ITMF Textile Value Chain Meeting

January 10, 2011
14.00 – 16.00 hrs.
Jacob Javits Convention Center
New York, NY/USA

MINUTES

Participants

China  Yingxin XU (China National Textile & Apparel Council)
       Hongping YUAN (China National Textile & Apparel Council)

Egypt  Bassem SULTAN (Dyetex & ITMF Treasurer)

Int.Org.  Alejandro S. PLASTINA (International Cotton Advisory Committee)

Pakistan  Bashir H. ALI MOHAMMAD (Gul Ahmed Textile Mills Ltd. & ITMF President)

Sweden  Ulrika LYCKMAN-ALNERED (Svensk Handel Swedish Trade Federation)

USA  Erik O. AUTOR (National Retail Federation)
       Tim BARRY (ICE Futures U.S., Inc.)
       Werner BIERI (Buhler Quality Yarns Corp.)
       Brenda BRAINERD (Kohl's Corporation)
       Tricia CAREY (Lenzing Fibers Inc.)
       Joe DIXON (Brooks Brothers)
       Jeffrey Scott ELDEN (J.G. Boswell Company)
       Randolph L. FINLEY (Walmart NYC Apparel Office)
       Daniel K. FRIERSON (The Dixie Group, Inc.)
       Joanne HAYES (Bed Bath & Beyond Procurement Co., Inc.)
       Jordan LEA (American Cotton Shippers Association)
       William E. MAY (American Cotton Shippers Association)
       Thomas O'CONNOR (Springs Global US, Inc.)
       Joseph J. O'NEILL (ICE Future U.S., Inc.)
       Douglas K. SHRIVER (Brooks Brothers)
       Jeffrey SILBERMAN (Fashion Institute of Technology)
       Allen A. TERHAAR (Cotton Council International)

ITMF  Christian SCHINDLER

In the chair  Bashir H. ALI MOHAMMAD
1. Opening Remarks by Mr. Bashir Ali Mohammad (ITMF-President)

Mr. Bashir welcomed the participants of the meeting and thanked everybody for their time and effort to attend the meeting. He stated that at the last ITMF Annual Conference in October 2010 in Sao Paulo/Brazil one of the most discussed topics were soaring cotton prices and the consequences for the entire textile value chain from fiber to retail. As a result it was suggested to invite representatives from the cotton, textile and retail industries in order to analyze the reasons and to discuss the outlook of cotton prices as well as the challenges and possible consequences of high cotton prices. The ITMF therefore proposed a meeting between representatives of the cotton, textile and retail industry in New York.

In order to better understand the reasons for this price surge and also possible consequences for cotton demand and supply in the future the ITMF is very glad and thankful that representatives of the cotton industry agreed to give presentations on these important questions which serve as a good basis for discussions. Mr. Ali Mohammad thanked Mr. Jordan Lea, President of the American Cotton Shippers Association (ACSA), and Mr. Alejandro Plastina, Economist of the International Cotton Advisory Committee (ICAC), for having prepared presentations.

2. Presentations by Representatives of the Cotton Industry

Mr. Jordan Lea, President of ACSA, gave a presentation with the title “The Impact of a Demand Driven Cycle on Cotton Prices” (see attachment). Mr. Lea demonstrated that the extreme high cotton prices are mainly a result of demand of cotton surpassing supply. In 2010 the global supply reached approximately 115 million bales while consumption stood at 118 million bales (480 pound bales). Since already in previous years demand was higher than supply, stocks were reduced constantly resulting in relatively low stock-to-use ratios both in the US and in the world (10% and 34%, respectively). Very high price levels (i.e. December 2011 futures) can not only be observed for cotton but also for food crops like corn or soybeans, indicating that these are demand driven, mainly as a result of booming economies in the emerging countries, especially China and India. Mr. Lea pointed out that in January 2011 already 96% of the current crop is sold. While cotton futures dropped by 40 cts/lb only to rebound afterwards, cash prices for cotton remained high. It is not expected that demand in emerging countries will decrease in the course of 2011. Furthermore and very important also for the long run is the fact that the demand for food crops will continue to increase as a result of a growing world population and higher per capita income/consumption. This will increase demand for arable land for the production of food crops at the expense of cotton. As the production of cotton is in most regions not as profitable as the production of food crops, this will create negative incentives for cotton farmers. In addition, the rising consumption/use of food crops (i.e. grain) for the production of de-ethanol will further increase demand for them. It will take some time (a few years) to replenish the low cotton stocks which also will support high cotton prices.

Mr. Alejandro Plastina, Economist of the ICAC, endorsed in his presentation “Outlook for the World Cotton Supply and Use: Record Price Surge as 2010/11 Cotton Supply is Sold Out” (see attachment) the view that cotton prices are surging as a result of market fundamentals. Volatility in cotton prices can be observed currently and poses a constant threat to spinners after they have been rising in such a manner. At the moment cotton prices for physical cotton remain on a very high level as demand remains strong and above production levels. He pointed out that world ending stocks in million tons are very low and that therefore the stock-to-use ratio remains around 35%. Like Mr. Lea he emphasized that the largest part of 2010/2011 has already been sold. The ICAC forecasts the average cotton price (Cotlook A Index) for the season 2010/2011 to be US 101 Cents as compared to US 78 Cents in 2009/2010.
In a third presentation “Pass-Through Analysis of Cotton Prices” (see attachment) prepared jointly by Mr. Jon Devine (Cotton Incorporated) and Mr. Alejandro Plastina (ICAC) it was analyzed how and to what extent the surge in cotton prices affects the textile value chain. Comparing to the 4th quarter 2009 cotton prices were up by US 85 cents/lb in the 4th quarter 2010. Taking different products (T-shirt, Polo Shirt, Woven Shirt, Jeans) and looking at the required amount of cotton the theoretical effect of this cost increase can be calculated:

<table>
<thead>
<tr>
<th>Product</th>
<th>Required Cotton</th>
<th>Cost Increase</th>
<th>Theoretical Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeans</td>
<td>1.54 (lb)</td>
<td>85 (cents/lb)</td>
<td>USD 1.63</td>
</tr>
<tr>
<td>T-shirt</td>
<td>0.41 (lb)</td>
<td>85 (cents/lb)</td>
<td>USD 0.35</td>
</tr>
</tbody>
</table>

Compared with average retail prices the increase of US 85 Cents in cotton costs leads to price increases of 1.8% in T-shirts and 4.5% in Jeans.

The cost increases in the textile value chain since August 2010 are as follows:

<table>
<thead>
<tr>
<th>cotton Prices</th>
<th>up 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yarn Prices</td>
<td>up 45%</td>
</tr>
<tr>
<td>Fabric Prices</td>
<td>up 12%</td>
</tr>
<tr>
<td>Garment Prices</td>
<td>up 1%</td>
</tr>
<tr>
<td>Apparel CPI</td>
<td>down 1%</td>
</tr>
</tbody>
</table>

In the discussion that followed it was pointed out by participants from the textile and retail industry that these figures do not show the whole impact of the increases of cotton prices as there is a considerable time-lag until cotton prices are passed through the entire textile value chain to the end-consumer. While cotton prices are traded on a daily basis retailers have contracts with textile/garment manufacturers in which prices are fixed up to one year prior to delivery. Therefore prices at the textile/garment levels are adapted in longer intervals. In addition to increases in cotton prices also other cost factors such as energy, labor or water have been rising lately in most textile producing countries and will add to the cost increases caused by cotton. Consequently it is expected that further price increases at the retail level are in the pipeline and should be seen in the following months.

3. General Discussion

The discussion showed that higher cotton prices as well as cost factors such as energy, labor, water, etc. are more and more feeding into the textile value chain resulting more and more in higher prices the retail industry is paying to the textile/garment manufacturers and – if feasible – are eventually passed on to the end-consumer. It was pointed out that passing on higher input prices at the retail level is easier in the upper segments but more difficult in the middle and almost impossible in the lower segments.

It was emphasized by representatives of the textile industry that one major challenge is getting the finances for purchasing the more expensive raw materials needed to produce the respective quantities ordered by their customers. Very often credit lines are not extended by banks and/or finances are blocked in letter of credits for cotton that are not opened. The textile manufacturers therefore proposed that retailers assist their sourcing partners in financing cotton purchases.

Representatives of the retail claimed that they have similar budget constraints and while they would not reduce the budget for a certain product group they might be inclined to reduce the
orders in quantity in case of higher purchasing costs. If the retail’s sourcing costs are on the rise across the board demand for cotton products is likely to decrease and therefore as a result the order volumes in weight/quantity will decrease.

Another major concern expressed by the textile industry is the risk involved with the extreme volatility of the international cotton market. Volatile cotton markets threaten textile mills if they are caught on the wrong foot. They suggested therefore that the retailers assist their sourcing partners in hedging the purchases of cotton.

Textile representative from China stated that textile mills exporting to industrialized countries are under enormous pressure as they have difficulties to pass on higher input costs. They find themselves squeezed between higher input costs and limited prices paid the retail industry in the industrialized countries. Before losing money and getting insolvent they rather stop production or, if possible, shift to the domestic market where cost increases can be passed on.

The representatives of the cotton industry noted that while higher cotton prices are certainly welcome by cotton farmers in the short-term there is the realistic risk that cotton might get substituted by man-made fibers in more and more products if the gap between cotton and man-made fiber prices remain at current levels resulting in decreasing demand for cotton in the long-run. For the cotton industry such high price levels are therefore a dangerous two-sided sword.

The participants of the meeting shared the view that such meetings between partners of the entire textile value chain – from fiber to retail – help to better understand the challenges that the textile value chain as a whole and each individual sector is facing. Such better understanding is a precondition for finding solutions for sustainable partnerships.

4. Final Remarks by the ITMF President

Mr. Bashir Ali Mohammad thanked the two presenters, Mr. Jordan Lea (ACSA) and Mr. Alejandro Plastina (ICAC), and all participants of the meeting for their valuable contributions which contributed to better understand the positions of the various stakeholders in the textile value chain. He expressed his hope that such meetings can be repeated in the future. A similar meeting is also planned in Europe in May 2011. He encouraged every company/organization that is not yet affiliated with the ITMF to become a member and thus strengthen the understanding and exchange of information between all partners in the value chain.

Zurich, January 21, 2011

3 Attachments
The Impact of a Demand Driven Cycle on Cotton Prices

New York City
January 2011
## The Trend in US Cotton Supplies

<table>
<thead>
<tr>
<th>Year</th>
<th>Crop</th>
<th>Use</th>
<th>Ending Stocks</th>
<th>Stocks/Use Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>19.2 million bales</td>
<td>18.2 million bales</td>
<td>10.0 million bales</td>
<td>55 %</td>
</tr>
<tr>
<td>2008</td>
<td>12.8 million bales</td>
<td>16.8 million bales</td>
<td>6.3 million bales</td>
<td>37 %</td>
</tr>
<tr>
<td>2009</td>
<td>12.2 million bales</td>
<td>15.5 million bales</td>
<td>2.9 million bales</td>
<td>19 %</td>
</tr>
<tr>
<td>2010</td>
<td>18.3 million bales</td>
<td>19.5 million bales</td>
<td>1.9 million bales</td>
<td>9.8 %</td>
</tr>
</tbody>
</table>
## The Trend in World Cotton Supplies

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Crop</strong></td>
<td>107 million bales</td>
<td>101 million bales</td>
<td>115 million bales</td>
</tr>
<tr>
<td><strong>Use</strong></td>
<td>109 million bales</td>
<td>118 million bales</td>
<td>118 million bales</td>
</tr>
<tr>
<td><strong>Ending Stocks</strong></td>
<td>60 million bales</td>
<td>44 million bales</td>
<td>41 million bales</td>
</tr>
<tr>
<td><strong>Stocks/Use Ratio</strong></td>
<td>55 %</td>
<td>37 %</td>
<td>34 %</td>
</tr>
</tbody>
</table>

This ending stocks number assumes that there are 15.2 million bales in China. (there aren’t).
March 2011 Cotton Futures

CTH11 - Cotton #2 (ICEUS) - Daily Line Chart

(c) Barchart.com

Vol: 7230  Open Interest: 104,272.00
### US Soybean Numbers 09/10

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Crop</strong></td>
<td>3.36 billion bushels</td>
<td>3.38 billion bushels</td>
</tr>
<tr>
<td><strong>Use</strong></td>
<td>3.36 billion bushels</td>
<td>3.37 billion bushels</td>
</tr>
<tr>
<td><strong>Ending Stocks</strong></td>
<td>151 million bushels</td>
<td>165 million bushels</td>
</tr>
<tr>
<td><strong>Stocks/Use Ratio</strong></td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>2010</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-----------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Crop</td>
<td>13.1 billion bushels</td>
<td>12.5 billion bushels</td>
</tr>
<tr>
<td>Use</td>
<td>13.1 billion bushels</td>
<td>13.4 billion bushels</td>
</tr>
<tr>
<td>Ending Stocks</td>
<td>1.7 billion bushels</td>
<td>830 million bushels</td>
</tr>
<tr>
<td>Stocks/Use Ratio</td>
<td>13 %</td>
<td>6 %</td>
</tr>
</tbody>
</table>
## 2011/2012 US Numbers

<table>
<thead>
<tr>
<th></th>
<th>Acres</th>
<th>Yield</th>
<th>Production</th>
<th>Consumption</th>
<th>Ending Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US</strong></td>
<td>12.3 million acres (up 1.5 mln)</td>
<td>790 pounds (vs. 821 in 2010)</td>
<td>20.2 million bales</td>
<td>19.5 million bales</td>
<td>2.9 million bales</td>
</tr>
</tbody>
</table>

- Based on 480 pound bales
## 2011/2012 World Numbers

<table>
<thead>
<tr>
<th>World</th>
<th>Production</th>
<th>Consumption</th>
<th>Ending Stocks</th>
<th>Stocks /Use</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>122 million bales</td>
<td>120 million bales</td>
<td>43 million bales</td>
<td>35 %</td>
</tr>
</tbody>
</table>

- Based on 480 pound bales
The Year That Will Be
Possible Support for Cotton Prices

• With 8 months to go in the Marketing Year 96% of the crop is sold.
• During November futures dropped 40 cts/lb. Cash prices did not. Demand is driving this market.
• 2010 Chinese GDP was +9.3%. Indian was +8.9%. ½ of World population lives in robust economy.
• Ethanol Mandate
• Bean exports – In 1995 we exported 20 mln bushels of $5 beans. In 2011 we will export 900 mln bushels of $12 beans.
• Stocks are so low it will take a dramatic drop in consumption and a big increase in production to rebuild them.
Potential Pressure on Prices

• India and China – Such unprecedented growth cannot continue. It will end badly when it does.
• Macroeconomic issues that face the Euro and the Dollar.
• Pigweed – will acreage explode when the cure is found?
• The 2012 Farm Bill
• The Yield Curve and a dip in demand.
• Unforseen Circumstances
Outlook for World Cotton Supply and Use:

Record Price Surge as 2010/11 Cotton Supply is Sold Out

Alejandro Plastina, ICAC
January 10, 2010
Spot and Futures Prices

US cents/lb

- A Index
- Nearby Cotton Futures Price

Aug-07 | Aug-08 | Aug-09 | Aug-10
Price Volatility in the Cotlook A Index – Entire Season*

Difference from Season Average

-50%  -25%  0%  25%

Highest Quote Each Season

Lowest Quote Each Season

* 2010/11: through Jan 7, 2011
Production

Million tons

<table>
<thead>
<tr>
<th>Country</th>
<th>09/10</th>
<th>10/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHINA</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>INDIA</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>USA</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>PAKISTAN</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>BRAZIL</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>UZBEK.</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>AUSTRALIA</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>CFA Zone</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>TURKEY</td>
<td>0.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>
World Cotton Trade

Million tons

94/95 96/97 98/99 00/01 02/03 04/05 06/07 08/09 10/11
Cotton Export Commitments

Million tons

USA
India
C. Asia
Others

Uncommitted
Committed
Cotlook A Index

Season-average (US cents/lb)

10/11 Average up to Dec. 31

111 101 95
International Cotton Advisory Committee
Cotlook A Index

Season-average (US cents/lb)

- 75/76
- 80/81
- 85/86
- 90/91
- 95/96
- 00/01
- 05/06
- 10/11

- 107
- 95
- 85
Price Ratio:
Cotton to Polyester*

China Cotton Index to China Polyester Prices

*Cotton-equivalent polyester price index (Source: Cotton Outlook)
Fiber Prices*

U.S. Cents per Pound

*Weekly Quotes (Source: Cotton Outlook)
Price Volatility in the Cotlook A Index –
First 4 Months of Each Season*

-50%  -25%  0%  25%

Highest Quote

Lowest Quote

74/75  80/81  86/87  92/93  98/99  04/05  10/11

* 2010/11: until November 19, 2010
Production in the Southern Hemisphere

Million tons

94/95 98/99 02/03 06/07 10/11
Price Ratio:
Cotton Yarn to Cotton Lint*

*Ratio between Cotlook Yarn Index and Cotlook A Index
Pass-Through Analysis of Cotton Prices

Jon Devine & Alejandro Plastina

Cotton Incorporated & International Cotton Advisory Committee
RECORD BREAKING PRICES
2010/11 Q4 prices up 85 cents/lb vs. 2009/10

Source: Cotlook
# Theoretical Pass-Through for Cotton

<table>
<thead>
<tr>
<th>Product</th>
<th>Avg. Retail Weight (lbs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-shirt</td>
<td>0.40</td>
</tr>
<tr>
<td>Polo Shirt</td>
<td>0.52</td>
</tr>
<tr>
<td>Woven Shirt</td>
<td>0.42</td>
</tr>
<tr>
<td>Jeans</td>
<td>1.54</td>
</tr>
</tbody>
</table>

Sources: Cotton Incorporated Retail Monitor,™ USDA ERS
## Theoretical Pass-Through for Cotton

<table>
<thead>
<tr>
<th>Product</th>
<th>Avg. Retail Weight (lbs)</th>
<th>Total Cotton Required (lbs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-shirt</td>
<td>0.40</td>
<td>0.41</td>
</tr>
<tr>
<td>Polo Shirt</td>
<td>0.52</td>
<td>0.54</td>
</tr>
<tr>
<td>Woven Shirt</td>
<td>0.42</td>
<td>0.50</td>
</tr>
<tr>
<td>Jeans</td>
<td>1.54</td>
<td>1.92</td>
</tr>
</tbody>
</table>

Sources: Cotton Incorporated Retail Monitor,™ USDA ERS
# Theoretical Pass-Through for Cotton

<table>
<thead>
<tr>
<th>Product</th>
<th>Avg. Retail Weight (lbs)</th>
<th>Total Cotton Required (lbs)</th>
<th>x 85¢/lb</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-shirt</td>
<td>0.40</td>
<td>0.41</td>
<td></td>
</tr>
<tr>
<td>Polo Shirt</td>
<td>0.52</td>
<td>0.54</td>
<td></td>
</tr>
<tr>
<td>Woven Shirt</td>
<td>0.42</td>
<td>0.50</td>
<td></td>
</tr>
<tr>
<td>Jeans</td>
<td>1.54</td>
<td>1.92</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Cotton Incorporated Retail Monitor,™ USDA ERS
### Theoretical Pass-Through for Cotton

<table>
<thead>
<tr>
<th>Product</th>
<th>Avg. Retail Weight (lbs)</th>
<th>Total Cotton Required (lbs)</th>
<th>Theoretical Effect of 85¢/lb Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-shirt</td>
<td>0.40</td>
<td>0.41</td>
<td>$0.35</td>
</tr>
<tr>
<td>Polo Shirt</td>
<td>0.52</td>
<td>0.54</td>
<td>$0.46</td>
</tr>
<tr>
<td>Woven Shirt</td>
<td>0.42</td>
<td>0.50</td>
<td>$0.43</td>
</tr>
<tr>
<td>Jeans</td>
<td>1.54</td>
<td>1.92</td>
<td>$1.63</td>
</tr>
</tbody>
</table>

Sources: Cotton Incorporated Retail Monitor™, USDA ERS
Theoretical increase in retail cost due to 85¢/lb increase in cotton prices

- **T-shirt**: $0.35
- **Polo Shirt**: $0.46
- **Woven Shirt**: $0.43
- **Jeans**: $1.63
Theoretical Pass-Through for Cotton

Theoretical increase compared to average retail prices

T-Shirt: 1.8%
Polo Shirt: 2.1%
Woven Shirt: 1.5%
Jeans: 4.5%

Source: Cotton Incorporated Retail Monitor,™
Cotton Supply Chain

Fiber  Yarn  Fabric  Garment  Retail
Cotton Supply Chain & Price Data

- Fiber
- Yarn
- Fabric
- Garment
- Retail

Price data for fiber and yarn are widely available
Cotton Supply Chain & Price Data

Fabric is less of a commodity, can use trade data
Cotton Supply Chain & Price Data

Fiber  Yarn  Fabric  Garment  Retail

Consumer Price Indexes
Cotton Supply Chain

Fiber  Yarn  Fabric  Garment  Retail
Fiber to Yarn

Since August:
- Fiber prices up 100%
- Yarn prices up 45%

Source: Cotlook
Yarn to Fabric

Since August:

- Yarn prices up 45%
- Fabric prices up 12%

Sources: Cotlook, Global Trade Atlas
Since August:

Fabric prices up 12%

Garment prices up 1%
Garment prices up 1% since August.
Apparel CPI down 1%.

Sources: OTEXA, Dept of Commerce
Summary of Current Data

Since August:

- Fiber: Up 100%
- Yarn: Up 45%
- Fabric: Up 12%
- Garment: Up 1%
- Retail: Down 1%
The Consumer

Will consumers accept higher prices?

- Economy improving
- Clothing is a fraction of overall spending
Consumer Expenditures

Source: US Dept of Commerce, values for 2009
The Consumer

Will consumers accept higher prices?

- Economy improving
- Clothing is a fraction of overall spending
- Other rising prices also threaten spending
Pass-Through Analysis of Cotton Prices

Jon Devine & Alejandro Plastina
Cotton Incorporated & International Cotton Advisory Committee
Theoretical Pass-Through: Mass Merchants

Theoretical increase compared to average retail prices

T-Shirt: 3.3%
Polo Shirt: 4.2%
Woven Shirt: 2.9%
Jeans: 9.2%

Source: Cotton Incorporated Retail Monitor,™
Theoretical Pass-Through: Specialty Stores

Theoretical increase compared to average retail prices

- T-shirt: $10 + $0.35 = $10.35
- Polo Shirt: $11 + $0.46 = $11.46
- Woven Shirt: $15 + $0.43 = $15.43
- Jeans: $18 + $1.63 = $19.63

Source: Cotton Incorporated Retail Monitor,™