B.K. Patodia-2010.10.12 and document no. 1c-letter from B.K. Patodia-2010.10.15).

The meeting agreed that the points which Mr. Patodia addressed regarding the ICA Bylaws & Rules are of relevance and should be discussed with the ICA. The Committee therefore agreed that the Joint Cotton Committee should raise these points put forward by Mr. B.K. Patodia with the ICA by writing a formal letter.

**Better Cotton Initiative (BCI)**

Mr. Haroldo Cunha (Brazil) updated the meeting on the latest developments BCI has undergone since it was launched in 2005 (see also: [www.bettercotton.org](http://www.bettercotton.org)). The meeting was informed that BCI is expecting its first Better Cotton harvest before the end of 2010 and that during the implementation start-up phase (2010-2012), the BCI geographical focus is on four regions: Brazil, India, Pakistan and West & Central Africa (Benin, Burkina Faso, Cameroon, Mali, Senegal, Togo).

It was reminded that “the Better Cotton Initiative (BCI) exists to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector’s future”. According to BCI its approach is “to develop a market for a mainstream commodity - Better Cotton - which will focus on reducing globally significant environmental, social and economic impacts to bring long-term benefits for farmers, farm workers, cotton farming communities and the environment. This involves enabling farmers to grow and sell Better Cotton through minimizing the harmful impact of crop protection practices, using water efficiently, caring for the health of the soil, conserving natural habitats, caring for and preserving the quality of the fiber, promoting Decent Work, and to participate more effectively in the supply chain to meet growing demand for Better Cotton”.

While the principle concept of BCI is supported generally the meeting agreed that the term “better cotton” is misunderstood and sometimes misused in the sense that it suggest that cotton produced under the BCI scheme is actually better in quality as compared to other cotton produced rather than being better in comparison to last year’s producing methods.

It also took note of the fact that only a very small part of cotton producing countries are so far involved in the initiative. This means that those cotton producing regions that are not included in the BCI program (i.e. US cotton producers) are frustrated as it leaves the impression that US-cotton is not good. Furthermore, it is not welcome by cotton growers that the cotton markets are more and more segregated by introducing more certified products. The meeting agreed also that there are more than enough certificates for cotton and textiles (i.e. ISO, BCI, Cotton Africa, etc.) which are (mis-)used for marketing purposes by retailers.

The meeting agreed that there is and probably will be demand from retailers/consumers for cotton that has been produced under improved circumstances/conditions. Therefore it is important to support those retailers and partners in the cotton textile value chain that are pursuing a clear policy of improving cotton quality and sourcing.

The meeting agreed that a letter should be written to BCI in which ITMF expresses its concern about the misunderstanding the term “Better Cotton” is creating and that BCI should therefore consider a name change. Based on the discussion and following the meeting a resolution was formulated which was presented to and approved by the Committee of Management:

QUOTE

The Joint Cotton Committee is aware of a growing misunderstanding of BCI’s objectives within the textile chain which is leading to confusion. This confusion is allowing unauthorized parties to take advantage of the situation by misrepresenting BCI’s objectives. We recommend that the ITMF addresses a letter to the BCI management explaining the situation. The Committee recommends that one of the measures to clarify BCI’s objectives could be a change of the name eliminating the word „better“, which has connotation of quality rather than indicating improved production methods.

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Cotton as a Natural Fibre

The meeting was informed that the some organizations are questioning whether cotton can be called a “natural fiber” as more than 50% of global cotton production consists of genetically modified cotton varieties. The meeting unanimously stated that all cotton fibers – irrespective of production methodology or seed technology – are “natural”. It agreed that a respective resolution is formulated which should be presented to and approved by the Committee of Management. After the meeting the following resolution was prepared and then presented to and approved by the Committee of Management.

QUOTE

The Joint Cotton Committee was informed that the use of the term “natural fiber” by the cotton industry has been challenged because of the employment of genetic engineering in over half of all cotton produced.

The Committee recommends issuing a press release by ITMF that all fiber produced from cotton plants is a “natural fiber,” regardless of production methodology or seed technology.

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Overview of ITMF Sub-Committees

At its meeting in Shanghai the Committee asked the ITMF-Secretariat to provide the Committee with an overview of all ITMF Committees in order to better understand the structure and interrelations of the various Committees.

Committee of Management

(members: delegates and representatives of all ITMF members)

Sub-Committees

1) Spinners Committee (SpinCom)
(members: limited to 12 spinners representing all regions)

2) Joint Cotton Committee (JCC)
(members: cotton trade, cotton growers & spinners committee plus interested guests)

3) International Committee on Cotton Testing Methods (ICCTM)
(members: anybody with interest to examine and discuss existing and new cotton testing methods and instrumentation and to provide guidelines and recommendations to ITMF)

   Steering Committee of the ICCTM

   (members: 5 (USDA, Bremen Cotton Exchange, Spinners Committee, Trützschler, ICAC)

4) Committee of Home Textile Producers (HTP)
(members: home textile manufacturers and representatives from allied industries)

December 2010