Joint Cotton Committee

Proceedings

of the meeting held
in Barcelona/Spain
on September 19, 2011

Participation

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

In the Chair: Jeff Elder (USA)
Participants

Australia  Peter Kreitals (Kreitals Consulting Group)
Austria  Wolfram Daubek-Puza (Lenzing AG)
         Dieter Eichinger (Lenzing AG)
         Alexander Hofstadler (Linz Textil GmbH)
Belgium  Pierre Van Mol (FEDUSTRIA)
Brazil  Pedro Garcia Bastos Neto (Coteminas)
        Alfredo Emilio Bonduki (Linhas Bonfio S/A)
        Daniel Borger (Nofilik S.A. Industria Texil)
        Andrew G. Macdonald (AMCON S/C Ltda)
France  Hubert du Potet (Fédération Française de l’Industrie Lainière et Cotonnière)
        Benoît Hacot (HACOT & COLOMBIER)
        Christophe Lambert (TDV Industries)
Germany  Fritz A. Grobien (Bremer Baumwollbörse)
         Henning Hammer (Otto Stadtlander)
         Elke Hortmeier (Bremer Baumwollbörse)
         Klaus-Jürgen Kraatz (Industrieverb. Veredlung-Garne-Gewebe-Techn. Textilien)
Hong Kong, China  John Cheh (Esquel Group)
India  Suresh A. Kotak (Kotak & Co.)
        Binod K. Patodia (GTN Textiles)
        K.V. Srinivasan (Premier Mills)
        Abhimanyu Thackersey (Hindoostan Mills)
Indonesia  Anas Bahfen (PT Apac Inti Corpora)
Int.Org.  Lise Melvin (Better Cotton Initiative)
         Terry P. Townsend (International Cotton Advisory Committee)
Italy  Romano Bonadei (Fondazione Industrie Cotone e Lino)
        Carlo Rivelli (Fondazione Industrie Cotone e Lino)
Kenya  Rajeev Arora (ACTIF - African Cotton & Textile Industries Federation)
        Jaswinder Bedi (Bedi Investments)
Korea Rep.  Kyo-Won Yoon (Spinners & Weavers Association of Korea)
Pakistan  Bashir H. Ali Mohammad (Gul Ahmed Textile Mills)
         Ziad Bashir (Gul Ahmed Textile Mills)
Press  Gary Fitzgerald (Cotton International)
Singapore  Franck Niedergang (Noble Resources Pty. Ltd.)
         Steven Williams (Noble Cotton)
South Africa  Enrique Crouse (Prilla 2000)
         Walter Simeoni (WS International Business Facilitation Services)
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<td>Salvador MALUQUER</td>
<td>Confederación de la Industria Textil - TEXFOR</td>
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<td>Switzerland</td>
<td>Giuseppe GHERZI</td>
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<td>Taiwan, China</td>
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<td>Herwig STROLZ</td>
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<td>Guest speaker</td>
<td>Henrik LAMPA</td>
<td>H&amp;M, Sweden</td>
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Opening Remarks by the Chairman of the Meeting
The Chairman of the Committee, Mr. Jeff Elder (USA), opened the meeting by welcoming and thanking everybody for attending the meeting.

Volatility of Cotton Prices
The Committee discussed the consequences of the extreme volatility of cotton prices for the international cotton trade and cotton spinning industry, especially with regard to contract defaults. The Committee was informed that the number of arbitrations has increase strongly in 2011 as compared to the previous years. Nobody doubted the principle of the sanctity of contracts but agreed that measures should be studied on how to protect the contracting parties better in extreme volatility.

In this context it was discussed how the merchant community could assist cotton-spinning mills to survive with high-priced contracts in a plummeting cotton market. It was suggested that hedging the cotton content of yarns with cotton futures was a possible way forward. The meeting was of the opinion that this concept should be investigated more fully, though it involves additional costs. The ICAC is making data analysis of the relationship between cotton and cotton yarn and this could be a basis for further discussion.

Furthermore, the question was raised whether the concept of “invoicing back” under ICA rules should be re studied in the light of concern that these rules can imply that an innocent party having to pay the market difference? At its meeting, the Spinners Committee agreed that in principle the concept of “invoicing back” is definitely valid and that the tradition of placing “the parties to a contract in the same financial position they would have been if the contract had been performed” was a concept to be preserved.

The Indian Cotton Export Ban and Yarn Policy
The Committee discussed the lessons learnt form India’s export ban of cotton in 2010, and later the release of yarn stocks depressing the world prices. The Committee agreed that ITMF should write a letter to the Indian government in which the government’s cotton and textile trade policy in the current year which refrains from exports bans of cotton and cotton yarns is welcome.

Limited Access to Credit in the Supply Chain: Cause for Slowdown of Orders?
The Committee discussed whether limited access to credit is causing some slowdown in consumption or whether consumers are more reluctant to spend in uncertain times. The discussion showed that both factors play a role. In many countries banks are indeed restrictive in providing textile mills with the necessary liquidity. Higher working capital requirements due to higher raw material costs and the fact that many banks are in difficulties themselves lead to cut backs of banks’ credit volumes. In addition the weak and insecure economic outlook does not encourage banks to lend more irrespective of low interest rates levels.

On the other hand it was stated that cotton consumption is not decreasing on a global scale. While especially in the industrialized countries retailers are not sure about the economic outlook some default on their orders and/or order only small lots on short notice with stocks running at a very low levels. In emerging countries like China, India, Turkey, Brazil or Indonesia private consumption continues to expand strongly. Consequently Europe’s share is decreasing in relative terms. Global mill consumption of cotton will continue the driving forces
being a growing world population and a higher per capita consumption, especially of the middle classes in countries like China or India.

It was also stated in the meeting that the volatility seen in the past 18 months will not stay forever. In such volatile and erratic times retailers certainly look at prices, but pay also attention to security of supply. Smaller order volumes will eventually lead to more supply which will in return lead to cotton prices coming down to more sustainable levels.

Report from the ICAC Task Force “Commercial Standardization of Instrument Testing of Cotton” (CSITC)

In the interest of time the report from the Chairman of the Task Force for CSITC was brief, only emphasising the importance of the work and requesting the support of all those in the cotton chain using instruments for testing cotton, to participate in the round trials in order to improve even more the consistency of results throughout the industry.

Report on the ITMF International Committee on Cotton Testing Methods (ICCTM)

The main activity of the ICCTM since its last meeting in spring 2010 concentrated on developing a comprehensive method of “recognising” cotton testing machines. In the beginning of 2011, the cotton testing machine manufacturer Textechno asked the ICCTM to “recognise” its new testing machine. In this context the HVI Task Force Coordinator, Ms. Mona Qaud, and the Committee’s Vice Chairman, Mr. Axel Drieling, met with representatives of Textechno to be informed in more detail about the new machine and to discuss how a standardized method of “recognition” could be developed.

Based on this meeting a first draft of a methodology for “recognising” this new cotton testing machine was developed and circulated among the various Task Forces Coordinators. Furthermore it was also decided that the ICCTM-Chairmen and the Task Forces Coordinators should meet in Barcelona/Spain during ITMA 2011 on September 23, 2011 in order to discuss the first draft of a methodology for “recognition”. This second draft should then be discussed with Textechno at a meeting during ITMA 2011. In addition also meetings with other cotton testing machine manufacturers (Premier and Uster Technologies) were arranged during which these manufacturers will be informed about the methodology of “recognising” cotton testing machines by the ICCTM. The results of these meetings will be presented to the members of the Committee at the next regular meeting during the International Bremen Cotton Conference 2012 in March 2012.

Proposed Changes of ICA’s Bylaws and Rules

The Committee discussed the reply of the International Cotton Association (ICA) on the proposed changes by the Committee during the meeting in Sao Paulo/Brazil (2010) (see attached documents no. 1a and 1b).

Mr. Ray Butler, President of ICA, who attended the meeting, explained the reply of ICA. In addition he stated that ICA is ready to offer special seminars to the ITMF membership on ICA Bylaws & Rules. However the Committee was not totally satisfied with all answers to the questions raised, and it was suggested that the Secretariats of both organisation should endeavour to set up an additional mid term meeting between the Committee and ICA to further explore each others position. It was suggested that such a meeting could be arranged in March during the next Bremen conference. The ITMF Spinners Committee had agreed in their earlier meeting that a closer and ongoing discussion with exchange of opinions/views between
the ICA and the ITMF would be welcome regarding the application and formulation of ICA Bylaws & Rules. It was of the opinion that the ITMF Joint Cotton Committee offers an ideal platform for the global cotton industry – cotton trade and cotton spinners – to discuss questions/proposals concerning ICA Bylaws & Rules.

Better Cotton Initiative (BCI)

The Committee discussed the reply of the Better Cotton Initiative (BCI) regarding the Committee’s letter on the confusion about and misuse of the term “better cotton”. (see document no. 2).

The Spinners’ Committee perspective on the controversy over the perception of “better” cotton is that the term “better cotton” implies that the cotton produced under BCI is actually better in quality than cotton produced elsewhere. But this is neither the case nor the original intention. The cotton produced under the BCI scheme is meant to be “better” in the sense that its production has improved as compared to the previous period in terms of economic, environmental and social aspects.

Unfortunately, “better cotton” is often wrongly perceived as being better in quality and sometimes misused as a marketing tool thus creating misunderstandings, confusion and frustration among the cotton and cotton textile industry. Therefore the Committee agreed that BCI should adapt measures that prevent any sort of misunderstandings and the impression of being a marketing tool.

While BCI emphasized in their reply that “BCI is in complete agreement ... that “better” in “Better Cotton” should not be confused with better quality”, the BCI-Council decided nevertheless “that the use of the name and brand should remain unchanged”.

Some spinners reported that they were requested by retailers to use BCI cotton. Others reported that ginners are sometimes asking a premium for BCI cotton. It was also pointed out that due to the misleading term the media reports about “better cotton” as if the cotton is better in quality rather than more sustainable. Before this background the Committee reconfirmed its view that cotton produced under BCI should not receive a premium as it is a concept that promotes improved cotton production and not higher quality cotton. The Committee also expressed the strong opinion that “Better Cotton” should not be used as a marketing tool.

Ms. Lise Melvin, Executive Director of BCI, who also attended the meeting, took note of the concerns and offered that ITMF is invited to explain its views to the BCI stakeholders at the next BCI Council meeting (Nov. 30-Dec. 1, 2011 in Stockholm). The Committee welcomed this offer and also shared the opinion that especially meetings with retailers should be arranged in which the view of the Committee is explained in more detail.

Change in the Cotton/Synthetics Ratio

The Committee discussed whether the volatility of cotton prices has led to a change in the relation between cotton/synthetics. The meeting agreed that cotton consumption decreased as a consequence of soaring cotton prices and that consequently cotton lost market shares to man-made fibres. It was also stated that cotton is in competition not only with man-made fibres but also with food crops. In addition the fact that available arable land is limited could lead to a scenario where cotton can become something like a “premium” fibre. Though global cotton production could be increased further by increasing average yield (i.e. through drought resistant varieties, etc.) and by making more arable land available (i.e. in Africa and South America), competition from food crops remains in place. It was also mentioned in the meeting
that cotton is more and more also becoming a food crop (seed-oil) thus serving both the textile and the food industry.

It was also stated in the meeting that cotton consumption can be influenced successfully as happened in the US by the efforts of Cotton Incorporated and – on an international level – by Cotton Council International (CCI). Similar efforts are now intensified in Brazil and China. With regard to cotton consumption in China it was stated that while retail was up by 15% cotton consumption increased at a slower pace thus losing market share. On the other hand cotton consumption in India increased in the past few years. CCI informed the meeting that they are now conducting a survey in China on the end-consumer level with the purpose to identify the consumption habits with regard to cotton products.

Idea and Objectives of the Newly Established “Apparel Coalition”

Mr. Henrik Lampa from H&M presented the general idea and objectives of the “Apparel Coalition” (www.apparelcoalition.org). Among other things he informed the meeting that “Apparel Coalition” intends to become a legal entity by 2012 which can be joined by companies. The intention is not to create an additional certificate or label. “Apparel Coalition” is rather regarded as a comprehensive approach to define general criteria for the entire industry with respects to environmental and social aspects.

Duration of Chairmanship and Position of Vice Chairman

The Committee accepted the proposal to prolong the Chairmanship from two to four years and to eliminate the position of a Vice Chairman. Mr. Jeff Elder was then confirmed as Chairman of the Joint Cotton Committee (JCC) until 2013.

November 2011