



**INTERNATIONAL
COTTON
ADVISORY
COMMITTEE**

**5th MEETING OF THE
PSAC TEXTILES COMMITTEE
Wednesday, April 17, 2024
8:00 am, Washington DC**

Minutes

The PSAC members who attended the meeting: Mark Sussman, Anees Khawaja, Volkan Seyok, Dimitris Polychronos, Rakesh Mehra, Liza Sokolova, Iwona Frydrych

Observers/Presenters: Lorena Ruiz, Eva Bille

The ICAC Secretariat staff who attended the meeting:
Parkhi Vats, Eric Trachtenberg, Lorena Ruiz

Meeting video: <https://youtu.be/-7CtPRuCHhA>

Presentation by Lorena Ruiz, ICAC: <https://youtu.be/o4cybMwoQ8E>

Presentation by Eva Bille, Hill Knowlton Strategies: <https://youtu.be/dSj4wmVH5js>

Parkhi: The objective of PSAC for 2024 is to prove or disprove that natural fibers may not enjoy a level playing field against man-made fibers in terms of traceability, regulations, available solutions, livelihood involved, etc. We have a session planned on the similar topic at the ICAC Plenary Meeting in Uzbekistan later this year.

Presentation by Eva Bille, Hill Knowlton Strategies.

Parkhi: As the regulations stand currently, do you think products made up of man-made fibers face any regulation challenges, or will these products be accepted in EU as a regulation stand correct currently,

Eva: They do face the same requirements as the cotton does, so they will not be escaping the reporting requirements or the green claims requirements, but the way the regulation is set up right now, it will be significantly easier for them to meet the requirements, because the supply chains are shorter. There are fewer people and stakeholders involved. They have the same requirements on paper for data. But it will be less of a burden to meet those requirements because of the way the supply chains are set up.



Parkhi: do the EU regulations, apart from the forced labor prevention, have any other social angle to the labeling requirements or any other requirements?

Eva: There are some, yes. So empowering consumers does as well, a little bit, but I think the main ones are the CSRD, the corporate sustainability reporting directive. There's a bunch of social requirements in there as well, including worker wellbeing, and a grievance mechanism and all that. And in the corporate sustainability due diligence directive as well, that includes a bunch of mainly UN conventions on human rights and labor, etc. It is in there in those two legislations, but it has not been a main focus.

Parkhi: Does it involve the livelihood, for example, which might get impacted by a change in regulation?

Eva: Not really, it's more indirect. It's more in the CSRD. It's in the measuring what is happening in CSDDD, is it to make sure that no adverse impacts are happening. But the livelihood aspect is not prominent enough in EU regulation.

Eric: ICAC has also been very active, and we're taking two tracks. One, we're working with our partners in Brussels on the more public side, but also, we've been engaging with the Commission because ICAC reports to the EU, and we want to help their regulations be successful. Because our mission is to help member governments be more effective in both the cotton and related economy. At the same time the PSAC is working on a document to give high-level comments and to try to inform this regulatory process. I met with DG environment and DG grow, and I think they understand the need to have a level playing field, and we want to give them the technical information they need.

Dimitris: Do you know whether these regulations will be implemented for all cotton-related products, for example, garments, or if it's going to be only for the commodity?

Eva: It will be for everything. Of course it depends on the regulation itself. But it is going to be for all the products, and the commodity is more likely to be a secondary because cotton is mostly produced outside of Europe, so most of the law applies to cotton as a textile product primarily.

Dimitris: So, there will be controversy, there will be laws in Europe for products that will be sold in Europe but produced in other places.

Eva: That is a big controversy, and there was a big conference about that this week, the European Commission, and whether they are overstepping their role, because these laws on how things are produced, how they're grown, how they're measured. And the most



controversial of those laws is the deforestation regulation, because the EU is defining what “deforestation free” means and telling countries that their laws on deforestation are not sufficient. Many are saying that the EU is in some ways going beyond its legislative powers, but this is a big political debate.

Eric: Some countries have expressed concern whether these laws are consistent with the agreement on technical barriers to trade. For example, there's the principle of national treatment, and that products that are imported must be subject to the same rules and regulations that products that are domestically grown. It's not ICAC's role to take positions on TBT or SPS issues, sanitary and private issues, but I've heard them, and there is a high probability, if they are implemented, that some countries would look at it as a trade issue. But again, ICAC is neutral on those kinds of issues.

Parkhi: Will there be a different timeline with respect to developing or least developed countries, or everybody will be subjected to the same timeline? And second, if there is any clarity of how blends will be subjected to regulation?

Eva: There are no provisions in the laws to make it easier in least developed countries, it really is about the products that enter the EU market and the traceability of what is there, and the data that is provided for each specific product parts. This also answers your second question. People who want to sell products or the textiles on the EU market must have the data of how the synthetic part was made, and the data on how the cotton was made. And if they cannot provide the data for how the cotton was made, then it might be a selection problem. They then will choose to not buy cotton from least developed countries if the least developed countries are not able to provide them with the data that they need for these EU regulations. It is a bit complicated. CSRD and the reporting directive were built mostly for people to report on what they are doing. But the other ones, like green claims or eco-design, could make a difference in choosing the least complex fiber, because it's easier to provide data for that. This is why I mentioned the three consultations at the end of the presentation, because it's important to raise those comments and talk about the benefits that cotton provides to the value chain and to livelihoods. It's important that that argument is made so that it's not just about the complexity of the value chain, but it's also a positive point, because it provides livelihoods to so many people along that value chain.

Parkhi: I want to understand two aspects. 1) Is the EU thinking about any subsidies to help companies adjust to these upcoming regulations? 2) For example, in the current case of UFLPA law in the United States, the US government is absorbing the cost to check if it can be traced back to a particular region. Is this something that the EU will be debating on absorbing the cost when it comes to at least the forced labor protection act?



Eva: It's not something that's directly set up within the legislative instruments of the laws that I mentioned, but it is something that the EU operates in a more siloed approach. There is no funding mechanism for this law within the law itself. But funding options are available under Horizon Europe and the Recovery Resilience Funds and under the Innovation Fund.

Parkhi: Not to be controversial, but could it be easier for the EU companies to adapt to this regulation in terms of costs?

Eva: Well, it depends on the regulation. It is probably going to be easier for the EU companies simply because of access to information. For that reason alone, that might be easier for them to comply with these regulations. But on the other hand, EU companies are subjected earlier and hit harder. There are more regulations that hit EU companies than companies that are outside the EU selling to the EU, so EU headquartered companies have a lot more requirements and a lot earlier than other companies. They might have a bit more assistance, but they also have a lot more requirements than non-EU companies do.

Presentation by Lorena Ruiz, ICAC

Parkhi: You mentioned that the price competitiveness of cotton works in a way that whenever prices rise, we lose market share. Is the same kind of trend seen in man-made fibers?

Lorena: Not exactly. Last week that I checked the prices, it was about 83 cents per pound, and polyester price was half of it. That's the main issue that we currently have. The problem with cotton prices, as we see it, is the volatility. The price could be high, so textile mills could plan beforehand how much is going to cost. The problem comes when volatility is too high and prices go up and down, and that's when it's difficult for them to determine any strategy, because what you're buying today, is going to affect the products that they're going to produce tomorrow. It takes a little bit of a lag between when they buy the cotton and then transform the cotton into the final products.

Rakesh: We are always saying that polyester is taking market share. Do we have the kind of cotton that the apparel industry requires? There's a shortage of cotton everywhere, according to my information, at least in India, we don't have cotton because of poor yields. Is it right to compare and accept that we are losing market share? Because we don't have the raw material. Can we match polyester? No. Can we match man-made fibers? No.

Lorena: The truth is that textile, the fiber demand is increasing, and someone must match that increase. The demand will continue to increase. The question is: can the cotton industry increase production? The max we have been able to produce is only 28 million tons. When we say we're losing market share it's because as an industry, we haven't been able to increase yields, which



will allow us to increase production and increase the demand. Your point is valid. There are a couple of regions that have a potential to increase productivity, but today, those regions are not improving fast enough to be able to produce more cotton. The United States already have yields that cannot improve anymore. Brazil probably can increase a little bit of the area, but the potential regions that can really do something is India, which is 40% of the area, and Africa, which is 10% of the area.

Rakesh: We are all trying, but it's not happening in India, we need some kind of concentrated effort.

Lorena: Usually everyone is concentrating on the topic of losing market share. But can we do something to increase production? And there's another point: if we increase production, it means that we're going to have more supply output. That's going to affect the way prices behave, which means that we might be seeing some drop in prices due to the behavior of the market. Does the current price really cover the cost of production that the farmers have? Considering the inflation that we currently have and the input costs that we have?

Rakesh: That's for the consumer to decide whether they want cotton or polyester. But the main point is that we are losing market share because we don't have the raw material available, and the increased demand is coming from man-made fibers. The point is that whatever increase is there in the next 10 years, it's going to come from man-made fibers, because cotton area is limited and there is no increase in area. Nobody talks of yields in India and Africa, right?

Lorena: Another important question: will the environmental regulation push to favor natural fibers, are we going to see increased demand for this type of products? As an industry, we should be thinking of strategies to tackle these main issues. Can we do something with India and Africa to increase production? Because if we cannot, there's not going to be an increase in demand for sure.

Anees: Regarding the data and the disruptions that we get, for example, our demands are affected by what is happening in Ukraine and Russia, what is happening between the US and Chinese economy, and that sort of affects the demand most of the times. In our future presentations, can we add some sort of graphical data and try to highlight what sort of incident happened? For example, covid happened, and the demand fell for everything, and then there was a robust demand again coming in. Can we pick some incidents and see in the last 50 years of data how it has affected our demand?

Lorena: The truth is that since 2018 we had very intense events shocking the industry that we had not seen in the past. We had the disruption, the trade dispute, and then covid, then the demand recovered, and then we had the shipping crisis, and then we have inflation, and then



we have the Russian war in Ukraine. And then we had the interest rates and economic slowdown. In less than five-six years, we had a lot of events. Data is changing very fast, and these factors affecting the demand for textile fibers, which is population and economic growth, are affecting the way of sourcing the raw materials. Today even the models that we have are being challenged by these types of events. The US was always the third largest producer of cotton and the first and the largest exporter of cotton. Today Brazil is increasing very fast, they are the third largest producer, at least in this season, and they're targeting to be the largest exporter. So those type of variables are changing the dynamics of the market.

Parkhi: What variables do you think can or will pivot the demand towards cotton on natural fibers versus man-made fibers?

Lorena: There is this way of thinking, how we can increase demand. And if we look at the economic part, cotton doesn't have an advantage like prices, we cannot compete with prices, so we must move forward to something else. Could it be marketing? Promoting cotton as a natural fiber, a biodegradable one. It provides social support in some regions. We can make a strong point on this part, and then we can promote cotton as the fiber that can help industries and countries. Another answer is technology, the improvements that cotton can have to be part of the other sectors, not only apparel and textiles. Remember, 80% of cotton, goes to apparel and textiles, but it's another 10-15% that go to home textiles, and another 5% that goes to weapons. These are the areas that cotton industry needs to explore to increase the demand in the future. Prices for cotton were not always so high compared to polyester. We can see this trend has increased in the last 10-15 years. But before that we were very close.

Parkhi: We were talking about increasing the level of production. Do you think increasing production will ultimately lead to increase in demand or consumption of cotton? Or do you think it will lead to a price war between major producers?

Lorena: We cannot increase the money if we don't have the production to increase it. If one increases, we need to do a very good job on understanding the demand for textile fibers, what are the requirements from brands and retailers. If farmers are going to be working at the field, not communicating with what's happening in the rest of the world, in terms of demand, there must be something that connects those, like links of the cotton value chain. From farmers to brands and retailers. That's why countries like Brazil and the US and Australia have very strong promotion campaigns, the farmers go to see the textile mills, or they bring textile mills to the cotton fields. The US has been doing a great job by maintaining the communication with textiles and garmenting industry, like Cotton Inc does in terms of exploring new markets and developing new fabrics and teaching the industry of the advantages of using cotton.



**INTERNATIONAL
COTTON
ADVISORY
COMMITTEE**

Parkhi: Regarding the price gap between polyester and cotton, it widens. Do you think there is a threat that the market share shrinks further, and cotton ultimately becomes a luxury product which only the super-rich consumers can afford?

Lorena: I don't know how far the difference between polyester and cotton prices can go, currently it is about 50%, it is definitely going to affect the demand. What happened in the past when cotton prices went up more than 200 cents per pound, in 2010-11, is that the quality of the fabric went worse, having more polyester than cotton. We cannot get rid of polyester at all because we don't have the production to cover the demand. I think the strategy that we should be talking about, is how we can work together with the industry to have more blends containing cotton, which, in the end, is going to increase the demand. Polyester comes mainly from China. And the United States currently has an issue with the imports from Temu and Shein. The minimum amount is about \$800 for imports, and you can see that it's mainly polyester garments that are being imported, and there's no regulation about that. There is a lot of discussion in the US Congress to see if they can control these imports into the country.

Parkhi: Looks like Anees is not able to unmute himself. If there are no further questions, may I ask the committee to adjourn, and then we will get back with the next committee meeting date. We are expecting the next meeting to be in the month of June or July. Thank you everybody, and we'll see you all in June.