

REPORT

from the

Task Force on the Challenges from
Competing Fibers

to the 72nd Plenary Meeting of the

INTERNATIONAL COTTON ADVISORY COMMITTEE

Cartagena, Colombia

September 29-October 4, 2013

Scope of Work

At the instruction of the 71st Plenary Meeting of ICAC, the 521st Meeting of the Standing Committee established a Task Force on the Challenges from Competing Fibers. The Task Force was not expected to conduct original research, but was asked to pull together summaries of studies already conducted, to highlight major findings and to develop recommendations for government and industry action.

Members of the Task Force conducted seven conference calls for discussion of major issues affecting fiber competition. The following issues and recommendations were identified as crucial.

Trends in Cotton's Market Share

At the ICAC 71st Plenary Meeting analysts reported that polyester now dominates the global fiber market and cotton's market share continues to decline. It is expected that polyester fiber quality will improve and production capacity will increase further. It was noted that natural fiber industries would face strong competition from alternative fibers during the remainder of the current decade.

The ICAC Secretariat research indicates that increased business risks stemming from higher and more volatile cotton prices, recession followed by weak and decelerating economic growth in industrialized countries, and economic slowdown in developing countries contributed to the loss of 12% of the market for cotton textiles between 2007 and 2012. Cotton consumption declined in all regions, although more strongly so in industrialized countries. Non-cotton fiber consumption, on the other hand, increased by 20% to 51.5 million tons between 2007 and 2012, mostly during the recovery started in 2009. So not only non-cotton textiles covered the demand destruction observed in cotton textiles, but they also satisfied the increasing needs of a bigger and higher earning world population.

According to the ICAC Textile Demand Model cotton market share declined from 38.5% in 2008 to 32.2 in 2011 and to 31.2% in 2012. While a moderate rebound to 31.8% is projected in 2013, the projected increase assumes cotton prices will remain competitive with polyester prices and postponed consumption of cotton goods in industrialized countries during 2010 and 2011 will play a major role in spurring cotton demand.

The Task Force reviewed Dr. Bruna Angel's presentation on economics of fiber competition. China cotton prices remain very high, while polyester has excessive capacity and declining prices. That makes it very hard for cotton to compete and cotton could continue to lose market share. The report also provides an example of how Lenzing has marketed a sustainability message very successfully, at cotton's expense. Cotton should address the issue of sustainable production and should find a good message to deliver. Dr. Bruna Angel's presentations in full are placed on the Task Force page of the ICAC web site.

Factors Causing Cotton's Decreased Market Share and Recommendations for Actions

Volatility

Cotton price volatility is one of the features negatively affecting competitiveness of cotton. Natural price volatility stems from shifts in fundamental factors affecting supply and demand, including

weather, economic growth, and changes in consumer preferences. The world currency fluctuations also result in great price shifts. Markets can adapt to naturally occurring volatility and take steps to mitigate the consequences. Government policies and direct government interventions in cotton markets are among factors causing high volatility and can have disastrous consequences because of the size, flexibility and unanticipated nature of such interventions. Price volatility caused by government interventions threatens the future of the cotton economy.

Governments are asked to heighten transparency in cotton policies, and to improve information and statistics on cotton supplies and stocks. Even though current volatility is low compared to the previous two seasons it is higher than in manmade fibers and can push retailers to shifts to higher blends textiles. Shifts towards relative price stability are desirable. Government policies should strive to aid price stability.

Speculation

The Task Force discussed on how much speculation promotes liquidity or causes excess volatility. Research results apparently are inconclusive. Key issues lie in the transparency of the government programs implementation, constraints by some countries on investing in international markets and limited delivery points. Members agreed that where regulatory oversight is appropriate, programs should be implemented transparently.

All Governments should be urged to permit the cotton trade within their respective countries and access to international hedging facilities without financial restrictions. In those countries, which impose foreign exchange restrictions to avoid the outflow of margin calls, purchasing options should be permitted as being a fixed and one time limited expense/remittance.

The Task Force also discussed a world cotton contract and noted that the International Cotton Association has a task force responsible for looking into such a vehicle and agreed that such a vehicle is within the purview of the private sector and, where regulated, should be regulated transparently.

Labeling

The Task Force discussed the importance of content labeling laws and practices in different countries. It was recalled that several years ago Cotton Incorporated conducted a survey on content labeling and presented a report to ICAC. Governments are urged to introduce and strengthen content labeling legislation and an enforcement of it. It was proposed that the Secretariat should look into updating the earlier study on content labeling.

Standardized Testing and Classification

Standardized Classification of cotton is imperative for improving the marketing and branding. Large investments into the complete High Volume Instrument (HVI) classification system were made to achieve the goal in several countries. Members agreed on the benefits of standardization and adoption of HVI testing.

The Members endorsed the CSITC work on standardization of HVI testing. The Task Force agreed that the global textile value chain should adopt a unified platform on Standardized Classification of cotton lint around the world that is created by CSITC guidelines.

Members highlighted an example of USA where complete HVI classification system is effective in achieving the goal. Other countries, including Australia, Brazil, China, Israel and Uzbekistan have pursued increased use of standardized testing and classification systems.

Practical steps to achieve a higher level of global standardization should be developed further. It was noted that India is aiming at legislation on marking and labeling (electronic), and trying to introduce it for cotton at the ginning stage.

Sustainability

It was noted that sustainability issues are becoming increasingly important for major brands and retailers and much work needs to be done on communicating and educating the consumers on the sustainability of cotton production.

There is a critical need to respond and provide an informed public policy debate about the environmental impacts of cotton production that highlight the environmental, social and product benefits of cotton vis-à-vis other fibers. Areas included the difference between renewable and non-renewable resource use, the economic development opportunities in cotton and the benefits for the human body and skin.

There was intense discussion and lack of consensus on the role of the ICAC in this effort, but there was unanimous support that the IFCP report on benefits of cotton and that Cotton Incorporated's work on new technologies to improve the use of cotton in new products should be more widely publicized.

Members also agreed that it is important to more effectively communicate the sustainable characteristics of cotton to relevant EU standards development bodies. The Task Force noted the irony that cotton (except for organic) was deemed a non-sustainable fiber in the EU while recycled non-renewable fibers, which quickly end up in landfill never decompose, are deemed sustainable. While every fiber has different environmental footprints, areas for improvements for cotton include water use, soil conservation and pesticide use.

There was consensus that the advantageous properties of cotton should be highlighted and members expressed support for all initiatives aimed at improving sustainability as a factor for competitiveness. Critical, from a marketing perspective, is that identity cotton not undermining cotton as the preferred fiber. An ICAC task force on identity cotton is addressing this issue.

Separately, the Expert Panel on Social, Environmental and Economic Performance (SEEP) of Cotton is developing a comprehensive report on cotton production sustainability. The Expert Panel chair, Allan Williams, discussed the draft SEEP report with the Task Force. Mr. Williams informed members that the Panel is focusing on identifying the core indicators for measuring sustainability in cotton production and in agriculture in general and should provide framework of sustainability measurement for stakeholders, international community and governments.

The indicators under discussion include pest and pesticide measurement, water and land use, economic viability, food security, poverty reduction and working conditions. Members discussed the difficulties in obtaining a reliable data for use in measuring indicators and challenges in comparing (ranking) indicators for agricultural commodities with industrial products, such as polyester, and the importance of communicating the results to key stakeholders, especially in Europe.

Identifying the Benefits of Cotton

Members reviewed Dr. Malgorzata Zimmiewska's report on technical benefits of cotton in comparison to viscose and polyester fibers. It was decided to use these findings on benefits of

cotton more actively in promoting cotton against man made fibers and to share these studies with other cotton bodies for promotional purposes.

Major conclusions of the study indicate that technical benefits of cotton include considerably more resistance to abrasion and wear, compared with man-made and viscose fibers. Cotton garments have good moisture absorption capacity and have good aesthetic appearance for longer time, suggesting an additional sustainability component.

Research documented that cotton has a positive effect on human body compared with polyester and has many health benefits including the level of immunoglobulin A, sebaceous gland activity, parameters of oxidative stress and muscle tension as opposed to the examined polyester clothing, which may have an unfavorable influence on the human body. Cotton or linen bedding have the most positive influence on human rest and sleep quality.

The general conclusion of the study was that garments made of cotton, in contrast to synthetic-polyester garments, positively influence human physiology, ensuring the most favorable environment for human body. The best uses for cotton textile are: home textiles and garments including underwear, outerwear, children's wear, apparels for everyday life, work, leisure, sleep and others. There are also excellent opportunities for cotton in cosmetic and medical textiles.

Dr. Malgorzata Zimmiewska's reports on Cotton vs. Man-made Fibers, Technology-Promotion of Performance Cotton and Identifying the benefits of Cotton are placed in full on the Task Force page of the ICAC web site.

Cotton Promotion

The Task Force discussed the role of the ICAC in cotton promotion. Members noted that there is a need for greater promotion of cotton and that some members observed that there may be a place for greater ICAC involvement.

It was noted that ICAC sponsored the creation of the IFCP to assist promotional efforts. IFCP supports efforts that promote cotton by sharing best practices and providing a place for different association bodies to share and collaborate on cotton promotion.

The challenge to improve cotton's declining global market would benefit from a unified approach toward competing against synthetic fibers. Members highlighted the importance of educating brands, retailers and consumers on health benefits of cotton. The Task Force did not reach consensus on whether ICAC should assume greater advocacy in cotton promotion but did invite more discussion on this subject. The Task Force did agree that ICAC is well placed to communicate the technical/sustainability benefits of cotton to relevant stakeholders, including standards development bodies in Europe.

Additional Information Reviewed

Members reviewed a report of the Chair on the ICAC seminar held on April 18, 2013 on Meeting Cotton's Competitive Challenges. The report was circulated among members. Among strategies proposed for the ICAC at the seminar were:

- Raise awareness of the social and economic benefits of world cotton production;
- Educate the public about the environmental impacts of cotton production;

- Work with producer organizations to provide positive information about cotton to consumers, governments and NGOs;
- Identify influential organizations in countries and work with those organizations to advocate for cotton;
- Be a more vocal advocate for the cotton industry;
- Educate government officials on the impacts of interventions on the cotton value chain;
- Facilitate standardization of instrument testing of cotton.

Members of the Task Force

Kevin Latner - USA, The Chair
A. B. Joshi - India, The Vice Chair

Bruna Angel – Colombia
Andreas Engelhard – Switzerland
Sebahattin Gazanfer – Turkey
Peter Johnson – Australia
Andrew Macdonald – Brazil
Malgorzata Zimniewska – Poland
Khawaja M. Zubair – Pakistan

Andrei Guitchounts served as Secretariat