Spinners Committee

Minutes

October 16, 2014

Grand Hyatt, Beijing / China

Participants

Honorary Life Member:
Walter Simeoni (South Africa)

Members:
Andrew Macdonald (Brazil) – Chairman
Steven Chen (Chinese Taipei) – Vice Chairman
Enrique Crouse (South Africa)
Thomas Nasiou (Switzerland)
Nevzat Seyok (Turkey)
Yejun Zhou (China)

Christian Schindler (ITMF)

Guests:
Bashir Ali Mohammad (Pakistan)
Jas Bedi (Kenya)
Garry Bell (Canada)
John Cheh (Hong Kong)
Dave Duncan (South Africa)
Ceren Ermis (Turkey)
Ernst Grimmelt (Germany)
Neeraj Jain (India)
Liang Mei (China)
Eimear McDonagh (Australia)
José Sette (Int. Org)
Normand Trembley (Canada)
Beina Zhu (China)
Joel Zou (China)
1 Opening Remarks by the Chairman

The Chairman of the Committee, Mr. Andrew Macdonald (Brazil), opened the meeting by welcoming and thanking everybody for attending the meeting in Beijing.

2 Breakdown of relationship and confidence in the cotton industry, especially between the cotton trader and the spinners.

The meeting shared the view that the ICA cotton contract continues to be biased in favour of the cotton traders. Late shipments and quality problems were raised as examples. Many mentioned that contracts that are perceived as unfair tend to lead to disputes. However the meeting also shared the view that strict rules are required since defaulting spinners do carry an advantage over the honest ones, which is certainly unsatisfactory.

The view was expressed that the spinners need to engage with their customers, and all the way down the textile chain, right to the retailers, through education and explaining the challenges that are involved with cotton price volatility and the devastating effect cancellations of firm commitments can cause. There are educated and informed retailers with positive examples supporting suppliers however just like ICA is educating the spinners about ICA Bylaws and Rules, ITMF should also inform/educate spinners along the same lines, as well as the retailers/customers regarding the unacceptable practice of cancellations/“forced” changes of previously booked orders.

The Chairman pointed out that the discussion about sanctity of contract is not sufficient, action has to be undertaken by all concerned in the cotton trade.

3 ICA’s Cotton Consumers Committee

The meeting was informed about the progress of the recently formed Cotton Consumers Committee under the Chairmanship of Mr Macdonald. The objective is to strengthen the Spinner’s voice within the ICA, and to think outside the box about alternative measures that could help to better protect spinners from price volatility.

The Chairman presented the idea of introducing an obligatory price insurance (third party insurance) until delivery of the cotton to protect spinners from price volatility and thereby reduce the number of defaults.

4 ICAC Task Force on Cotton Identity Programs

Mr. José Sette, Executive Director of the ICAC, gave an update about ICAC’s Task Force on Cotton Identity Programs. He referred to the first report of the Task Force that was already published and that a second report is currently under preparation. Attached you find the presentation “Report of the Task Force on Cotton Identity Programs” by Mark Messura (Cotton Inc./USA) which was presented at the 73rd ICAC Plenary Meeting in Thessaloniki/Greece (see document no. 2).

Regarding the quantity of cotton produced under such identity programs he informed the meeting that approx. 4% of global cotton production fall under such programs.
5 Evolution of BCI and the action of the ITMF Board

The Chairman informed the meeting that the Board’s position as regards BCI, which is, that all sustainably produced cottons – including BCI – are endorsed by ITMF.

The view was expressed that BCI can be discriminatory in the sense that some retailers force spinners to use BCI-cotton which is – all too often – sold at a premium. Since the retailers refuse to pay anything extra for BCI products, the premium has to be absorbed by the spinning industry which is economically not sustainable and therefore not acceptable.

As far as premium are concerned it was mentioned that not all special cotton identity programs sell their cotton at a premium (e.g. Cotton made in Africa – CmiA or Cotton Leads).

In the meeting, the BCI representative confirmed that there should be no premium for BCI-cotton and that BCI will increase its efforts to inform internally about the importance not to sell BCI-cotton at a premium.

In principle the Spinners Committee supports the concept of BCI that was funded and introduced at the initiative of large retailers. Farmers participating in BCI have to invest initially in order to become BCI-certified. These extra costs should be compensated in the medium-term by a higher efficiency/productivity; but in the short-term farmers might be inclined to ask for a premium.

The view was expressed that despite BCI is driven by retailers the approach to “dictate” a minimum amount of BCI-cotton contained in a product is questionable at this stage.

As far as the mass-balance approach is concerned the meeting shared the view that it is a viable way of reducing the costs of BCI-cotton and increasing the growth of the program. This approach works on the credit and debit principle and each company handling BCI-cotton may only sell the equivalent amount of certified BCI-cotton that they originally bought as certified. This ensures that the amount of BCI-cotton traded remains transparent and accurate, since the reference point is the amount of certified BCI-cotton produced rather than the actual bale of cotton in any cotton laydown was BCI certified.

In the meeting it was also pointed out that the Chinese cotton spinning industry might not be able to utilize BCI-cotton if significant quantities are not produced in China. If cotton imports are reduced as a result of the Chinese new cotton policy, the availability of BCI-cotton might be even more limited.

The opinion was expressed that from a quality perspective there is no difference between conventional and BCI-cotton.

BCI’s view is that once a majority of world cotton production is BCI-certified, the problem of premiums disappears automatically.

It was suggested that ITMF as well as other textile associations (China Cotton Textile Association) should intensify the exchange of views and information with BCI.
6 **Spinners’ Committee Country Visit to India in 2013**

The Chairman gave a report about the Committee’s country visit to India in November 2014 that was organised with the kind assistance of Mr. B.K. Patodia (GTN Textiles/India) and Mr. Suresh Kotak (Kotak Ginning & Pressing Industries/India). The Chairman thanked both gentlemen and their teams as well as all the hosts of the various functions during the visit. The report is available as a free-download on the ITMF-Website under “Reports”.

7 **Spinners’ Committee Country Visit to China in 2014**

The Chairman provided the Committee with a short overview of the Committee’s visit to China, which was to be conducted directly after the conference from October 19-25, 2014.

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

The Director General informed the Committee about the activities of the ICCTM since September 2011. In March 2014 the ICCTM met at the fringes of the International Bremen Cotton Conference in Bremen/Germany. Among other things it was highlighted that an additional testing instrument (Aqualab by Mesdan/Italy) had received at the meeting full ITMF-ICCTM-Recognition. It was informed that the full report of the ICCTM-Meeting will be published soon.

The Spinners Committee was invited to propose research areas that are of importance to the spinning industry in order to encourage and possibly initiate additional research activities in these fields.

9 **Committee Membership**

Due to the lack of time the Committee could not discuss the future composition of the Spinners Committee. It was suggested that this will be done by email after the conference.

10 **Next Country Visit**

The Committee did discuss out of committee which cotton producing country should be visited in 2015. It was suggested that a previously intended visit to West Africa should be postponed and that the Committee should visit the USA in connection with the ITMF Annual Conference 2015 in San Francisco/USA. Most of the members consulted were in favour of the suggestion.

11 **Next Annual Committee Meeting**

It is proposed that the next annual meeting of the Committee will be held in connection with the ITMF Annual Conference 2015 in San Francisco/USA.

December 2014
Report of the Task Force on Cotton Identity Programs

73rd Plenary Meeting of the ICAC

Task Force Objectives

Serve as:
- Statistical observer of the cotton identity programs, enhancing transparency
- Clearinghouse for technical information about identity cottons
- Forum for exchange of experiences with identity programs

Promote institutional cooperation among identity programs, ICAC member countries, and other institutions of the cotton value chain

Task Force Participants

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<thead>
<tr>
<th>Australia</th>
<th>Brazil</th>
<th>Germany</th>
<th>Mozambique</th>
<th>Switzerland</th>
<th>United States</th>
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<td>ICAC Lorena Ruiz</td>
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Scope of Work

- Focus on five cotton identity programs
  - Organic (Textile Exchange and IFOAM)
  - Cotton Made in Africa (CMiA)
  - BCI
  - Fairtrade
  - Bayer e3

- Data collection
  - Survey
  - Self-reported data

Scope of Data Collection

1. Goals
2. Producing Countries
3. Number of Participants
4. Standards for Production and Lint Preservation
5. Farmer Training and Assistance
6. Retailers, Brands or Other Customers Involved
7. Expansion Plans
8. Funding and Expenses
9. Collaboration Between Programs

Organic

Goals
- Support farmers to convert to organic
- Support companies to engage in organic value chain
- Ensure integrity of organic cotton
- Communicate impact of organic cotton
Cotton Made in Africa

Goals
• Improve smallholder farmer livelihoods in developing countries by
  – Co-financing to improve yield, soil, fiber quality, use of pesticides and improve education, health and business infrastructure
• Connect smallholder farmers to international markets by promoting sustainability features
• Charge a utilization fee to retailers and brands to support CMiA activities

BCI

Goals
• Transform cotton production worldwide by developing BCI cotton as a sustainable mainstream commodity by:
  – Reducing environmental impact
  – Improving livelihoods and economic development in producing areas
  – Improving commitment to BCI cotton in supply chain
  – Ensuring credibility and sustainability of BCI

Fairtrade

Goals
• Promoted as an alternative approach to conventional trade based on a partnership between producers and consumers
  – Offers producers a better deal and improved terms of trade
  – Offers consumers a way to reduce poverty
  – Strengthens the position of small-scale farmers
  – Promotes better management practices

Bayer e3

Goals
• Meet current needs for productivity and profit while ensuring future generations can do the same.
  – Aligns with corporate social responsibility and sustainability initiatives
  – Voluntary program
  – Active in U.S. only at this time

Cotton Production for 2012/13

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<tr>
<th>Metric</th>
<th>Organic</th>
<th>CMiA</th>
<th>BCI</th>
<th>e3</th>
<th>Fairtrade</th>
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<td>Tons (lint)</td>
<td>109,827</td>
<td>156,025</td>
<td>750,300</td>
<td>108,000</td>
<td>20,552</td>
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Main Findings

Production under these five programs in 2012/13 accounted for 1.1 million tons.
• 4.2% of world cotton production
• Increase of 19% from the 2011/12 season
• CMiA declined by 22%
• Organic declined by 21%
• BCI increased by 20%
The countries with the largest production related to these programs are:

- Brazil (321,010 tons)
- India (255,738 tons)
- Pakistan (157,000 tons)

These three countries account for 64% of global production of the five identity cottons.

The countries where identity programs accounted for a significant share of all domestic cotton production in 2012/13 were:

- Zambia -- 73%
- Côte d'Ivoire -- 53%
- Zimbabwe -- 41%
- Brazil -- 25%

**Main Findings**

**Future Actions**

- Difficult to define an “identity” program
- Programs have different objectives and methods. Side-by-side comparisons have limited value.
- Encourage ICAC members to contact these programs directly to learn more about their activities.