Spinners Committee

Minutes

September 8, 2013

08:30 - 10:00 hrs.
Room “Seegalerie” in the Festival House
Bregenz / Austria

Present

Honorary Life Members:
Walter Simeoni (South Africa)
Herwig Strolz (ITMF)

Members:
Andrew Macdonald (Brazil) – Chairman
Romano Bonadei (Italy)
Enrique Crouse (South Africa)
B.K. Patodia (India)
Nevzat Seyok (Turkey)
Christian Schindler (ITMF)

Guests:
Jas Bedi (Kenya)
John Cheh (Hong Kong, China)
Gary Fitzgerald (USA)
Alexander Hofstadler (Austria)
Kenan Koc (Turkey)
Thomas Nasiou (Switzerland)
Carlo Rivelli (Italy)
Ajay Sardana (India)
José Sette (ICAC)
Sun Huaibin, (CNTAC, China)
Terry Townsend (ICAC)
Mrs. Wang Qingcui (CCTA, China)
Mrs. Yuan Hongpin (CNTAC, China)

Apologies

Ziad Bashir (Pakistan)
Werner Bieri (USA)
Steven Chen (Chinese Taipei) – Vice Chairman
Robert Galmes (Australia)
Jung Soo Kim (Korea)
Ayman Nassar (Egypt)
Sebastian Otto (Germany)
M.N. Vijayshankar (Malaysia)
1. **Opening Remarks by the Chairman**

The Chairman of the Committee, Mr. Andrew Macdonald (Brazil), opened the meeting with a few introductory remarks, and thanked the members for giving their time for the Committee. He welcomed the two Honorary Life Members as well as the guests (especially from CNTAC) and received apologies. The Committee was updated on Mr. Werner Bieri’s state of health. At the time of writing these minutes in November 2013 we have learned with much regret the passing of our colleague and wonderful friend.

2. **Spinners’ Committee Country Visit to India in 2013**

Mr. B. K. Patodia informed the Committee about the state of the preparations for the scheduled visit of the Committee to India (November 10-17, 2013). The schedule is that the Committee will visit cotton growing and ginning regions in the states of Madhya Pradesh, Rajasthan, Gujarat and Maharashtra. In addition, various meetings will be held with cotton and textile organizations, notably the Cotton Corporation of India (CCI), Confederation of Indian Textile Industry (CITI), Cotton Association of India (CAI), and the Central Institute for Research on Cotton Technology (CIRCOT).

3. **Fibres Prices**

The meeting discussed the current situation and the outlook of cotton prices with a special focus on China’s cotton policy and its possible changes and implications for international cotton prices.

Mr. John Cheh pointed out that high cotton prices in China are having an extremely negative impact on cotton spinners in China. The Chinese cotton policy of high cotton prices will lead to the situation that 90% of the next crop (2013/2014) will end up in the Chinese national reserves adding to an already high inventory. High Chinese cotton prices and import restrictions for cotton in China are creating a lot of uncertainty. The main question really is when and how the Chinese government will release its huge stock pile of cotton?

Mr. Wang stated that the Chinese government was making use of planning instruments. He informed the meeting that CNTAC is working relentlessly to explain to the Chinese government how badly the current cotton policy is hurting cotton spinners in China and to convince it to make use of market economy instruments. He pointed out that the current Chinese cotton policy led to a surge of cotton yarn imports thus offering other cotton spinning countries like India, Pakistan, Vietnam, etc. enormous opportunities. Furthermore, he shared with the meeting his conviction that the Chinese cotton policy will not be changed prior to March 2014.

Mr. Cheh stated that production of extra-long staple cotton (ELS) in China dropped from 170'000 to merely 40’000 intensifying the lack of supply around the world.

The meeting shared the opinion that the continuation of the current Chinese cotton policy is not sustainable and any correction of its direction needs to be handled with utmost care in order to prevent serious market distortions and extreme price volatility.
4. Defaults and Enforcement

With regard to the high numbers of defaulters the Committee discussed how ITMF could assist in the current scenario, since defaults place serious competition to those spinners, who honour their obligations. In this context the question was raised why the number of defaults is significantly larger in some countries compared to others? Several reasons were brought forward. First, in some countries the possibility of enforcement is practically inexistent. It may take many years (and thus a lot of resources) before a party might win the case in court. Secondly, in some countries there is a better tradition of making use of financial instruments to hedge against price fluctuations. Thirdly, the non-availability of working capital often prevents companies from hedging. Fourthly, sudden fluctuations in currencies can also be a strain to a company’s working capital.

The meeting discussed the question whether an insurance against defaults could be a solution. Mr. Macdonald stated that this was under discussion within the ICA, but the cost was likely to be prohibitive, he therefore believed the trade should insure itself against defaults by using ICE options, the cost of which to be included in the selling price. If all sellers undertook this protection spinners would pay the same equivalent price and therefore not loose any competitive advantage. He suggested discussing this type of protection with the cotton trade at the meeting of the Joint Cotton Committee.

Furthermore, the Committee agreed to send a message to the ICA that it supports the important principle of „Sanctity of Contract“ as well as measures to enforce it.

5. World Cotton Contract

The Chairman informed the Committee about the ongoing discussions under the auspices of the International Cotton Association (ICA) on establishing a “World Cotton Contract” (future market). ITMF had been invited to participate in the discussion on the introduction of a “World Cotton Contract” (Future Market) that could complement the existing ICE Cotton No. 2 Contract. These discussions were on the important question of the delivery basis of the contract. Some participants were strongly in favor of the concept of delivery at origin, whilst others as well as spinners were in favor of the concept of delivery at destination. Finally it was decided the proposal should include Malaysian port warehouses CIF, was well as Australian and the existing US warehouses as delivery points. The Intercontinental Exchange (ICE) in New York is currently working on the proposal.

The Committee supports the concept of delivery at destination and asked the Chairman to continue emphasizing this position in any future discussions with ICE.

6. ICAC Task Force on Cotton Identity Programs

The Chairman informed the meeting about the establishment of a group of experts by the ICAC that has the objective to identify and describe all cotton programs currently active. He informed the Committee that a first report of this group will be presented in a few weeks at the Plenary Meeting of the ICAC in Cartagena/Colombia.

In this context Mr. Bedi stated that the cotton program “Cotton made in Africa” (CmiA) should change its name into “Cotton grown in Africa”. However clearly CmiA is already a well established brand and therefore a change seems unlikely.
7. **Cotton Contamination Survey 2013**

The Director General informed the meeting that the replies from cotton spinners from around the world for the Cotton Contamination Survey 2013 are currently compiled. The results will be published at the end of 2013 or at the beginning of 2014. He pointed out that the acceptance of the online-version of this survey is increasing continuously and is currently around 60%.

8. **International Committee of Cotton Testing Methods (ICCTM)**

The Director General informed the Committee that some members of the Executive Committee of the ICCTM met informally in June 2013 in Raleigh (USA) discussing the areas of interest for future research activities as well as the procedure for additional testing instruments that could be interested in receiving formal recognition from ITMF-ICCTM. The next formal meeting of the ICCTM will be held in Bremen/Germany in conjunction with the International Bremen Cotton Conference (March 19-21, 2014).

9. **ICA Cotton Consumers Committee**

The Chairman informed the Committee about the establishment of a so called “Cotton Consumers Committee” by the ICA. The objective of this Committee is to bring together cotton traders and spinners in order to discuss proposals and ideas for improving cotton contracts and the respective bylaws and rules.

Mr. Simeoni emphasized that any contract must be easy to read and understand. If a contract is not kept simple it loses its credibility and value and thus its purpose.

The Chairman asked the persons present whether anyone would be available to join this “Cotton Consumer Committee” which is chaired by Mr. Andrew Macdonald.

Mr. Patodia and Mr. Bedi offered to join and contribute to the work of the Committee.

10. **Committee Membership**

The number of members stands currently at 12. At the meeting the Committee discussed the future composition of the Committee. The Committee agreed to welcome Mr. Thomas Nasiou (Uster Technologies/Switzerland) as a new member of the Committee.

Furthermore, it agreed that members who have neither attended meetings of the Committee nor participated in activities of the Committee (e.g. country visits) should be asked whether they intend to remain a member of the Committee.

The meeting agreed that a member from China would be highly welcome and therefore asked the Secretariat to identify with CNTAC a suitable candidate. It also welcomed the idea to invite an expert from Esquel. Mr. John Cheh welcomed the idea and agreed to look for a suitable candidate.

The Committee agreed that any member of the Committee should meet the following requirements:

- Cotton spinning expert
- Fluent in English
- Time and resources to participate in the Committee’s country visits
11. Next Country Visit

The meeting was informed by the Chairman that ITC had approached ITMF whether the Spinners Committee would be interested in visiting West Africa in connection with an ITC-project. A meeting with a representative of ITC was scheduled for September 20. It was also discussed that alternatively the Committee could visit China in 2014 linking the visit to the ITMF Annual Conference in 2014.

12. Next Annual Committee Meeting

It was agreed to hold the next meeting on the occasion of the ITMF Annual Conference 2014 which will be held from October 16-18, 2014 in Beijing.

13. Discussion about other Fibers

Mr. Ajay Sardana (Birla Cellulose, India) suggested that also issues concerning other fibers should be discussed in the meetings of the Spinners Committee.

November 7, 2013