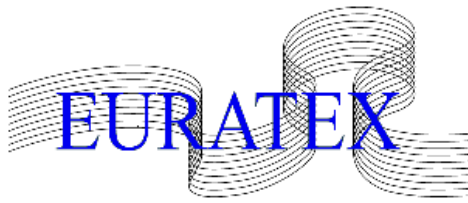


RAW MATERIALS POSITION PAPER

A- CHALLENGING ENVIRONMENT FOR EU T&C COMPANIES

1. Access to Raw Materials is becoming an extremely urgent and mounting problem for the EU Industry. Initially circumscribed to a limited number of Raw Materials, mainly minerals, is now rapidly spreading to other products affecting a growing number of sectors, including the textile & clothing industry. This means that EU (Commission, Member States and Parliament) and national Authorities have to closely monitor the Raw Materials market evolution, with the support of Industry representatives, and be able to react fast to the rapid changes that are occurring.
2. As a consequence the EU cannot limit its actions to a reduced List of “Critical Raw Materials”- composed mainly of minerals - which were defined before the current market disturbances occurred. Today the EU Industry is facing problems in an increasing number of Raw Materials and in the textile & clothing sector this is particularly stringent for Cotton fibres.
3. The steep growth of emerging economies like China, India or Brazil is creating considerable pressure in the markets leading to important availability problems and price fluctuations. The Commodity Price Index has risen almost **28%** from July 2010 to January 2011. The rise is even more significant if we take the Commodity Agricultural Raw Materials Price Index (including Cotton and Wool) near **30%** increase for the same period.
4. The fact that some important Textile Raw Materials Producers are taking measures to limit exports is a factor creating even higher market disturbances. This is particularly the case for Cotton Fibres. Since India, the second largest World Cotton Producer, has decided to limit its Raw Cotton Exports at a level below past performances (950.000 ton limit contrary to 1,4 million ton previous Exports) in a year the crops were higher. Moreover the additional cap on Exports of Cotton Yarn has contributed even more to create a chaotic market situation with prices reaching never seen levels - **in July 2010 Raw Cotton Price was 84,15 US cents per pound and in 22nd February 2011 the Price reached 226,50 US cents per pound (+135%).**
5. Moreover important market players, like China, are following a policy to buy extensively in the market, building up stocks of critical Raw Materials- like Cotton- in order to prevent eventual domestic shortages and give local industry the benefit of lower prices- dual pricing. This policy creates additional availability and price pressure apart from giving an unfair competitive advantage to local manufacturers.
6. The situation, while not so extreme for other Textile Raw Materials, is still worrying as market fluctuations and price increases are following the general Raw Materials evolution and in particular the Cotton trend as it can be seen in the table below:



FIBRE	Price Σ 12/2009- 12/2010 ¹
Cotton	140%
Wool	40%
Silk	100%
Linen	40% ²
MMF	30%-35%(according to Fibre)

Regarding MMF-Man-made Fibres the price increases are directly linked with the price increases of the Raw Materials that are used in the production(i.e. mainly oil and its derivatives: caprolactam, adipic and terephthalic acid, monoethylene glycol etc. as well as wood and cellulose).

B- THE EU FRAMEWORK – CRITICAL ACTIONS

7. EU needs to adjust its actions to this changing reality. Therefore the EU Commission should be able to address the more urgent matters in the short term- as it is the case for the measures taken by Third Countries to prevent or limit EU access to Raw Materials- and define a medium to long term strategy to ensure availability of Raw Materials for the EU Industry.
8. Market surveillance is also needed to ensure that instability and price fluctuations are kept under control and they are not the pure result of speculation and the growing intervention of financial operators in this market. The G20 is currently evaluating what measures should be taken to avoid speculation taking over this market and in this context Cotton is one of the commodities that should be closely monitored.

EURATEX considers that the complexity of the problem merits to be addressed in an integrated and coordinated way and the Commission, along with Member States, should launch a comprehensive policy approach covering trade, development, skills, research, innovation and internal market actions.

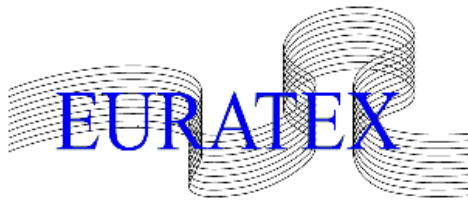
TRADE

- **Ensure consistent Raw Materials Provisions in Multilateral as well as in Bilateral Trade Agreements:**

(a) Multilateral: Article XI paragraph 1 of WTO-GATT establishes a general ban on Export Prohibitions/Restrictions. However paragraph 2 allows for temporary measures in case of “critical shortages of foodstuffs or other products essential to the exporting contracting party”. This general concept allows a broad interpretation and

¹ Please note that these variations relate to a certain period of time. Subsequently for most of these Fibres there have been additional price increases in 2011.

² Festal data



could legally shelter some of the actions taken by Third Countries to protect their local Industry in detriment of exports. ► The EU should strive for a reinforcement of this GATT/WTO provision by limiting the exception of paragraph two to foodstuffs or at least quantify “critical shortages” to avoid a misuse of this general concept. A special provision should also be included to prevent government policies to subsidize domestic industries by artificially manipulating prices- dual price policy.

(b) Bilateral: The EU is currently negotiating FTAs with countries that are important Raw Materials Producers and some of them have an history of taking measures to limit or prevent exports(i.e. India for Cotton). In this context it is critical to include in the Agreements a specific provision to ban effectively all prohibitions or restrictions of Raw Materials Exports, including Export Duties or Quota limitations. In case of non-compliance the agreements should foresee the possibility to react fast using a reinforced Dispute Settlement Mechanism.

- **Take action at WTO**

Whenever restrictive measures are not withdrawn via a consensual approach, within a reasonable short period of time, the EU should envisage a WTO action. In parallel the EU should seek to obtain a critical mass of support from other affected countries. This goes in parallel with the strengthening of WTO Rules- Article XI.

- **Prevent countries applying restrictive measures to benefit from Preferential Treatment (GSP) when assessing the EU market**

Apart from the Multilateral and Bilateral provisions in Trade Agreements, the EU should take the opportunity, in the ongoing revision of its Preferences System (GSP), to prevent access to those countries adopting restrictive measures regarding Raw Materials.

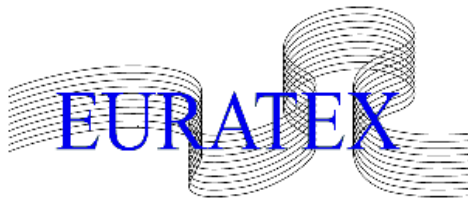
- **Use existing mechanisms to identify and address restrictive measures in Third Countries- i.e. Market Access Partnership**

Once a measure is taken by a Third Country the EU and Members States Authorities should deploy all their resources to convince the country to withdraw such a measure using all the available negotiation leverage namely existing Bilateral Trade Negotiations or other bilateral forum.

DEVELOPMENT

- **Support Good Governance Practices in Third Countries**

The EU should encourage Third Countries to refrain from distortive and restrictive



measures regarding Raw Materials. This could be done through EU Assistance and Cooperation Projects especially in LDCs.

- **Promote EU Cooperation Projects in Third Countries**

Considering that there are important availability problems for some Raw Materials and a potential to improve productivity levels in number of countries, especially LDCs(i.e. Africa), EU Cooperation Projects should promote Investment in Raw Materials and in related Infrastructures as a way to improve EU access and control over supply chains.

EU INTERNAL MARKET

- **Adjustment in Public Procurement Contracts**

Considering that Raw Materials Prices have undergone steep increases which could not be reasonably foreseen by economic operators, when evaluating the costs and preparing the tenders, a renegotiation of the public contracts should be allowed under certain conditions. The economic conditions for this contractual revision should be:

- (a) Public Contract signed more than 3 months before the price variations;
- (b) Price variations in relevant Raw Materials of > 25%;
- (c) These price variations were unforeseeable at the moment the Public Contract was signed and are such that a strong negative impact in the supplier is expectable.

In case the national legislation of an EU member state establishes more favourable negotiation conditions these should prevail.

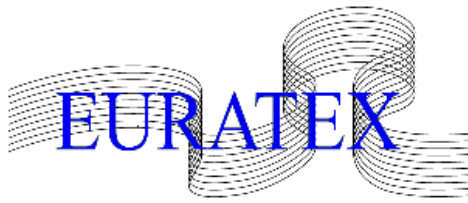
SKILLS, RESEARCH AND INNOVATION

- **Promote R&D projects in the area of recycling and development of substitute materials**

In the T&C sector a considerable number of projects in the R&D area, which are related to raw materials, are done in cooperation with other sectors and have recycling, substitution or sustainability objectives as a background. Considering that scarcity and availability of raw materials is an increasing problem in the EU and that Industry is ever more encouraged to become sustainable and efficient- substitution and recycling are areas the EU should promote in an integrated approach bringing together expertise from different sectors.

HORIZONTAL

- **Market Surveillance**



Raw Materials market is becoming very attractive to speculators due to the high gain prospects. More and more professional investors are in this market as an alternative to the Financial Markets. Thus it is vital to ensure that instability and price fluctuations are kept under control as they risk having a severe impact in the world economy in a moment the recovery seems to be gaining some consistency. Clearly some Textile Raw Materials- particularly Cotton- seem to be already the target of speculators and it is one of the commodities that should be closely monitored. The final aim would be to introduce more discipline in the market and limit the intervention of speculators. Improved information exchange and transparency regarding production, consumption and stocks will allow better connection between physical and derivative markets. Enhanced regulation of both physical and derivative markets including the possibility to limit positions of a given operator should also be considered.
