Proceedings

of the meeting held
in Bregenz/Austria
on September 8, 2013

Participation

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

In the Chair: Jeff Elder (USA)
### Participants

**Australia** Richard **Haire** (Cotton Research + Development Corp.)

**Austria** Dieter **Eichinger** (Lenzing AG)
Wolfram **Daubek-Puza** (Lenzing AG)
Franz Martin **Hämmerle** (Hämmerle Consulting)

**Brazil** João Luiz R. **Pessa** (Fazenda Nova)
Andrew G. **Macdonald** (Tavex Corporation)
Flávio **Ferreira Leite** (Coteminas)
João Luiz R. **Pessa** (ABRAPA)
Fernando Valente **Pimentel** (ABIT)
Alfredo Emilio **Bonduki** (Sinditêxtil)
Josué Christiano **Gomes da Silva** (Coteminas)
Rafael **Cervone** (ABIT)
Aguiñaldo **Diniz Filho** (ABIT)

**China** Yuanyuan **Xie** (CNTAC)
Ruizhe **Sun** (CNTAC)
Lin **Wei** (China National Garment Association)
Honggang **Lv** (China Textile Machinery Association)
Yingxin **Xu** (China National Textile & Apparel Council (CNTAC)
Fangming **Xie** (China Textile Information Center)
Huabin **Sun** (China National Textile & Apparel Council (CNTAC)
Zhiqiang **Tan** (Economic, Technology & Information Office)
Xingqiang **Chen** (Pacific Mechatronic (Group) Co., Ltd.)
Fuhua **Wang** (Dezhou Huayuan Eco-Technology Co., Ltd.)
Yuquan **Zhang** (Suzhou Jinkeda Textile Technology Co., Ltd.)

**France** Benoît **Hacot** (F.F.I.L.C.)
Christophe **Lambert** (TDV Industries)
Hubert **Du Potet** (F.F.I.L.C.)

**Germany** Fritz A. **Grobién** (Albrecht, Müller-Pearse, c/o Bremer Baumwollbörse)
Henning **Hammer** (Otto Stadtlander GmbH)
Constantin **Meyer** (Otto Stadtlander GmbH)
Klaus-Jürgen **Kraatz** (IVGT)1
Elke **Hortmeyer** (Bremer Baumwollbörse)

**Hong Kong** John **Cheh** (Esquel Group)

**India** Vijayan **Kunnumpurathu** ()
Rajaram **Jaipuria** (Ginni Filaments Limited)
K.V. **Srinivasan** (Premier Mills Pvt. Ltd.)
Ajay **Sardana** (Birla Cellulose-Pulp & Fibre Business, Grasim)
Suresh A. **Kotak** (Kotak & Co. Ginning & Pressing Industries)
Binod K. **Patodia** (GTN Textiles Ltd.)

**Indonesia** TRS Raja **Rajaguru** (PT Texcoms)

**Int.Org.** Terry P. **Townsend** (International Cotton Advisory Committee (ICAC)
José **Sette** (International Cotton Advisory Committee (ICAC)

**Kenya** Rajeev **Arora** (ACTIF - African Cotton & Textile Industries Federation)

**Korea Rep.** Bu-Heung **Kim** (Korea Federation of Textile Industries (KOFOTI)
Nam-Young **Kim** (Korea Federation of Textile Industries (KOFOTI)
Han-Seok **Ryoo** (Korea Federation of Textile Industries (KOFOTI)
Hee-Chan **Ro** (Korea Federation of Textile Industries (KOFOTI)

**Press** Mario **Cortopassi** (MJ&C Textilia)
Ray **Butler** (Cotton Outlook)
South Africa  Walter Simeoni (WS International Business Facilitation Services CC)
             Enrique Crouse (Prilla 2000 (Pty). Ltd.)
Switzerland  Peter Gnagi (Maschinenfabrik Rieter AG)
Turkey       Nevzat Seyok (Karsu Tekstil San. Ve Tic. A.S.)
             Levent Oguz (Turkish Textile Employers’ Association)
             Lerzan Ozturk (Turkish Textile Employers’ Association)
UK           Jean Marc Derossis (Plexus Cotton Ltd.)
             Nicholas P.F. Earlam (Plexus Cotton Limited)
USA          Jesse W. Curlee (Supima)
             Mark D. Lange (National Cotton Council of America)
             Jeffrey Scott Elder (J.G. Boswell Company)
ITMF         Christian P. Schindler (ITMF)
1. **Opening Remarks by the Chairman of the Meeting**
   
   The Chairman of the Committee, Mr. Jeff Elder (USA), opened the meeting thanking everybody for attending the Committee being a forum for an exchange of ideas between spinners and the cotton trade.

2. **Proposed Changes of ICA’s Bylaws and Rules**
   
   A report was given regarding the ICA arbitration system and new measures are being taken to assist enforcement of awards as well as creating deterrents for defaulters who circumvent honouring awards.

   The Chairman of the ITMF Spinners Committee, Mr. Andrew Macdonald, stated that the Spinners Committee fully supports the ICA striving to increase commercial security. However, representatives from the spinning industry emphasized the necessity of understanding the principle of “invoicing back”, and how to apply the rule. The concept should be fair to both parties and not abused, as has been detected in some cases. Furthermore it was mentioned that while some proposals of the ITMF Spinners Committee to modernise the ICA Bylaws & Rules have been taken up, other important suggestions had not.

   Spinners reminded the meeting that in many cases their contracts of yarn sales are not protected, and that often contracts are cancelled on short notice and without compensation. In this context it was discussed how standardized yarn contract could be hedged. The proposal to create a basic/standard yarn contract – similar to the well established cotton contract – was dismissed as being unrealistic due to the endless varieties of yarns. Instead it was suggested by the Chairman of the ITMF Spinners Committee, to consider an insurance solution based on future options to protect the parties against defaults of cotton contracts. The cotton traders pointed out that this would be extremely expensive, and, in the past the spinners were not prepared to accept this cost in their purchases. The spinners reminded the audience that today they can no longer act as pure speculators as was the case in the past, and that they need to protect their business and thus look to the cotton trade for help.

3. **World Cotton Contract**
   
   The meeting was informed that a special Committee under the auspices of the ICA was established to discuss the possibility and feasibility of establishing a World Cotton Contract. It was explained that currently a group of 30 persons mainly from the cotton trade and from various service providers as well as a few cotton spinners (the Chairman of the Spinners Committee was invited to represent the ITMF) are discussing the concept of a world cotton contract. The main reason for establishing a world cotton contract is the expressed interest of the trade and textile mills in having a futures contract that would allow delivery of international growths of cotton against the ICE futures positions, and reduce somewhat the volatility of cotton prices. Since there is a limited supply of tenderable U.S. cotton there is a lack of confidence in the ICE Cotton #2 contract to fulfill its role as a pricing and hedging tool sufficiently. The meeting was informed by the cotton trade that also the ICE and CME will be included in the discussions.

   The Spinners Committee expressed that it favours a world contract which allows for delivery at destination.

   Some questions were raised as to the format for participants to understand the rules of such a contract, and were informed that basically the operation would be identical to the current ICE contract, except that in the event of open positions on the last trading day which would require physical delivery, this could take place not only in the USA but also Australia and a Far Eastern Port, most likely in Malaysia.
4. ICAC Task Force on Cotton Identity Programs

It was reported by Mr. Andrew Macdonald that the ICAC has established a Task Force on Cotton Identity Programs. The main objective of this Task Force will be to compile information about different cotton programs and initiatives around the world. This should help to have a better understanding of trends in the global cotton industry.

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

The Chairman of the CSITC Mr. Andrew Macdonald reported that the Task Force was well satisfied with the improvement in the results from participating laboratories, and encourage all involved in the cotton industry who possess cotton testing instruments to actively participate so that the world may come and rely more and more on instrument testing of cotton and move away from the antiquated system of hand classing still prevalent in some countries.


The Director General of the Committee reported about the progress of the upcoming ITMF Cotton Contamination Survey 2013. He stated that it is still difficult to convince spinning mills to participate in the survey though the possibility to complete the respective questionnaire online has certainly contributed to a rising number of mills participating in the survey.

7. BCI

The Chair of the Spinners Committee reported that his Committee had previously viewed BCI as a marketing gimmick without a future. However the new system, the MBA (Managed Balance Administrative) and the MBP (Managed Balance Physical), improves not only the objectives but also the long-term future for this initiative. These programs work on a credit basis thereby avoiding the expensive and basically impossible system of direct traceability of cotton bales right through the long textile chain. The new system will encourage more and more BCI cotton to be commercialised under the criteria of sustainability.

BCI is encouraging other initiatives to merge with BCI. In this context it was informed that BCI has signed an agreement with Cotton made in Africa (CmiA) according to which CmiA can be traded as BCI cotton, but not the other way around. It was also stated that no premium for BCI cotton should be paid at farm level as farmers would be producing cotton in a system that is not only improving sustainability but also efficacy. The market would have to decide whether retailers and their customers pay a premium, since BCI has no control on this. The Committee was reminded that BCI is to a large extent similar to the Australian cotton industry’s BMP-concept (BMP = Best Management Practice).

The question was raised that the implementation of any standardized concept and the respective certification process would add costs. This was not denied but at the same time process should also improve the quality and the efficiency of cotton production, thereby covering these costs to the farmer.

As far as China’s participation in BCI is concerned it was stated that China is in principle supporting the concept of BCI if no additional costs are added.

The question was raised whether US cotton will be included into BCI. It was explained that discussions about such a move were ongoing since 2.5 years, and if it was to happen this would increase the BCI volume significantly.
8. Intl. vs. Chinese Cotton Prices

The Committee discussed the consequences of the current Chinese cotton policy. Representatives of the Chinese spinning industry stated that the international financial and economic crisis led to very volatile commodity prices including those of cotton. Therefore, China introduced a few years back a minimum support price.

Thereafter international prices plummeted leaving the Chinese government guaranteeing cotton prices significantly above the international cotton prices. The impact of China’s cotton policy on international markets has been to sustain the market at current levels by importing yarn from the neighbouring countries but this policy has had serious effects on the national textile industry. Since the Chinese cotton policy was developed in the framework of a planned economy where the interests of cotton farmers have a very high priority, no attention was paid towards the consequences of such a policy for the domestic industry. China’s cotton policy has become relative complex and today is not only supporting the farmers but also the intermediaries. The current system is clearly not satisfactory and therefore it is expected that in the next cotton season 2014/2015 the policy will be changed. Whether the instrument of direct subsidies is introduced remains to be seen. The necessity of making use of market economy tools in China’s cotton policy that are not distorting market prices seems to be obvious when looking at the difference of international cotton and Chinese prices with the later being +/-50% higher.

Representatives from the Chinese spinning industry stated that the current cotton policy in China has severe negative effects on cotton spinners in China as spinners have to buy Chinese cotton at prices that are significantly above international prices. Even with higher turnover profitability has dropped and very often has resulted in losses. To counterbalance to a certain extent the negative effects of high domestic cotton prices Chinese cotton spinners are importing if possible cotton at lower international prices.

It was stated that China’s stocks are expected to increase to approx. 12 million tons at the end of the current season. Chinese cotton spinners are hoping that domestic cotton will be released at a discount in the current year in a controlled way. They are especially hoping that the Chinese cotton policy will change next season fundamentally to direct subsidies paid by the government with cotton prices floating freely according to supply and demand.

As far as subsidies are concerned it was stated that direct subsidies to farmers are not easy to implement as there are many technical issues. Nevertheless, in four counties tests with direct subsidies are underway.

A fundamental question discussed in the meeting was whether cotton production will be a long-term strategic objective of the Chinese government (cotton versus food crop). The opinion was shared that the overall cotton acreage will decline in the future which is both affordable and feasible. The province of Xingjian is an important cotton growing area and will remain so also in the future.

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