



From the Secretariat

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ICAC Panel: "Lack of Contract Sanctity Threatens the Industry's Viability"

Monetary issues aren't usually the first thing that come to people's minds when they think about sustainability, but no matter how socially and environmentally friendly an industry is, if companies can't make money, it will collapse.

That's why a discussion of the impact of contract defaults was one of the most anticipated sessions at ICAC's 71st Plenary Meeting in Interlaken, Switzerland. The Second Breakout Session, held at 4:00 p.m. on Oct. 9, made it perfectly clear that contract sanctity is crucial to the future viability of the cotton industry.

The panel discussion included five experts from various sectors of the cotton supply chain: Kai Hughes, International Cotton Association (ICA); Andrew Macdonald, AMCON Consulting; Julia Salasky, UN Commission on International Trade Law; Quamrul Ahsan, Cotton Bangladesh; and Esther Berkelaar, Rabobank International. The moderator was ECOM's David Rosenberg.

While all stakeholders in the trade are aware that contract sanctity is a concern, they might not have known the extent of the situation. According to Hughes, ICA normally handles about 60 arbitrations per year, but last year that number quadrupled to 242 -- an all-time high. "Unfortunately, we are already at more than 200 arbitrations in 2012, and it looks as though we will set a new record before the year is out," he said.

One possible solution was suggested by AMCON's Macdonald, who pointed out that contract sanctity ends at the ICA contract -- in other words, at the spinning mill. "The spinner has no recourse if the weaver defaults ... the weaver has no recourse if the garment manufacturer defaults ... and the garment manufacturer has no recourse if the retailer defaults," he said.

Macdonald proposed that stakeholders at every step of the chain should be compelled to take out some type of protection, such as default insurance, to guarantee that everyone is secure. "If any link in the supply chain breaks, the entire system breaks down," he said. "What we need is a single link that includes and protects everyone, from producer through retailer."

One point that all of the panelists agreed on: While the percentage of contracts that go to arbitration in a given year is very small, their detrimental impact on the industry can be devastating -- and can even affect an entire country's attractiveness to lenders, Berkelaar added.

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The Secretariat of the Committee publishes information related to world cotton production, supply, demand and prices, and provides technical information on cotton production technology. Detailed statistics are found bimonthly in *COTTON: Review of the World Situation*, \$190 per year via email, \$230 per year in hard copy. A monthly outlook is available by email for \$300 per year. Access to the latest weekly estimates of world cotton supply and use by the Secretariat is available on the Internet for \$460 per year. Access Secretariat reports at <http://icac.org>.