Joint Cotton Committee

Proceedings

of the meeting held
in Hanoi/Vietnam
on November 4, 2012

Participation

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

In the Chair: Jeff Elder (USA)
Participants

Austria Wolfram DAUBEK-PUZA (Lenzing AG)
Brazil Rafael CERVONE (ABIT - Brazilian Textile and Apparel Industry Association)
    Antonio V. ESTEVE (Ecom Agroindustrial Corp. Ltd.)
    Josué Christiano GOMES DA SILVA (Coteminas S.A.)
    Andrew G. MACDONALD (Tavex Corporation)
    Fernando Valente PIMENTEL (Brazilian Textile and Apparel Industry Association)
    Renato SMIRNE JARDIM (ABIT - Brazilian Textile and Apparel Industry Association)
Chinese Taipei Steven S.C. CHEN (Tah Tong Textile Co., Ltd.)
Egypt Ahmed Khaled ELBOSATY (Modern Nile Cotton Co.)
France Hubert DU POTET (Fédération Française de l'Industrie Lainière et Cotonnière)
    Benoît HACOT (Fédération Française de l'Industrie Lainière et Cotonnière)
    Christophe LAMBERT (TDV Industries)
Germany Fritz A. GROBIEN (Bremer Baumwollbörse)
    Henning HAMMER (Otto Stadtlander GmbH)
    Klaus-Jürgen KRAATZ (Industrieverb. Veredlung-Garne-Gewebe-Techn. Textilien)
Hong Kong, China John CHEH (Esquel Group)
India Abhishek JAIN (Birla Cellulose-Pulp & Fibre Business, Grasim)
    Suresh A. KOTAK (Kotak Ginning & Pressing Industries Ltd.)
    Manikam RAMASWAMI (Loyal Textile Mills Ltd.)
    K.V. SRINIVASAN (Premier Mills Pvt. Ltd.)
Indonesia Anas BAHFEN (PT Apac Intl Corpora)
Int.Org. Terry P. TOWNSEND (International Cotton Advisory Committee)
Israel Uri GILAD (The Israel Cotton Board Ltd.)
Italy Romano BONADEI (Fondazione Industrie Cotone e Lino)
Korea Rep. Soo-Kee KIM (Spinners & Weavers Association of Korea)
    Hee-Chan RO (Korea Federation of Textile Industries)
Pakistan Sadek DOSSA (Dossa Cotton & General Trading Pvt. Ltd.)
Paraguay Bertrand GAYET (ECOM Group)
Press Ray BUTLER (Cotlook Limited)
    Gary FITZGERALD (Cotton International - Media)
    Mike MCCUE (Cotton International)
South Africa Enrique CROUSE (Prilla 2000 (Pty). Ltd.)
    David DUNCAN (Seardel Investment Corporation Limited)
    Walter SMEONI (WS International Business Facilitation Services CC)
Switzerland Peter GNAGI (Maschinenfabrik Rieter AG)
Turkey Merve CELIK (Turkish Textile Employers' Association)
    Levent OGUZ (Turkish Textile Employers' Association)
    Nevzat SEYOK (Karsu Tekstil San. Ve Tic. A.S.)
United Kingdom Andrew KELLEY (Cargill Cotton)
USA Richard L. CLARKE, III (American Cotton Shippers Association)
    Jesse W. CURLEE (Supima)
    Jeffrey Scott ELDER (J.G. Boswell Company)
    Raymond FAUS (Omnicoton, Inc.)
    Kevin LATNER (Cotton Council International)
    Allen A. TERHAAR (Cotton Council International)
ITMF Christian P. SCHINDLER
Opening Remarks by the Chairman of the Meeting

The Chairman of the Committee, Mr. Jeff Elder (USA), opened the meeting by thanking everybody for attending the meeting during this year's ITMF Annual Conference in Hanoi.

Volatility of Cotton Prices

Terry Townsend, Executive Director, ICAC, stated by referring to research results from the ICAC that cotton prices over a period of 20 years are not more volatile than other commodities. As a matter of fact he pointed out that cotton prices have been only volatile in the seasons 1986/87 and 2010/11 when cotton prices surged beyond the long-term range.

It was stated that in China volatility was much less as a result of the relative high support price of CNY 19'800 per ton in the 2011/2012 season and of CNY 20'400 per ton in the 2012/13 season. Only those Chinese spinners with import quotas can buy cotton at international price levels. All other spinners need to turn to much more expensive Chinese cotton. The Chinese cotton reserve corporation has purchased the bulk of the Chinese cotton crop with the consequence of a very large stock pile of 6-8 million tons. The main question really is what will happen with the cotton in the Chinese reserves? In this context another question will be whether the Chinese government will announce a support price for cotton in March 2013. Depending on the Chinese cotton policy cotton prices can go either way. A likely scenario that would prevent volatility in international cotton prices is a relatively slow release of Chinese cotton stocks combined with continued cotton imports into China.

In the context of volatility it was stated that the cotton contract no. 2 (ICE, New York) is currently the only instrument to hedge a cotton position. Since this contract is based on US cotton only, it was suggested to encourage the establishment of a global contract that includes also deliveries of Australian and Brazilian cotton. In addition to a global cotton contract also the introduction of a yarn contract should be re-considered.

It was also stated that governmental interventions in major cotton producing countries like China and India can have a major impact on the volatility of cotton prices. While unpredictable short-term cotton policy measures in cotton producing countries can have a negative impact on cotton price volatility, a predictable long-term cotton policy can have a stabilizing effect on cotton prices. This might include a policy of buffer stocks in major producing/consuming countries.

The idea of an insurance against volatile cotton prices was presented by Andrew Macdonald. While this idea is being studied by the ICA, it was pointed out that the use of options and futures would be important to protect the underwriters.

Proposed Changes of ICA’s Bylaws and Rules

Mr. Antonio Esteve, Immediate Past President, ICA, gave a short report on the various new measures being taken by the ICA to assist enforcement of awards as well as creating deterrents for defaulters trying to circumvent awards. He emphasized that the principle of sanctity of contract is essential since defaulters who are not fulfilling arbitral awards are unfair competitors for those, who honour their contractual obligations.

Better Cotton Initiative (BCI)

Mr. Andrew Macdonald, Chairman of the Spinners Committee, informed the meeting about the current situation/development of BCI. He reiterated ITMF’s point of view that the term “better cotton” used by the Better Cotton Initiative (BCI) is not appropriate as it is suggesting that the cotton produced within the BCI scheme is better in quality as compared to other cottons. In reality the term means that the cotton production of a certain cotton growth has been improved in comparison to the previous season.
The Committee shared the opinion that BCI is in principle a very good concept but criticized that some countries are excluded irrespective of their progressive and sustainable cotton production. Furthermore, it was criticized that while in theory no premium should be paid in reality often textile manufacturers are obliged to pay a premium for BCI cotton. Therefore, BCI should be seen as a concept rather than a (retail) brand. It was also stated that sustainable cotton production should also include the commercial aspect. In the concept of sustainability the commercial dimension is as important as the environmental and social dimension.

Mr. Terry Townsend, Executive Director of the ICAC, informed the Committee about the concept of Mass Balance Administration (MBa), which has been suggested to be applied for BCI-cotton within the textile value chain, as this would reduce the cost for traceability considerably. For example in the palm oil industry, MBa is based on a credit scheme, where the certified producer receives a credit for his production, which he can pass on to his buyer, but the actual physical oil does not have to be traced to the final consumer. The producer is rewarded for being certified encouraging all to do the same. The system therefore allows mixing of certified and non-certified palm oil, and as such the volume of certified outputs never exceeds the certified inputs.

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

The Chairman of the Task Force, Mr. Andrew Macdonald (Brazil), gave an update on the Task Force’s activities. He reported that the results of the latest round tests were encouraging with a lower divergence in testing results of the approximately 100 participating testing facilities. He encouraged all participants to further promote participation in these round tests.


The Director General informed the participants about the last meeting of the ICCTM in Bremen/Germany in March 2012 in conjunction with the International Bremen Cotton Conference. The ICCTM formally recognized two testing machines. More information about these two testing machines can be found on the following ITMF-website link:


Furthermore it was also agreed that the individual Task Force and their respective coordinators should give way to an Executive Committee which is comprised of a group of people that will identify a responsible person on an ad-hoc basis that will chair any group of persons looking at possible (research) activities. The ICCTM agreed that more attention should be given to parameters such as trash or maturity. The Committee should also focus more on topics that are of commercial interest in cotton testing.

**Report on ITMF’s Cotton Contamination Survey 2011**

The Director General informed the meeting that ITMF’s Cotton Contamination Survey 2011 was published in early 2012. After a period with fewer spinning mill participation the number of participating companies increased again from 110 to 119 spinning mills. He reported that in the perception of the cotton spinners around the world the level of contamination increased slightly in 2011. Also the level of stickiness was higher in 2011 than in 2009. As far as the level of see-coat fragments is concerned also a higher level was recorded in 2011.

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