Committee of Management

Proceedings

Bali, Indonesia
September 16, 2017
Committee of Management

Committee of Management members from the following countries attended the meeting:

Brazil  
China  
Chinese Taipei  
Egypt  
Germany  
Hong Kong, China  
India  
Indonesia  
Kenya  
Korea Rep.  
Netherlands  
Pakistan  
Portugal  
Spain  
Switzerland

ITMF Officials:  
Director General  
Economist

In the Chair:  
Jaswinder Bedi (Kenya)  
President of ITMF
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Attachments

document no. 1  Spinners Committee Presentation: “Results from the ‘Bremen Aachen Survey’ on Cotton Contamination”, Mr. Ernst Grimmelt, Bremen Cotton Exchange, Germany

document no. 2  Spinners Committee: Ms. Yejun Zhou, President of Wuxi 1 Cotton Mills, China and member of the ITMF Spinners Committee, could not attend the meeting in Bali/Indonesia and therefore submitted her thoughts on contamination in written format (see document no. 2).

document no. 3  ITMF Audit Initiative: “Audit Fatigue: Challenges and Opportunities” by Mr. Karim Shafei, Gherzi
Opening Remarks by the President

The President of ITMF, Mr. Jaswinder Bedi (Kenya) welcomed the participants of the meeting and thanked everybody for attending the Federation’s Annual Conference 2017 in Bali/Indonesia. He thanked especially the Indonesian Textile Association (API) for successfully hosting the conference for the first time in Indonesia.

Proceedings of the Last Meeting

The Proceedings of the last meeting of the Committee of Management of ITMF, held in Jaipur, India, on November 18, 2016, were duly circulated on February 24, 2017 and were approved by way of correspondence.

Matters Arising of the Previous Meetings

There were no matters arising from the minutes other than those included in the agenda.

Appointment of Auditors, Solicitors and Bankers

The following appointments were confirmed:

Auditors: Universe (AG für Unternehmensberatung und Revision), Zürich
Solicitors: Dres. Pestalozzi Lachenal & Patry, Zürich
Bankers: Credit Suisse, Zürich

Financial Report by the Honorary Treasurer

The report on the financial position of the Federation at the end of 2016 was presented by Mr. Peter Gnägi (Switzerland), Honorary Treasurer of the Federation.

The Balance Sheet and the Income Statement as authorized by Universe, Zürich, were circulated to the Members of the Committee on May 10, 2017 and approved by way of correspondence.
**Balance Sheet**

At the end of 2016, the Federation’s Net assets stood at CHF 915,663. Nearly unchanged compared with 2015.

The balance sheet in total is very sound: Provisions and Funds stood at CHF 884,040.

**Income Statement**

The Total income rose by +2% to CHF 730,036. The main reason was an increase income through Fees from corporate members by +12% to CHF 294,500. The board has agreed to write-off some bad debtors, which led to an increase of Loss on receivables to CHF -40,794.

The **Total expenditures** increased by +2% to 694,426.

The Federation’s **Total gain** in 2016 amounted to CHF 36,191, compared to CHF 39,798 in 2015.

It is proposed that for 2018 the basis of calculation of **Member Associations’** subscriptions remains unchanged:

- The minimum levy shall therefore remain CHF 4,000.
- The maximum levy shall therefore remain CHF 57,000.
- Subscription which fall between the upper and lower limits shall continue to be calculated according to the subscription formula based on an unaltered unit rate of CH 0.065064.
- No Member Association shall pay a subscription representing less than 60% of total national yarn production by the spinners, and consumption by the weavers, in the cotton-system sector.

It is also proposed that **Associate Members’** levies shall for 2018 to be unchanged as follows:

**Textile Associations**

- CHF 15,000
- Taiwan Textile Federation

**Cotton Associations**

- CHF 7,000 each
- American Cotton Shippers Association (USA)
- Cotton Incorporated (USA)
- International Cotton Association (UK)
- National Cotton Council of America
- Texprocil (India)
CHF 5,000 each Australian Cotton Shippers Association
Bremen Cotton Exchange (Germany)
Supima (USA)
XPCC Cotton Association (China)
Cotton Association of India

Textile Machinery Associations
CHF 15,000 German Textile Machinery Manufacturers Assoc. (VDMA)
CHF 13,000 Italian Textile Machinery Association (ACIMIT)
CHF 12,000 Swiss Textile Machinery Manufacturers Assoc. (Swissmem)

Corporate Members shall pay an annual levy based on turnover, the minimum amounting to CHF 3,000 for companies with a turnover not exceeding USD 50 million. For a turnover between USD 50 and 200 million, the annual levy will be CHF 5,000 and for a turnover in excess of USD 200 million it will be CHF 7,000 (maximum).

The report by the Honorary Treasurer was unanimously approved by the Committee.

Report by the Spinners Committee

Opening Remarks by the Chairman

The Chairman of the Committee Mr. Andrew Macdonald (Brazil), opened the meeting with a few introductory remarks.

Presentation: “Tracking Contamination through Textile Processing”

Mr. René van der Sluijs, CSIRO Manufacturing, Australia, made a presentation on “Tracking Contamination through Textile Processing”.

Presentation: “Results about a Cotton Contamination Survey“

Mr. Ernst Grimmelt, Bremen Cotton Exchange, Germany, presented the results of a survey on contamination conducted jointly by the ITA Aachen and the Bremen Cotton Exchange (see attached document no. 1).

ICA's Cotton Consumers Committee

Mr. Andrew Macdonald informed the meeting about the ongoing work of this Committee. He noted that the progress of the Committee is relatively slow as it takes quite some time to arrange meetings and to discuss the different proposals. Of the 20 proposals, the Consumer Committee has made, only 4 have so far actually been discussed/resolved. These are:
• The tolerance for micronaire results had been reduced from 0.3 to 0.1.
• On micronaire readings the contact allowed for a “claim limit” (CL), meaning the results could be up to 0.3 higher or lower as a tolerance. This was changed to “No Claim limit” (NCL) meaning from hence forward there was to be no tolerance, unless agreed by the parties to the contract.
• Micronaire allowance would in future be determined by the Value Differences Committee (VDC) instead of fixed in the rules.
• Additional penalties for shipments of inferior quality on a sliding scale basis.

BCI

The meeting was invited to discuss BCI, its current situation and to review ITMF’s position.

The meeting agreed that ITMF should encourage referring to this initiative as just BCI, as the wording “Better Cotton Initiative” is misleading. Cotton produced under BCI is not better in terms of quality or sustainability. BCI claims only that the cotton produced in a certain area is being produced under better conditions compared with previous years. Spinners are requesting BCI-cotton because more and retailers and brands are asking for BCI yarn and subsequently the apparel. Since more retailers and brands are demanding BCI cotton, the demand and consumption is expected to increase in the future.

Now, the Mass Balance System (MBS) is applied at BCI, since traceability is almost impossible economically in upland cotton, which means that when spinners buy a certain volume of BCI cotton, they can sell a corresponding volume of yarn. This does not mean that the yarn that the spinner produces is necessarily cotton produced under BCI conditions, but rather that the spinner has contributed to the initiative. The program is like palm oil credits.

The Committee agreed that in summary, BCI is an initiative that ITMF should support, though by referring only to BCI and not to “Better Cotton Initiative”.

Traceability

The meeting was called upon to discuss the need for traceability of cotton in upland varieties. The Committee believed that traceability is becoming more and more an issue for consumers as well as brands/retailers. Nevertheless, the Committee shared the view that for the moment the concept of full traceability is not applicable for Upland Cotton. There is an application for ELS (Extra Long Staple) due to the specific demand and relatively small production. Overall therefore, the Committee supports the Mass Balance System (MAS), being applied by BCI in order to maintain cotton as competitive as possible.

International Committee of Cotton Testing Methods (ICCTM)

The Chairman informed the Committee about the activities of the ICCTM:
**Stickiness in cotton**  
The Committee agreed that stickiness was and is a critical issue for spinners. Therefore, the ICCTM is encouraged by the Spinners Committee to continue this important work on developing testing methods and the production of testing instruments.

**HVI classing: Do spinners understand how to fully use this tool in today’s world?**  
Often the spinners are not using the data provided by the HVI properly. Therefore, the Spinners Committee agreed that a manual is produced/prepared that helps reading the HVI-data correctly.

**Next Activities**  
The members were informed that the Committee was invited to visit Lenzing AG, a producer of cellulosic fibres, in Lenzing/Austria. Initially, it was planned that the visit will take place in April 2018. In the meantime, it is suggested that it will take place on March 16/17, 2018, just before the start of the Intl. Cotton Conference in Bremen/Germany which will be held on March 20/21, 2018.

Furthermore, the members were informed that a visit to East Africa cotton areas was being considered in conjunction with the ITMF Annual Conference 2018 in Kenya (Sep 7-9, 2018). The members will be invited to take part in a survey about suitable dates.

**Next Meeting**

It was proposed that the next annual meeting of the Committee will be held in conjunction with the ITMF Annual Conference 2018 (Sep 7-9, 2018).

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*The report was unanimously approved by the Committee.*

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**Report by the Joint Cotton Committee (JCC)**

**Opening Remarks by the Chairman**

The meeting was opened with a few introductory remarks by Mr. Jeff Elder (USA), who chaired the meeting on behalf of the Chairman of the Committee, Mr. Nick Earlam (UK).

**Panel Discussion on “Cotton Trading in a Changing Environment”**

A panel of experts from the cotton industry and from the spinning industry was invited to discuss whether cotton trading will change in the future. The entire cotton textile value chain has undergone and is undergoing enormous transformation (vertical integration, e-commerce, sustainability, new testing technologies, etc.). This raises the question
whether, and if so, cotton trading will need to adapt to these changes. The following persons participated in the discussion:

**Panelists:**

- **Moderator:** Jeff Elder, J. G. Boswell Company (USA)
- **Trader:** Jürg Reinhart, Reinhart (Switzerland)
- **Trader:** Urs Riederer, Sunrise Resources (Hong Kong, China)
- **Trader:** Vinay Kotak, Kotak Ginning & Pressing Industries (India)
- **Spinner:** Andrew Macdonald, ITMF Spinners Committee (Brazil)
- **Spinner:** Bharat Desai, Sintex Industries (India)
- **Spinner:** Bashir Ali Mohammad, Gul Ahmed (Pakistan)
- **Spinner:** Abhay Agarwal, Primayudha (Indonesia)

The panel discussed the following questions:

1. **The whole textile Industry is evolving. Do you expect the consolidation in form of vertical integration of textile enterprises to continue?**

   There was consensus that vertical integration represents one type of business strategy and is not necessarily a continuing trend. For high demand commodity items, it perhaps provides an advantage. But for specialty items it has its own challenges and is perhaps a disadvantage. Developing a cluster of local providers will become more of a growing trend. This will help facilitate quicker supply chain reaction to retailer needs.

2. **Can you see a future for an entire supply chain integration, for example, brands procuring their own cotton and bring it down the supply chain to the store? If so, what will be the future of the trade as we know it today?**

   There are currently some large retailers that are attempting to source their own cotton; Zara being the most recent example. But even in this case it represents a small percentage of their business. The feeling of the panel is that it is a small and current fad and was primarily a reaction to high volatility in cotton prices. Given the recent stability in prices it was determined that cotton procurement and trading is a specialized business requiring a great deal of expertise and the supply chain will depend on traders well into the future.

3. **What is the role of sustainability – how can a trader guarantee long term sustainability when he is not the producer?**

   There was again strong consensus that farming demands a great deal of knowledge and experience and that traders do not possess the skills to be successful farmers. Also, good farming practices requires growing alternating crops on the farmland. Most cotton traders are single commodity experts and would have trouble marketing the alternating
crops. Sustainability requires more and more a knowledge and relationship with your raw material provider. This responsibility exists within the entire supply chain. Retailers and brands will require the supply chain be able to provide the source of their products. Initiatives like BCI clearly show this is a growing trend.

4. Forty years ago, the world fibre market was 23.5 million tons and cotton almost 70 percent of the fibre market. Today it is 90 million tons and less than 30 percent. Where do you see cotton usage going from here?

The panellists agreed that not so much the cotton share is relevant but the nominal cotton production. In absolute numbers cotton production has increased, albeit at a slower pace than competing fibres. Until today, cotton is still the reference fibre. Nevertheless, other fibres are constantly improving their characteristics and functionalities. To keep cotton production at current levels and to increase it also in the future, it needs to become more efficient and productive in order to remain price competitive with competing fibres as well as with competing (food)crops. The potential to increase yields are significant, if one compares the world average fibre production of around 750 kg/hectare with the top-yields of around 3'000 kg/hectare. As a natural and sustainable fibre, cotton has many advantages on which cotton can build a better and more recognised image.

5. Do you believe that the emergence of big funds, particularly algorithmic funds, are a disturbance to how mills and traders approach the market?

Like it or not, all types of funds including algorithmic funds are a part of our business and we are better served by embracing the advantages they create than by blaming them for all the shortcomings inherent in our markets. Jürg Reinhart mentioned that funds were wrongly blamed for the sudden rise in prices in 2010. The trade was much more culpable with many times the volume traded. Also, the amount of world cotton that is actually hedged by futures is still in the minority. On call sales is the area that has grown the most and has created added volatility. The spinners mentioned their number one need and concern with cotton is stable pricing.

The report was unanimously approved by the Committee.

Report by the Fibres & Applications (F&A) Committee

The Chairman, Mr. Loek de Vries (Netherlands), opened the meeting with a few introductory remarks. He welcomed the attendees and informed them that prior to the start of the conference a one day seminar offered by the F&A-Committee on “Cotton FR Finishing – How to Add Value” took place.

He thanked the two presenters, Prof. Marc van Parys, Unitex (Belgium), Mr. Marcel Prinsen, Metal B.V. (Netherlands), for having delivered excellent presentations that were
very informative. He also thanked the participants who made the seminar with their questions and comments very interactive.

Presentations

Prof. Marc van Parys, Unitex (Belgium), Mr. Marcel Prinsen, Metal B.V. (Netherlands) and Mr. Loek de Vries, TenCate (Netherlands), provided the attendees with an overview and a summary of the seminar "Cotton FR Finishing – How to Add Value", which took place on September 12, 2017 in Bali/Indonesia.

Activities in 2017 and 2018

The participants were invited to come up with suggestions and to discuss possible activities until the end of 2018.

In this context, the attendees were asked whether they would be interested to attend a workshop on “Composites” in Germany in 2018. It was suggested that a workshop on “Composites” will be organised that comprises all visits of composite manufacturing companies. One idea was to organize a workshop in cooperation with ITA Augsburg on “Carbon Fibres Composites” including visit(s) of SGL and BMW production sites in Wackersdorf, Landshut and/or Leipzig in Germany. The idea was welcome by the attendees. It was suggested to hold such a workshop in conjunction with an attractive exhibition/conference taking place in Europe so that also interested people from outside Germany could attend. Mr. de Vries concluded that he would discuss options with the ITMF Secretariat after having visited the BMW-plant in November 2017 in Leipzig/Germany, where carbon composites are produced and then used in the production of the BMW i3.

Next Regular Meeting

The next regular meeting of the F&A-Committee will be in conjunction with the ITMF Annual Conference 2018 which will be held from September 7-9, 2018 in Nairobi/Kenya.

The report was unanimously approved by the Committee.

Report on the ITMF Audit Initiative

The Committee was referred to the presentation and discussion in the General Session “ITMF’s Audit Initiative”, see document no. 3.

The report was unanimously approved by the Committee.
Membership

Since the last meeting of the Committee of Management in November 2016 the following changes in the composition of the ITMF membership took place:

ENTRIES:
1. Sintex (India, Corporate Member)
2. Goldentex Wool (Egypt, Corporate Member)
3. Sateri (Singapore, Corporate Member)

WITHDRAWALS:
1. Bannari Amman (India, Corporate Member)

Date and Location of ITMF Annual Conference 2018

Mr. Bedi informed the Committee of Management that the Federation's next Annual Conference will be held in Nairobi/Kenya from September 7-9, 2018.

The Committee of Management welcomed this invitation very much and thanked the African Cotton & Textile Industries Federation (ACTIF) for having invited the ITMF membership to convene in 2018 in Kenya.

Concluding Remarks by the President

Mr. Jas Bedi (Kenya) thanked the members of the Committee for their trust and support in the past year and asked for their continuous support. The Annual Conference of the Federation in Bali has shown that an international platform for the world’s textile industry is attracting industry leaders from the entire textile value chain from around the world. The conference provides a neutral platform for discussions on topics relevant for the industry and a unique networking environment. The Federation's objective is and needs to be also in the future to provide the members with services that are informative, relevant and meaningful. He stated that “ITMF Audit Initiative” demonstrates that the Federation can also act as the voice of the global textile industry. Finally, he invited everyone to convene for the ITMF Annual Conference 2018 in Nairobi/Kenya.

December 2017
Bremen Aachen Survey

• This worldwide survey builds a basic collection of information to discuss trends and developments of the processing textile industry in the future.

• More than 170 participants from 28 different countries provided answers on this survey. Most of the participants are from India, China, Turkey, Pakistan, Korea, Germany and the United States.

• The report presents the results from the Bremen Aachen Survey on Cotton Quality, which was implemented worldwide in 2016.
Spinning technology used by the respondents:

- Ring spinning: 87%
- Rotor spinning: 55%
- Compact ring spinning: 55%
- Airjet spinning: 11%
- Other: 5%
Processed fibre materials:

- Cotton: 98%
- Cellulosic fibres: 49%
- PES/PET: 45%
- Other natural fibres: 15%
- Other man-made fibres: 40%
Bremen Aachen Survey

Yarn composition: Blending of cotton with other fibres:

- 57% PES/PET
- 44% Cellulosic fibres
- 44% Natural fibres
- 43% No blending
- 40% Other manmade fibres
Bremen Aachen Survey

Reasons for blending cotton fibres:

- Customer request: 76%
- Fabric properties: 56%
- Yarn properties: 46%
- Cost: 35%
- Other: 42%
Bremen Aachen Survey

Most important properties of a yarn:
(Three answers per participant)

- **Tenacity**: 72%
- **Neps thick/thin places**: 70%
- **Evenness**: 61%
Bremen Aachen Survey

Defects or deficiencies of cotton fibres that affect yarn properties:

- Strength/Tenacity
- Short fibre content
- Micronaire
- UHML / Staple length
- Leaf / trash amount
- Stickiness (Sugar, Seed Oil)
- Maturity
- Length uniformity / Length CV
- Yellowness (+b)
- Seed coat fragments
- Bark / grass content
Bremen Aachen Survey

Top properties of man-made fibres:
(Three answers from each participant):

- High tenacity: 91%
- High elongation: 46%
- Low shrinkage at boil/steam: 35%
Man-made fibres which are seen in direct competition with cotton:

- PES/PET: 75%
- Cellulosic fibres: 64%
Bremen Aachen Survey

Cotton identity programs used by the respondents:

- **BCI**: 56%
- **Organics / GOTS**: 45%
- **None / I don't know**: 27%
Bremen Aachen Survey

Benefits of cotton identity programs:

- Marketing advantage: 55%
- Final consumers' trust/demand: 55%
- Sustainability: 46%
- Price premium for your products: 24%
Bremen Aachen Survey

Deficiencies of cotton identity programs:

- **Price/cost**: 52%
- **Availability of specific quality**: 43%
- **Dependency on supplier**: 41%
- **I don't know**: 12%
Bremen Aachen Survey

Worldwide Cotton Grade Standards and Arbitration

- Cotton Grade Standards
- Instrumental arbitration
- Round trials

- Manual Arbitration
- International Training Classes
International Quality Testing and Research Center:

Laboratory testing methods:
- HVI testing
- Micronaire
- Trash testing
- AFIS
- Stickiness testing
- Manual classing
- Moisture testing
- DNA testing
THANK YOU
Statement by

Ms. Yejun Zhou

Wuxi No. 1 Cotton Mill, China

Member of the ITMF Spinners Committee

Prepared for the meeting of the ITMF Spinners Committee

on September 14th, 2017 in Bali/Indonesia

对棉花污染问题的几点看法

Opinions about Cotton Contamination

Hello, everyone! I’m from Wuxi No. 1 Cotton Mill Textile Group Co., Ltd. Due to health issue, our group’s president Yejun Zhou couldn’t come and entrusted me to attend this meeting. Now, I’ll give my opinions about cotton contamination.
1、推广机采棉

The first is popularizing machine picked cotton

棉花污染问题是困扰纺织业多年的顽疾，应从源头解决。机采棉能有效地解决异纤问题，使用机采棉的美国、澳大利亚和巴西棉花异纤很少，近年来中国兵团棉也使用了机采棉，异纤明显下降，所以机采棉是异纤的最终解决方案，机采棉还涉及棉花品种、种植方式等是一个系统工程。

Cotton contamination has been a bothering issue to textile industry for many years and shall be solved from sources. Machine picked cotton can effectively resolve contaminations. American, Australian and Brazilian cottons apply that way, and the number of contaminations is very few. In recent years, the Xinjiang production and construction corps has put machine picking into use, which obviously reduces contaminations, so it’s the final solution to cotton contaminations. What’s more, machine picked cotton refers to a lot, including cotton varieties and plantation methods, and can be regarded as a systematic engineering.
2. Strengthening management from picking to purchasing

The second is strengthening management from picking to purchasing

For those that temporarily can’t apply machine picking, improving management is the only way. Strictly controlling interfusion of foreign fibers in picking, tedding, storage and purchasing, sticking to packing with raw-white cotton fabric bags, instead of polypropylene packing bags or materials with colored or chemical fiber ropes, so as to fundamentally settle and alleviate contaminations.

3. Ginning plant is a part of great importance in controlling contaminations.

Next, I want to say that ginning plant is a part of great importance in controlling contaminations.

We found that when workers manually pick cotton or use machines that sort foreign material,
Currently, we have found that if ginning plants apply manual picking or contamination detector sorting machines on seed cotton, there won’t be concentrated contaminations in cotton, which means the most labor-saving and the most effective method is to pick out a mass of foreign fibers before smashing it. Therefore, we suggest considering manual picking of contaminations in seed cotton as the industrial standard, and contamination detector and sorting machines as standard configuration of ginning plants.

4、目前异纤较多的地区

Then, let’s move on to regions with relatively more contaminations at present

印度、非洲和中国内地生产的棉花含异纤很多，最近我司顺应全球贸易一体化的趋势，准备踏出国门在埃塞俄比亚投资建厂，已经签署了投资意向协议，我们无法采用非洲当地的棉花生产高档纱线，原
因之一就是污染严重，即使是世界著名的埃及棉也有污染，影响了这些棉花的使用价值。

Cottons yielded in India, Africa and Chinese Mainland usually contain a lot of contaminations. Lately, following the trend of global trade integration, our company has been planning to invest and build a factory in Ethiopia and has signed the investment intention agreement. However, we’re unable to use African local cotton to produce top-grade yarns, and one of the reasons is serious contamination, including the world-famous Egyptian cotton, influencing use value of these cottons.

5、纺纱厂的异纤管理

The fifth is regarding contamination management in spinning mills

纺纱厂可以减轻异纤的危害但不能根除异纤，目前纺纱厂控制异纤的主要手段有：人工分拣异纤、异纤分拣机和异纤电清，我们感到异纤分拣机的效果比人工分拣好，已全面推广。希望纺机制造厂商能进一步提高异纤分拣机的检出（喷出）率，改善异纤电清的误切和漏切。

Spinning mills could reduce harm of contaminations, but fail to eradicate
it. Currently, the main means to control contaminations by spinning mills contain manual sorting, sorting machine and electrical cleaners. Because of better results, we prefer sorting machines and have comprehensively popularized. It’s hoped manufacturers of spinning machines could further enhance detection (eruption) rate of contamination sorting machines and improve inaccurate and missing cut of electrical cleaners.

6. 异纤控制应突出重点

Last but not least, key points shall be stressed in contamination control.

目前棉花异纤是用“克/吨”来考量，代表的是一个平均水平，而实际上布面异纤在正常情况下呈分散分布，可以通过布面修织解决，但有时会突然出现大面积密集性的异纤，过后又恢复正常，这种异纤是无法修织的，常造成大范围开剪、换片或者转染，这是大块的异纤打碎造成，影响最大的是有色布块，在漂白过程中会褪色污染到周围纱线，因此应重点控制偶发性的大团异纤，特别是染色布。机采棉不是没有异纤，而是密集性异纤突发极少而已。

At present, cotton contamination is examined in “gram/ton”, which
represents an average level. While actually, contaminations on fabrics are
dispersedly distributed under normal circumstances, and can be removed
by burling. However, sometimes, large areas of concentrated
contaminations unexpectedly appear and return to normal later, and those
kinds of contaminations can’t be repaired and usually result in large-scale
cut, replacement or redyeing in other colors to finished fabrics. It turns
out that the smashed big piece of foreign fibers generate that problem and
what’s the most dangerous is a piece of colored fabrics, as they will fade
and contaminate surrounding yarns during bleaching, that’s why we
shall focus on controlling accidental bid piece of foreign fibers,
especially dyed fabrics. It doesn’t mean that there is no contamination
on machine picked cotton, but the unexpected concentrated
contamination very seldom happens.
Standard Audit Initiative

by

ITMF

Audit Fatigue: Challenges and Opportunities

ITMF Annual Conference 2017
Bali - Indonesia

Presented by
Karim Shafei

September 2017
Social compliance requirements are becoming a major burden to textile manufacturers.

- Confusing and conflicting standards
- Gaps in coverage
- Costs
- Disruption to production
- Lengthy process
## Background: Standard Audit Label Initiative

### Conflicting standards: example from working hours and days off.

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<th>Days off</th>
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<td>None</td>
<td>1 / 7</td>
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<td>Macy’s</td>
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<td>72 in peak season 14 / day max</td>
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### Background: Standard Audit Label Initiative

#### Gaps in coverage: example from toilet policy

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<td>-</td>
</tr>
<tr>
<td>Sears</td>
<td>1:25 – 1:40</td>
<td>Cleaning schedule</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Macy’s</td>
<td>1:30</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>JC Penny</td>
<td>-</td>
<td>Yes</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Next</td>
<td>At least 1 male &amp; 1 female / 2 floors</td>
<td>Yes</td>
<td>-</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Legend:**
- Green: Elaborate Policy
- Yellow: Basic Policy
- Red: No Policy
Current practices are resulting in additional costs to manufacturers..

- Disruption (production interruption)
- Adaptation (different standards)
- Resources (time & manpower)
- Audit Fees (over $100 Mn cost to the industry)

Background: Standard Audit Label Initiative
Background: Standard Audit Label Initiative

In 2014 the ITMF HTP committee launched the “Standard Audit Label” Initiative to unify social compliance requirements from major retailers.

<table>
<thead>
<tr>
<th></th>
<th>SEARS</th>
<th></th>
<th></th>
<th>IKEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>WALMART</td>
<td></td>
<td></td>
<td>Otto</td>
</tr>
<tr>
<td>3</td>
<td>CARREFOUR</td>
<td></td>
<td></td>
<td>Tesco</td>
</tr>
<tr>
<td>4</td>
<td>JC PENNEY</td>
<td></td>
<td></td>
<td>Kmart</td>
</tr>
<tr>
<td>5</td>
<td>AUCHAN</td>
<td></td>
<td></td>
<td>Macy's</td>
</tr>
<tr>
<td>6</td>
<td>BBC</td>
<td></td>
<td></td>
<td>CHF</td>
</tr>
<tr>
<td>7</td>
<td>NEXT</td>
<td></td>
<td></td>
<td>Li &amp; Fung</td>
</tr>
<tr>
<td>8</td>
<td>PRIMARK</td>
<td></td>
<td></td>
<td>Lowe's</td>
</tr>
<tr>
<td>9</td>
<td>Target</td>
<td></td>
<td></td>
<td>Home Depot</td>
</tr>
<tr>
<td>10</td>
<td>Khol’s</td>
<td></td>
<td></td>
<td>PIER – 1</td>
</tr>
</tbody>
</table>
The outcome is a unified “Code Of Conduct” that covers the most stringent list of social compliance requirements, covering the 7 key topics:

<table>
<thead>
<tr>
<th></th>
<th>General</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Health &amp; Safety</td>
</tr>
<tr>
<td>3</td>
<td>Employment</td>
</tr>
<tr>
<td>4</td>
<td>Environment</td>
</tr>
<tr>
<td>5</td>
<td>Security</td>
</tr>
<tr>
<td>6</td>
<td>Corruption &amp; Business ethics</td>
</tr>
<tr>
<td>7</td>
<td>Required Documents</td>
</tr>
</tbody>
</table>
1. Introduction

2. Health & Safety

• Ventilation
• Drinking Water
• Toilet facilities
• Lighting
• Temperature
• Ergonomic conditions
• Housekeeping and Hygiene
• Equipment Safety
• Protective Equipment
  i. Foot Protection
  ii. Head Protection
  iii. Eye and Face Protection
  iv. Ear Protection
  v. Hand Protection
  vi. Body Protection
  vii. Respiratory Protection
• Hazardous material
  i. Hazardous material definition
  ii. Keeping a log of hazardous material
  iii. Handling of hazardous material
  iv. Storage of hazardous material
  v. Labeling hazardous material
• First aid

• Aisles, exits and stairwells
  i. Aisles and Stairwalls
  ii. Exits
• Electrical safety
• Emergency evacuation
• Dormitories / Living facilities / Canteen
  i. General Requirements
  ii. Security
  iii. Facilities
  iv. Material and Chemical safety
  v. Electrical Safety
  vi. Smoking
  vii. First aid and emergency response
  viii. Evacuation and Evacuation training
  ix. Fire safety
    o Dormitory and Canteen fixtures and equipment
    o Travel distance
    o Fire safety inspection
  x. Dormitory sanitation
  xi. Canteen sanitation
• Permits and building designs
• Smoking
• Alcohol and drugs
• Child care / Crèche
• Fire safety Committee
• Fire safety inspection
• Fire safety training
3. Employment

- Hiring
  i. Forced Labor
  ii. Contract Labor
  iii. Child Labor
- Labor treatment
  i. Harassment or abuse
  ii. Non-discrimination
  iii. Freedom of association and collective bargaining
  iv. Wages and benefits (labor laws)
  v. Work hours and overtime
  vi. Breaks
  vii. Rest days and holidays
  viii. Employment contracts
  ix. Worker discipline
  x. Pregnancy and maternity
  xi. Accident Insurance

4. Environment

- General waste management
- Waste storage
- Waste transport and disposal
- Wastewater and effluents management
- Air emission management
- Water management

- Energy consumption and Greenhouse Gas management
- Land use and biodiversity
- Environmental management system
- Hazardous substances management and pollution prevention
- Noise pollution
- Nuisance
- Ground contamination
- Continuous improvement
- Recycling of waste

5. Security

6. Corruption and business ethics

- Gifts and entertainment
- Anti-corruption
- Limits on supplier action
- Origination of material
- Financial integrity
- Competition and anti-trust practices

7. Documentation

Background: Standard Audit Label Initiative

The ITMF “Code Of Conduct” covers all social compliance requirements.
### Background: Standard Audit Label Initiative

And an audit tool was developed to measure the degree of compliance of participating members.

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Score</th>
<th>Maximum Score</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 General</td>
<td>28</td>
<td>36</td>
<td>78%</td>
</tr>
<tr>
<td>2 Health &amp; Safety</td>
<td>323</td>
<td>333</td>
<td>97%</td>
</tr>
<tr>
<td>3 Employment</td>
<td>76</td>
<td>150</td>
<td>51%</td>
</tr>
<tr>
<td>4 Environment</td>
<td>31</td>
<td>79</td>
<td>40%</td>
</tr>
<tr>
<td>5 Security</td>
<td>18</td>
<td>18</td>
<td>100%</td>
</tr>
<tr>
<td>6 Corruption &amp; Business ethics</td>
<td>9</td>
<td>9</td>
<td>100%</td>
</tr>
<tr>
<td>7 Required Documents</td>
<td>8</td>
<td>60</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Total Score</strong></td>
<td><strong>475</strong></td>
<td><strong>685</strong></td>
<td><strong>69%</strong></td>
</tr>
</tbody>
</table>

**Score percentage:** 69%
Background: Standard Audit Label initiative

3 auditing companies were selected to perform the audits and 8 ITMF members took a self imposed audit

<table>
<thead>
<tr>
<th>Auditor</th>
<th>India</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau Veritas</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>SGS</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Intertek</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

1. Welspun
2. Feroze1888
3. Lucky
4. Yunus
5. Gul Ahmed
6. Century
7. Trident
8. Textrade
Background: Standard Audit Label initiative

Several meetings were organized with retailers and organizations to build support for the initiative.
<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Retailers are aware of “audit fatigue”</td>
<td>+</td>
</tr>
<tr>
<td>2</td>
<td>They are happy to cooperate</td>
<td>+</td>
</tr>
<tr>
<td>3</td>
<td>Biggest issue: agree with other retailers on methodology</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Second biggest issue: cross-industry standardization</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Every retailer is part of one or several initiatives / takes time</td>
<td>-</td>
</tr>
</tbody>
</table>
**Background: Standard Audit Label initiative**

Recently Walmart switched to using 3rd party audits and other retailers seem to be following suit.

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Status</th>
</tr>
</thead>
</table>
| **Target** | - Target currently reevaluating their social compliance  
              - Not clear on next steps yet but might follow Walmart steps |
| **Walmart** | - Rolling out their social compliance to 3rd parties (8 organizations including WRAP and BSCI)  
               - Could evaluate our initiative if we have a program |
| **IKEA** | - Interest in standardizing social compliance but don’t know how yet |
| **JC Penny** | - Recognize audit fatigue do not have a plan yet for next steps  
                   (information from 2016) |
| **Li & Fung** | - Founding members of GAFTI and hosting it in their premises for now |
Recently Walmart switched to using 3\textsuperscript{rd} party audits and other retailers seem to be following suit.

- Walmart shifted to 3\textsuperscript{rd} party audits for social compliance
- They scrutinized 8 social compliance programs across different industries:
  - Best Aquaculture Practices (BAP)
  - Business Social Compliance Initiative (BSCI)
  - Electronic Industry Citizenship Coalition (EICC)
  - International Labor Organization – Better Work
  - International Council of Toy Industry CARE
  - Sedex Members Ethical Trade Audits (SMETA)
  - Social Accountability International (SA 8000)
  - Worldwide Responsible Accredited Production (WRAP)
- Suppliers can select any one of the above 8 programs
- Walmart will continue to carefully review the audits and ensure that companies are compliant through those 3\textsuperscript{rd} party audits
Future strategy: overview

ITMF to leverage its network of tens of thousands of manufacturers to create a unified voice for the industry.

<table>
<thead>
<tr>
<th>Mission</th>
<th>ITMF to become the entity representing manufacturers in various initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offering</td>
<td>Unified voice for the industry</td>
</tr>
<tr>
<td></td>
<td>Industry insight into the development of social compliance</td>
</tr>
<tr>
<td></td>
<td>The infrastructure already developed</td>
</tr>
<tr>
<td>Strategy</td>
<td>Leverage ITMF network</td>
</tr>
<tr>
<td></td>
<td>Create platform for communication</td>
</tr>
<tr>
<td></td>
<td>Consolidate the industry</td>
</tr>
<tr>
<td>Scope</td>
<td>Join forces with existing initiatives and give them weight</td>
</tr>
<tr>
<td></td>
<td>Consolidate industry players</td>
</tr>
<tr>
<td></td>
<td>Engage buyers to adopt existing initiatives</td>
</tr>
<tr>
<td>Time Frame</td>
<td>3 years</td>
</tr>
</tbody>
</table>
Future strategy: overview

In order to have an active role in the representation of the industry, the ITMF will work on 3 distinct axis:

1. Partnership with social compliance initiatives
2. Join forces with other industry bodies
3. Bring retailers on board
Future strategy: 1. Partner with social compliance initiatives

Identify and scrutinize various initiatives to strike a partnership and secure a voice for the ITMF.

<table>
<thead>
<tr>
<th>No.</th>
<th>Initiative</th>
<th>No.</th>
<th>Initiative</th>
<th>No.</th>
<th>Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business Social Compliance Initiative (BSCI)</td>
<td>16</td>
<td>ABNT (Associacao Brasileira de Normas Tecnicas) Ecolabel</td>
<td>31</td>
<td>Fair Trade USA</td>
</tr>
<tr>
<td>2</td>
<td>Global Organic Textile Standard</td>
<td>17</td>
<td>Fair for Life</td>
<td>32</td>
<td>BRC Global Standards - Consumer Products</td>
</tr>
<tr>
<td>3</td>
<td>Worldwide Responsible Accredited Production (WRAP)</td>
<td>18</td>
<td>Good Weave</td>
<td>33</td>
<td>OFDC Organic Certification Standards</td>
</tr>
<tr>
<td>4</td>
<td>Fair Trade</td>
<td>19</td>
<td>Singapore Green Labelling Scheme</td>
<td>34</td>
<td>EcoVadis</td>
</tr>
<tr>
<td>5</td>
<td>OEKO Tex</td>
<td>20</td>
<td>Soil Association Organic Standards</td>
<td>35</td>
<td>Climate, Community &amp; Biodiversity Standards (CCB) Standards</td>
</tr>
<tr>
<td>6</td>
<td>Ethical Trading Initiative</td>
<td>21</td>
<td>Thai Green Label</td>
<td>36</td>
<td>FLA Workplace Code of Conduct</td>
</tr>
<tr>
<td>7</td>
<td>Bluesign ag</td>
<td>22</td>
<td>China Environmental Labeling</td>
<td>37</td>
<td>Global Reporting Initiative (GRI)</td>
</tr>
<tr>
<td>8</td>
<td>Disha Common Code of Conduct</td>
<td>23</td>
<td>Cotton made in Africa</td>
<td>38</td>
<td>LIFE Certification</td>
</tr>
<tr>
<td>9</td>
<td>Fair Wear Foundation (FWF)</td>
<td>24</td>
<td>International Labour Standards</td>
<td>39</td>
<td>OECD Guidelines for Multinational Enterprises</td>
</tr>
<tr>
<td>10</td>
<td>Naturland</td>
<td>25</td>
<td>China Social Compliance for Textile and Apparel Industry CSC9000T</td>
<td>40</td>
<td>Sedex Members Ethical Trade Audit - SMETA</td>
</tr>
<tr>
<td>11</td>
<td>Better Cotton Initiative (BCI)</td>
<td>26</td>
<td>Ekolabel Indonesia</td>
<td>41</td>
<td>Social Accountability International - SA8000</td>
</tr>
<tr>
<td>12</td>
<td>Step by Oeko Tex</td>
<td>27</td>
<td>TerraChoice</td>
<td>42</td>
<td>UN Global Compact</td>
</tr>
<tr>
<td>13</td>
<td>Workplace Conditions Assessment (WCA)</td>
<td>28</td>
<td>Hong Kong Green Label Scheme - HKGLS</td>
<td>43</td>
<td>Verified Carbon Standard - VCS</td>
</tr>
<tr>
<td>14</td>
<td>EU Ecolabel</td>
<td>29</td>
<td>Singapore Green Labelling Scheme (SGLS)</td>
<td>44</td>
<td>WFTO Guarantee System</td>
</tr>
<tr>
<td>15</td>
<td>Naturland</td>
<td>30</td>
<td>Workplace Conditions Assessment (WCA)</td>
<td>45</td>
<td>Alliance for Water Stewardship</td>
</tr>
</tbody>
</table>
Future strategy: 2. Join forces with other industry bodies

**Identify other industry organizations and consolidate industry voice possibly through creating a steering committee**

**Ongoing discussions with:**
- International Apparel Federation

**Examples of other organizations:**
- **Industrial organizations**
  (such as: National Council of Textile Organizations, EURATEX, American Sewing Guild, European Textile Services Association, etc.)

- **Trade and retail organizations**
  (such as: National Retail Federation, American Footwear and Apparel Association, European Fashion Council, etc.)

- **Fiber organizations**
  (Cotton USA, ICAC, Woolmark, etc.)
There are multiple reasons why retailers would join the initiative:

1. **Increase efficiency**
   Opportunity to reduce cost, time and effort

2. **Consolidate know-how**
   Make available best practices from several platforms

3. **Expand supplier base faster**
   Easier to bring new manufacturers on board

4. **Visibility into the entire value chain**
   A unified code of conduct will facilitate auditing earlier stages of the process

5. **Support a universal industry standard**
   Opportunity to communicate with consumers
The initiative will bring a number of benefits to ITMF members...

1. Gain access to several organizations
   Information / updates / influence decision making

2. Belong to a large-scale platform
   Recognized by customers / NGO’s / Governments

3. Participate in decision making
   Influence future developments in the sector

4. Level playing field
   Especially with regards to digital retailers

5. Save costs
   Avoid multiple audits
The initiative will position the ITMF as a platform for communication and playing a pivotal role in shaping the future of the textile industry.

1. Expand corporate membership
   Show benefits to members

2. Potential source of additional funding
   By partaking in audit fees

3. Expand ITMF role / influence
   By taking an active role in the development of the industry
A taskforce headed by a steering committee will be structured to manage the initiative:

1. **Define strategic direction**
   Manage the developments of the initiative and take strategic decisions

2. **Provide support**
   Provide contacts to buyers, organizations and other stakeholders

3. **Act as ambassadors**
   Help recruiting support to the initiative

4. **Represent the initiative in various forums**
   Act as industry representatives in various relevant forums
Some factors can affect the success of the project. However, market conditions are favourable and there are no risks to the ITMF.

1. Buyers do not join
   They continue to use their own methodology

2. Inability to consolidate the industry
   ITMF is not able to bring together various organizations or support from members

3. No active role in decision making
   ITMF does not secure a voice (seat) in the targeted organizations

4. Too many initiatives
   Inability to select winning initiatives
The initiative is expected to take 3 years to reach full maturity.

**Year 1**
- Partnership with existing initiatives
- Build consensus in the industry
- Approach select retailers

**Year 2**
- Expand the initiative to other retailers and organizations
- Expand ITMF membership

**Year 3**
- Expand initiative beyond social compliance
Future strategy: First year milestones

The first year will mark the launch of the project setting the framework for following steps..

<table>
<thead>
<tr>
<th></th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board approval and launch of project</td>
<td>✅</td>
<td></td>
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<td></td>
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<tr>
<td>Recruit and appoint project coordinator</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✅</td>
</tr>
<tr>
<td>Scouting and selection of SC partners</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✅</td>
</tr>
<tr>
<td>Partnership with industry organizations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✅</td>
</tr>
<tr>
<td>Committee and support of members</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✅</td>
</tr>
<tr>
<td>Approach to buyers</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
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<td>✅</td>
</tr>
</tbody>
</table>
Standard Audit Initiative

by

Audit Fatigue: Challenges and Opportunities

ITMF Annual Conference 2017
Bali - Indonesia

Presented by
Karim Shafei

September 2017