1. Opening Remarks by the Chairman

The Chairman of the Committee, Mr. Nicholas Earlam (UK), opened the meeting by welcoming everybody to Jaipur.

2. Panel Discussion on “Transparency & Traceability in the Cotton Value Chain”

The panel was invited to discuss the challenges and opportunities of more transparency and traceability in the cotton textile value chain and what this means for the different segments of the value chain. The panelists were:

Moderator: Nick Earlam, Plexus (UK)
Ginner: Suresh Kotak, Kotak Ginning & Pressing (India)
Spinner: Enrique Crouse, Prilla 2000 (South Africa)
Trader: Henning Hammer, Otto Stadtlander (Germany)
Retailer: Calvin Wooley, IKEA (Sweden)
Technology Provider: Kai Hughes, ICA Bremen (Germany)

Mr. Earlam started the panel discussion by stating that the issue of transparency and traceability in the supply chain is a massive subject. There is the rise of identity cottons such as BCI, Cotton made in Africa (CmiA) and Organic Cotton. They make up over 10% of the world’s production of cotton and their share is on the rise. He also referred to a recent incident where a large Indian textile company had lost high profile contracts with an US retailer for mislabelled products. The products were labelled as made of Egyptian cotton, but were not. Furthermore, he recalled that there is the claim that end-customers make good noises about traceability and transparency in the supply chain, though in most cases the majority refuses to pay for it a premium.

Against this backdrop, Mr. Earlam invited the panellists to comment on the question what transparency and traceability means to them.

Mr. Calvin Woolley of IKEA emphasized that for them and their customers, physical traceability is key. The case of mislabelled products illustrated that retailers and their suppliers alike cannot afford to sell mislabelled products.

Mr. Suresh Kotak of Kotak Ginning & Pressing pointed out that mixing at gin level can be a major problem. It is very important to eliminate mixing of cottons. TO increase transparency and traceability at this stage of the supply chain is of course very important.

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Mr. Enrique Crouse of Prilla 2000 stated that sustainable cotton and quick response are important criteria today in order to remain in business. Some of the spinners are asking premiums, others are absorbing the costs in order to secure business.

Mr. Kai Hughes of ICA Bremen presented a new technology that provides 1) authentication, 2) identification, 3) quantification and 4) the ability to monitor the supply chain. He explained that nanoparticles encased in cellulosic fibres are sprayed onto the cotton fibres just before being baled. By using a scanner, it is possible to identify tagged/marked cotton in any (finished) product and to quantify the share of tagged/marked cotton in that finished product.

Mr. Henning Hammer of Otto Stadtlander, a cotton trading company, confirmed that demand for traceable and sustainable cotton is increasing. The trade encourages producers to be aware of these requirements. Nevertheless, he reminded everyone that it is easy to implement traceability solutions on large farms but very difficult in countries with small-scale farming. The trade needs to provide their customers the service of supplying them with the cotton they need.

In this context, Mr. B.K. Patodia of GTN Textiles raised the question whether one requires labelling the marker and how this works? If 100% Supima cotton had been tagged with markers, the labelling should be “100% Supima Cotton” with some additional explanations that the cotton was marked/tagged.

Mr. Woolley agreed that traceability comes at a cost but encouraged spinners to embark on sustainable and traceable cotton.

Mr. Hughes emphasized that the risks of ignoring traceability is enormous in terms of losing business, reputation damage, etc. compared to the small costs (USD 0.0019 per t-shirt if the marking of one ton of cotton is USD 10).

It remained open who will eventually pay for any traceability measures. It seems that the cotton industry – ginners or spinners – do not seem to be ready to do so. Whether or not the retailers can demand it, needs to be seen.

### 3. World Cotton Contract

Mr. Earlam stated that the ICE had spent several million dollars developing this contract, that total open interest is currently 28 contracts and that it has not traded since June.

The ICE established the contract with the aim of avoiding the sort of volatility that was seen in 2011 when only American cotton could be delivered to the Board and there was not enough American cotton to deliver.

Over the last two years it has been a very flat market which together with the abundant USA crop have been major obstacles to the World contract.

However, according to Mr. Earlam opinion another 2011 situation would likely mean a quick revival of the World Contract. Also, if and when we switch from Chinese de-stocking to Chinese imports it might well become a subject again. To him it seems unlikely that the ICE will scrap the contract in the near future.

In the following discussion, Mr. Kotak stated that India should be a delivery point in the World Contract.

Mr. Hammer shared Mr. Earlam’s view that volatility will come back at one point in time and that then the contract will be useful.
4. **A World without Buffer**

The Committee was invited to discuss the short- and long-term consequences for the cotton trade and the cotton spinning industry once the Chinese cotton reserves have been reduced.

Over the last several years, the world has been dealing with two balance sheets for cotton. One for the rest of the world and one for China. According to the USDA, Chinese stock levels peaked at 66.9 million bales at the end of the 14/15 season. This represented a massive 196 percent of stocks-to-use ratio. Since that time stocks have now declined (again according to the USDA) to 48.1 million bales at the end of the 16/17 season. This translated to only a 135 percent stocks-to-use ratio. Quite a number of people in the trade who believe the numbers are lower is questioning the validity of these figures.

Again, according to the USDA, Chinese cotton acreage has declined from a peak of nearly 15 million acres in 2008 with about 4.5 million of those acres being in Xinjiang to only 7 million acres today with those same 4.5 in Xinjiang remaining. In other words, over the last eight years cotton acreage outside Xinjiang has declined from 10.5 million to 2.5 million acres. It is unlikely that this acreage will come back because of lack of arable land and food security issues.

The USDA predicts this coming year a crop of 21 million bales in China a consumption of 35.5 million bales – imports at 4.5 million bales and another drawdown of stocks of between 10 and 12 million bales. If these numbers were correct, then within the next 18 months to two years Chinese stocks will no longer be a burden as the government in the summation of many would be unlikely to want to carry less than a year’s worth of consumption as stock.

World production outside China according to the USDA is expected to increase in the 16/17 season by 4.3 million bales. Mill use outside China is expected to remain unchanged at 73 million bales and world-ending stocks outside China are expected to remain unchanged at 35 million bales.

If, after utilisation of its stocks in the next two years, China needs to be a major importer of cotton – whether in the form of raw material or yarn – and if it is unlikely to grow it themselves where is the growth in cotton production or yarn likely to come from?

Obviously, whether cotton production is increasing depends from many different factors, among which price is of course very important. The discussion showed that India has a huge potential to increase its cotton production (13-4% p.a.).

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