

2004  
SOUTHERN MILL RULES

for  
Buying and Selling  
American Cotton

\*\*

AMERICAN PIMA RULES

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Rules and Regulations  
of the  
COTTON STATES ARBITRATION BOARD

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Outline of Services Available  
from the  
COTTON STATES ARBITRATION BOARD  
and the  
BOARD OF APPEALS

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Effective August 1, 2004

### **NCTO**

National Council of Textile Organizations (NCTO) is the national trade association representing the U.S. textile industry and its stakeholders. On behalf of U.S. yarn, fabric, industry suppliers and U.S. fiber producers, NCTO represents the textile industry on issues of national interest regarding the manufacturing of textile products in the United States.

### **ACSA**

American Cotton Shippers Association is the spokesman for private cotton merchants of the United States on national and international matters. Organized in 1924, its members perform the essential function of risk-taking from purchasing cotton from producers through delivery to consuming mills. ACSA consults with other industry segments in developing sound cotton legislation and programs, participates in the formation of contracts and trading rules in domestic and foreign markets and provides to its members immediate information on world cotton events.

Its programs are carried out by volunteers on standing committees covering various facets of the industry. Relations with the National Council of Textile Organizations are handled by ACSA's Domestic Mills, Warehouses and Overland Transportation Committee.

### **Ancot**

Founded in 1971, Ancot is an international sales force working directly for American cotton growers. With a global network of offices and textile mill contacts, and the support of over 40,000 cotton growers, Ancot offers mills a year-round, dependable cotton supply in all volumes and qualities.

The United States' four major cotton marketing cooperatives are the owner/members of Ancot. They are Calcot, Ltd., PCCA (Plains Cotton Cooperative Association), Staplcotn (Staple Cotton Cooperative Association) and SWIG (Southwestern Irrigated Cotton Growers).

## FOREWORD

In 2002 a joint meeting of the Cotton Committee of the American Textile Manufacturers Institute, Inc., succeeded by the National Council of Textile Organizations, Inc. in 2004, the SMR Study Committee of the American Cotton Shippers Association, and Amcot authorized a reprinting of the Southern Mills Rules (including the American Pima Rules), the Rules and Regulations of the Cotton States Arbitration Board, and an Outline of Services Available under both sets of Rules.

These have been combined into this single booklet for the convenience of members.

This 2004 edition of Southern Mill Rules incorporates the previous 2002 edition.

This edition also incorporates amendments to the Procedures of the Board of Appeals pertaining to changes in procedures, effective on and after August 1, 2004 as agreed upon by the NCTO, ACSA, and Amcot.

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## **SOUTHERN MILL RULES**

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With the organization of the American Cotton Shippers Association in 1924, the American Cotton Manufacturers Association agreed to jointly sponsor trading rules for the shipment of cotton to southeastern mills. The Southern Mill Rules were agreed to in 1925. Previously, trades were governed by the Carolina Mill Rules of 1915, or by individual mill terms.

In the early 1900's, most cotton textile manufacturers were located in New England. Contracts between merchants and mills were made under the New England Mill Terms and quality arbitrations were handled by the New England Cotton Buyers Association located in Boston, Mass. With the movement of textile manufacturers to the southeastern states and the merger of the American Cotton Manufacturers Association with the northern Cotton Textile Institute in 1949, creating the American Textile Manufacturers Institute, Inc., the New England Mill Terms were rescinded in the 1950's.

The Southern Mill Rules are under constant study by the sponsoring organizations. Revisions to meet changed conditions of trade are considered yearly in a meeting between the Cotton Committee of NCTO, the Executive Committee of the Domestic Mills Committee of ACSA, and Amcot.

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# **SOUTHERN MILL RULES**

## **I. CONTRACTS**

1. The following rules shall be known and designated as Southern Mill Rules, and where Southern Mill Rules are referred to in any contracts for the sale of cotton, it shall be conclusively presumed that the rules referred to are those herein set forth. When no rules are specified, these rules are to apply on transactions between buyers and sellers who are members of the National Council of Textile Organizations, the American Cotton Shippers Association, and Amcot.

2. A clear understanding of contracts in every particular must be had at the time of sale by both buyer and seller, and all contracts for the sale of cotton must be confirmed promptly in writing by both parties to the contract.

## **II. BIDS AND OFFERS**

3. All bids and offers shall, unless otherwise specified, be subject to immediate acceptance.

4. Bids and offers "good for the day" shall expire at 5:00 p.m. at the place from which they are made, unless rejected and/or canceled in the meantime expressly or by a counter bid or offer.

5. An offer "good until canceled" shall be good until advice of cancellation is received, but in no event longer than ten business days.

## **III. CLASSIFICATION**

6. All contracts for the purchase and sale of cotton shall be based on Official Cotton Standards of the U.S.A., unless bought or sold on actual samples or types. In sales of even running grades, five percent of the cotton may be a grade below the grade specified, if offset by an equal percentage of the cotton a grade above the grade specified.

7. Where a contract is for an average grade and the contract expresses that no cotton is deliverable below a grade specified, there must not be an excess of the lower grade over the higher grade specified, and the buyer may reject any excess. The seller must not include in any shipment any cotton below the lowest grade specified.

8. When cotton is bought or sold on type or actual samples, the buyer may reject any bales not equal to the specified type or samples in all respects. On cotton due within the next 45 days, buyer to approve samples within 10 business days of receiving samples. When cotton is bought on HVI data, buyer to approve the data within five (5) business days of receiving data.

9. Long staple cotton shall be defined as cotton of a staple 1-1/4 inch and longer. Short staple cotton shall be defined as cotton of a staple shorter than 1-1/4 inch cotton, regardless of the territory from which it is shipped.

10. When long staple cotton is bought or sold on a grade specification, unless otherwise specified, the "B" preparation of the grade specified, as promulgated by the Department of Agriculture, shall govern as to preparation. When cotton is bought or sold on color of one grade and leaf of another grade, unless otherwise specified, the "B" preparation of the lower grade specified shall govern.

11. When short staple cotton is bought or sold of one grade standard for color and leaf of another, unless otherwise specified, the preparation is to be equal to the lower grade standard specified.

12. No cotton of irrigated growth can be delivered against contract unless sold as such, and no cotton of irrigated growth can be delivered against contract when sold on actual samples or type unless described as such.

Where the terms "raingrown" or "irrigated" are used without more detailed growth specification, the first shall be interpreted to mean all cotton of U.S. growth other than that grown in California, Arizona, New Mexico (excepting cotton grown in Lea County, New Mexico), and the Pecos and El Paso Valleys of Texas, which shall be regarded as irrigated.

12A. No cotton that has been reginned, recleaned, blended or reprocessed, nor cotton that has been sledged nor cotton that has been machined after the first ginning process, can be delivered against contract unless described as such.

13. When cotton is sold subject to approval of samples, before shipment, seller must submit samples to the buyer for approval according to the contract. Samples are the property of the seller until the buyer approves them. If they are not approved, they are to be returned immediately. If the buyer fails to approve samples, seller may demand arbitration, in which case samples must be put up with both buyer and seller, or their

representatives, present and sent to Cotton States Arbitration Board for arbitration, their finding to be final save when the cotton passed by the Board arrives at destination, the buyer may have samples drawn and sent to the Board for comparison with samples originally passed by the Board, and the buyer may reject any cotton that, on comparison of samples, the Board finds not equal to original samples in all respects.

#### **IV. SHIPMENTS**

14. Cotton sold for prompt shipment must be shipped, and bills of lading or mutually acceptable equivalent issued therefore, within fourteen business days from date of sale. Cotton sold for immediate shipment must be shipped, and bills of lading or mutually acceptable equivalent therefore issued within seven business days from date of sale.

All cotton sold for shipment in one or more months or fifteen business days subsequent to date of contract shall be known as forward shipment cotton.

15. When a sale is made for shipments in a given month, cotton must be shipped and bills of lading, or mutually acceptable equivalent therefore, issued within the month specified.

16. The seller is not to be held responsible for non-performance caused by act of God, fire, war, riot, strikes, floods, embargo, car shortage, or quarantine which affects the cotton contracted for by him for fulfilling his sale. In all cases where the seller claims that the non-performance is due to these causes mentioned, the seller shall give notice to the buyer on the expiration of the shipment period, and within two business days after the end of the specified shipment period, by registered mail, or otherwise deliver to the buyer an affidavit showing positive reasons for the non-performance. If such affidavit is not furnished, the buyer may close the contract in accordance with Rule 54.

16A. If, for any reasons except those mentioned above, the seller fails to make shipment or delivery within the time specified in the contract, the buyer may close the contract in accordance with Rule 54.

16B. If the buyer refuses to accept delivery of cotton within 20 business days from the end of the shipping period, the seller may give the buyer a written "intent to ship" which shall include a tag list of the cotton to be shipped. If the buyer continues to refuse delivery or fails to respond to the seller's notice of "intent to ship", the seller may, at 20 business days after the end of the shipping period or 20 business days after the receipt by buyer of the written "intent to ship", whichever is later, close the contract in accordance with Rule 54.

17. All bills of lading accompanying drafts must show the initials and numbers of the cars, the number and marks of bales therein, and the weights shown on bills of lading must agree with the invoice weight.

18. On contracts of less than 100 bales, the seller may make shipment in lots of five or more bales, but on contracts for 100 bales or more, shipments must be made in not more than two lots per 100 bales.

19. All contracts for the sale of cotton must be filled and received by the parties making the contracts. No change shall be allowed in the original seller or buyer with whom the original contract was made unless written consent is given by such buyer or seller, except in the case of bona fide sale or merger of firms involved.

20. All cotton delivered must be properly protected from weather, and delivered to mill or destination Monday through Friday during normal mill receiving hours as designated by the buyer. Cotton arriving on a buyer's scheduled receiving day, but after receiving hours, will be accepted the next cotton receiving day.

## **V. PAYMENTS**

21. Unless otherwise expressed in the contract, seller will draw at sight on buyer or submit invoice for payment with bill of lading attached, or other mutually acceptable equivalent attached for the purchase price of cotton described in invoice; draft to be without exchange or collection charges. Any demurrage accruing from cotton arriving before the draft or bill of lading must be paid by the seller. Any demurrage accruing where proper documentation and delivery arrangements have been followed must be paid by the buyer.

22. In cases where buyer elects to specify a particular bank through which payment is to be effected, the buyer shall be held liable for any loss the seller may sustain in that bank, or due to any action of that bank on account of routing payments through same.

23. Buyer not paying drafts within five (5) business days, or invoices within five (5) business days after delivery of cotton at specified destination shall pay the then current prime cotton interest rate on face of same until paid and an additional penalty of one-half cent per pound for cotton represented by draft or invoice. This clause does not give buyer any right to delay payment and any failure to pay within the prescribed period will entitle seller to relief for breach of contract pursuant to all remedies available at law or equity, including injunctive relief and the right to close the contract for cotton scheduled for later shipment.

## **VI. WEIGHTS**

24. On sales with weight settlement on arrival of cotton at destination, should such weights show an excess or loss as compared with invoice weights, settlement shall be made by each party for such excess or loss.

25. All contracts for immediate or prompt shipment must contemplate the shipment of cotton of the running weight in the territory of origin. Contracts for forward delivery shall be based on a net weight of 500 pounds per bale at destination with privilege of a variation of one-half of one percent either way, adjusted on each month's delivery, and if necessary to bring the actual weight of cotton delivered within the total weight of contract thus calculated, the seller shall deliver more or less bales than the number stated on the contract as the case may require. No bales of cotton under 325 pounds net weight shall be delivered under any contract. Dissatisfaction with weights delivered to buyer must be reported by buyer to seller or his agent, within fifteen business days from receipt of shipment. The seller must furnish the buyer with invoice and detailed weight sheet showing weight of each bale of cotton shipped.

## **VII. CLAIMS FOR LOSS IN WEIGHT**

26. The buyer must weigh all cotton as promptly as possible, but not later than seventy-two hours after receipt at destination, unless precluded from doing so by unavoidable delay such as an act of God, riot, strikes, etc., before samples or bands are removed or unless too damp or wet to be weighed with reasonable accuracy, in which event seller must be notified so that he may send representative to inspect cotton if he so desires. Buyer must furnish seller promptly with statement, certified and signed by the weigher, showing mark and weight of each bale by tag numbers invoiced, except in cases where impossible to do so on account of bales having lost tags, and when trucks are weighed "full" and "empty", provided buyer furnishes seller weights by fax within one business day after arrival of truck at destination. Buyer's failure to weigh and produce weight statements in accordance with the above provisions shall constitute Buyer's approval of Seller's invoice weights as final.

27. Claims for loss in weight or payment for gain in weight must be made within seven business days from receipt of the cotton, or of the last portion of the shipment. This time may be extended to ten business days where conditions render such extension necessary. Sworn certificates of buyer's weigher, as well as the serial numbers of both boxcar

seals and whether broken or not upon arrival, shall be forwarded when requested by seller.

28. Cotton shall be kept intact by buyer for five business days after receipt of notice of claim for loss in weight, and shall be reweighed within ten business days in the presence of the representative of each party upon the demand of the seller, and the entire lot shall be reweighed unless the parties shall mutually agree upon some satisfactory method of averaging the weight of a representative portion of the lot. If the reweights of the cotton show a gain of weight in excess of three pounds per bale over the buyer's receiving weights, the buyer shall pay the actual cost of reweighing, otherwise seller pays same. If buyer fails to keep the cotton intact in accordance with this Rule, seller's invoice weights shall be final. Final payment based on arbitration weights or weights determined in accordance with this section.

29. Samples shall not weigh over one-half pound per bale. When cotton is reweighed, this allowance shall be made for samples; and allowance shall be made for actual tare removed.

### **VIII. TARE**

30. The sale of American Upland cotton will be on the basis of net weights. The net weight of each bale is to be determined by deducting its actual tare. Sellers are to furnish the buyer, before arrival of the cotton at its destination, a tag list showing the bale number, tare and either the gross or net weight of each bale. The buyer shall furnish the seller a receiving weight sheet showing the seller's bale number, actual tare deducted and either the gross or net weight of each bale, or each bale may be weighed with the net weight of the total shipment determined by subtracting the total weight of the tare from total gross weight. The invoice allowance, on bales covered with tare approved by the Joint Industry Bale Packaging Committee and by the Commodity Credit Corporation, shall be that agreed upon by the Joint Industry Bale Packaging Committee and the Commodity Credit Corporation.

31. Notice of claims for variations in invoice tare allowances must be given seller by buyer within twenty business days from receipt of cotton. If seller wishes to make test of tare he must, within five business days of receipt of such notice, advise the buyer in writing of his purpose to do so and must, within ten business days of receipt of such notice, send his representative to the place where the cotton is situated and with the representative of the buyer apply the official tare weights schedule specified by the Joint Cotton Industry Bale Packaging Committee to determine the variations, if any. Where the delivery of cotton is accepted by the buyer at some other warehouse than its own, notice of

variations in invoice tare allowances herein before provided for must be given within twenty business days after arrival of cotton from such warehouse at the place where it is to be used.

32. All claims for variations in invoice tare allowances must be filed within nine months from receipt of cotton.

#### **IX. CLAIMS FOR DEFECTIVE GRADE, STAPLE OR CHARACTER**

33. When shipments of cotton arrive at destination, large and fair samples of each bale shall be taken by the buyer after the cotton is weighed, and from well within the bales, and shall be properly held for future inspection.

34. Claims as to quality excluding contract averages must be made within ten business days from the date of the receipt of the shipment except, when cotton is deliverable in monthly installments, the claims shall be made on or before the tenth (10<sup>th</sup>) day of the calendar month following a shipment. This time may be extended to twenty business days, where conditions render such extension necessary, but no claim shall be extended after twenty business days.

35. The seller must notify the buyer, within five business days from receipt of the buyer's notice of claim for defective quality, of his desire to investigate the claim and must, within ten business days from the date of such notice, either personally or by his duly authorized representative, inspect the cotton in dispute or make such examination of the buyer's claim as he may desire, with the view of making a voluntary and friendly settlement or adjustment of the claim.

#### **X. DAMAGED COTTON**

36. Gin cut cotton is not deliverable on any contract unless sold on actual samples or against type; nor can damaged cotton be delivered. If there should be any disagreement as to whether or not cotton is merchantable, the official controller under the Southern Mill Rules shall make the determination on the basis of the Joint Cotton Industry Bale Packaging Committee's "Guide for Cotton Bale Standards," which shall be binding on the seller and buyer.

36A. The buyer must claim for externally damaged bales within 3 business days after bales are unloaded at destination. Claims shall be made in writing by fax to the seller showing mark and bale number of damaged bales. Any externally damaged bales not claimed on by buyer in writing within three business days after arrival shall be considered

accepted by the buyer for packaging, bale condition, and density.

37. Claims for fraudulently packed bales of cotton shall be made within ten business days of the discovery of such fraudulent packing, but must be made within one year from the time cotton is received at destination.

#### **XI. ARBITRATION**

38. All claims and controversies between the seller and buyer arising out of contracts for the sale of cotton, such as claims or controversies relating to quality, on request of either party to the contract, shall be arbitrated under the rules of the Cotton States Arbitration Board and by this Board, and their finding shall be final. (Cotton States Arbitration Board is that Board set up by the National Council of Textile Organizations, the American Cotton Shippers Association, and Amcot for the arbitration of all differences as to quality.)

39. All disputes between buyer and seller, except as to quality, shall be referred to the Board of Appeals upon request of either party, and the decision of the Board of Appeals shall be final. In addition, the Board of Appeals shall render a decision, which decision shall be final, upon request of either party, in case of a dispute between two shippers or between two mills as to the matters listed in the previous sentence where either party is a member of at least one of the organizations listed in Section I and where both parties have agreed in written contract to abide by the Southern Mill Rules and to abide by the decision of the Board of Appeals in the event of a dispute. No person interested in the matter involved shall serve as a member of this Board. The Board is set up by the President of the National Council of Textile Organizations, appointing one member; the President of the American Cotton Shippers Association, in consultation with Amcot, appointing one member, and these two members, if in disagreement, shall appoint a third member, and the members shall also appoint a secretary.

40. If the claim or controversy shall relate to quality, the samples drawn by the buyer under the provisions of Rule 38, shall be submitted to the arbitrators unless the seller claims the right to have new samples drawn, in which event samples of the cotton shall be drawn by or in the presence of the buyer and seller, or their duly authorized representatives. If through the action of the buyer, it shall be impossible to draw samples as herein provided, the cotton shall be presumed of the quality invoiced.

41. Expense of the arbitration shall be borne by buyer and seller in the same proportion as the respective parties may win or lose in the award made by the arbitration.



## **XII. REJECTIONS**

42. All cotton rejected by buyer against contract must be replaced by delivery of an equal quantity as the cotton rejected, and of the quality of cotton specified in the contract, within fourteen business days of mutual agreement regarding rejections, or of final decision by arbitration as herein provided for. Should any portion or all of the rejected cotton not be replaced, or should the cotton replacing rejections not be according to contract, then the buyer shall have the right to close the contract pursuant to Rule 54 as to the rejected bales not replaced.

43. When all or any part of shipment or delivery is rejected, cotton may be arbitrated only for the deficiency for which cotton is rejected.

44. For handling and warehousing rejections, it shall be the privilege of the buyer to charge the seller \$4.50 per bale or minimum wage, whichever is higher, and in addition to charge the prime cotton interest rate in effect on August 1 of each year on all rejections from date payment is made by buyer to date of reimbursement by seller

45. Seller must give buyer shipping instructions on rejections and reimburse buyer for rejections within ten business days after receiving arbitration outturn or date of mutual agreement as to the quality deficient. It shall be the responsibility of the buyer to exercise all reasonable care of rejected bales until such time as they can be moved. If a total shipment is rejected because micronaire and/or individual HVI specification average falls outside the contractual limits, buyer shall, at his option, reject enough bales outside the limits to bring the rest of the shipment into the contractual limit, if the number of bales to be rejected does not exceed 25%.

## **XIII. PRICE FIXATION**

46. On cotton sold for forward shipment, unless otherwise specified, buyer shall have the right to fix price at any time up to the first notice day for month on which price is based. Sellers option thereafter. A clear understanding of fixations must be held at the time of fixation by both buyer and seller and that all execution orders to fix must be confirmed immediately in writing by seller and acknowledged immediately by buyer.

## **XIV. MARGINS MUTUAL OR RECIPROCAL MARGINS**

47. On cotton sold for forward shipment at fixed price or buyer's or seller's call and where the price has been fixed but the cotton has not

been shipped, with a variation in the market of one cent per pound either way; it is the privilege of either the buyer or the seller to call for margins to offset. However, on any portion of the cotton not shipped within the time limit set forth in the contract, except when the shipment is not yet due or when the non-shipment is due to buyer's unreasonable delay of appointments, seller shall not be entitled to margin call, but on any cotton not shipped within the time limit specified in the contract, buyer does have the privilege to call for margin to offset.

A request for variation margin should be confirmed in writing by the party making the request. The party receiving the request shall have twenty-four hours to remit, by either wire transfer or overnight mail, the variation margin that is due the requesting party.

48. When the cotton has been shipped and invoiced on provisional price and in possession of the buyer and price not fixed, a variation in the market of one cent per pound either way, margins are to be covered by the buyer or seller as the case may be.

#### **XV. COTTON SOLD "LANDED"**

49. When the contract specifies that the cotton shall be landed, the price agreed upon shall include freight to destination and delivery free of cost to the buyer at the place designated; and the risk of the seller shall terminate and the risk of the buyer shall attach upon the arrival of the cotton at the destination specified. The seller shall guarantee actual delivery of the cotton at destination. Cotton lost or destroyed in transit shall be replaced with like cotton, which shall be shipped within fifteen business days from the date of notice of such loss or destruction.

#### **XVI. COTTON SOLD "COST AND FREIGHT"**

50. Unless the contract specifies that the cotton shall be landed at destination, the cotton shall be at the risk of the buyer from the time of the issuance of bill of lading, and buyer shall pay all invoices accompanying bills of lading covering such cotton whether delivered, lost, or destroyed in transit, and the seller shall not replace such cotton.

#### **XVII. DENSITY**

51. When nothing is said as to whether compressed or uncompressed cotton is to be delivered, either may be delivered at the option of the seller, but no so-called high density – that is, cotton that is compressed to a density of 32 pounds to the cubic foot or more – shall be delivered

without the consent of the buyer.

#### **XVIII. GENERAL**

52. Buyer and seller shall have the privilege of incorporating any other rules, not in conflict with the spirit of the above rules, in their contracts.

#### **XIX. GROWTH**

53. In the event of questions of growth, the seller shall, upon and within ten days of such request, furnish the buyer, with his written certification, under oath if required by buyer, of the origin or growth in question. In the event seller fails to furnish the buyer with his written certification within ten days, under oath if required by buyer, or in the event the seller furnishes his written certification, under oath if required by buyer, of growth other than that contracted for and such certification shows the cotton to be of irrigated growth, where raingrown cotton is specified or raingrown cotton where irrigated cotton is specified, the buyer may close the contract in accordance with the terms and conditions of Rule 54.

Further, where seller fails to furnish the buyer with his written certification within ten days, under oath if required by buyer, or in the event the seller furnishes his written certification, under oath if required by buyer, or growth other than that contracted for, the buyer may, at his option, hold the seller in default on that portion of the contract and close the contract in accordance with the terms and conditions of Rule 54.

#### **XX. CLOSURE OF CONTRACT UPON DEFAULT**

54. Buyer or seller shall be entitled to close any and all of the contracts that exist between the parties when any of the following has occurred:

- A. Breach of Contract as described in Rules 16, 16A, 16B, 21, 23, or 42.
- B. Failure to pay margins as required by Rules 47 and 48.
- C. Breach of Contract as described in Rules 12, 12A or 53.
- D. A party of the contract has filed for bankruptcy, admits inability to perform as per the terms and conditions of the contract, or evidence or circumstances exist requiring either party to the contract to request of the other sufficient proof of their financial ability to perform and the failure to produce satisfactory proof of same.

Buyer or Seller shall give the party committing a breach of contract five business days written notice of his intent to invoke closure.

The party invoking closure shall get three bona fide offers in writing for the identical quality and with identical terms to that contracted. Closure by Buyer shall be at the lowest of the three offers. Closure by the Seller shall be at the highest of the three offers. An additional ONE cent per pound penalty shall be assessed against the party in default.

Within eight (8) business days of the original notice of intent to close, the party closing the contract must provide the other party with a detailed statement, with copies of the offers obtained attached, showing any and all amounts due to either Buyer or Seller. The party owing market differences shall remit with good funds within three (3) business days of the statement date.

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## AMERICAN PIMA RULES

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In the spring of 1957, a joint committee from ATMI, the predecessor organization of the NCTO, and ACSA was charged with developing a set of rules to govern sales of American-Egyptian cotton. The 1958 Joint Meeting approved six American-Egyptian Rules, which were referred to the two organizations for ratification. In 1959, they were included in the Southern Mill Rules booklet as a separate section.

On July 1, 1970, the U.S. Department of Agriculture changed the official designation of "American-Egyptian" to "American Pima." The 1971 Joint Meeting agreed to make this change in the rules. Revised American Pima Rules were included in the 1971 Southern Mill Rule booklet.

### AMERICAN PIMA RULES SECTION

1. The following rules shall be known and designated as the American Pima Section of the Southern Mills Rules, and where Southern Mill Rules are referred to in any contracts for the sale of American Pima cotton, it shall be conclusively presumed that the rules referred to are those set forth in this Section together with those provisions of the regular Southern Mill Rules, which are not in conflict with the spirit of the rules contained in this Section.
2. All contracts for the purchase and sale of American Pima cotton shall be based on the Official Cotton Standards of the United States of America for American Pima cotton, unless bought or sold on actual samples or types. No cotton below the grade specified may be delivered.
3. In the event the buyer buys in cotton in the open market in accordance with the provisions of Southern Mill Rules 16 or 42, or in the event seller sells cotton in the open market in accordance with the provisions of Southern Mill Rule 23, the liquidating damages shall be one-half cent per pound.
4. All contracts for immediate or prompt shipment must contemplate the shipment of the cotton of the running weight in the territory of origin. Contracts for forward delivery shall be based on a net weight of 500 pounds per bale at destination, with privilege of a variation of one-half of one percent either way adjusted on each month's delivery and, if necessary to bring the actual weight of cotton delivered within the total weight of contract thus calculated,

the seller shall deliver more or less bales than the number stated in the contract as the case may require. No bales of cotton under 325 pounds net weight shall be delivered under any contract. Dissatisfaction with weights delivered to buyer must be reported by buyer to seller or his agent within fifteen business days from receipt of shipment. The seller must furnish the buyer with invoice and detailed weight sheet showing weight of each bale of cotton shipped.

5. The sale of American Pima cotton will be on the basis of net weights. The actual tare shall be deducted. The invoice allowance, where actual tare is not available, shall be twenty-two (22) pounds per bale.

6. All claims and controversies between the seller and buyer relative to the quality of cotton delivered under contracts for American Pima cotton shall, on request of either party to the contract, be determined by mutual arbitration pursuant to the procedures utilized for upland cotton.

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**RULES AND REGULATIONS  
OF THE  
COTTON STATES  
ARBITRATION BOARD**

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After the Southern Mill Rules were published in 1925 by the American Cotton Manufacturers Association and the American Cotton Shippers Association, the two organizations established the Cotton States Arbitration Board in New Orleans, Louisiana, in 1926 to adjudicate quality disputes. They also created that same year the Board of Appeals to settle disputes for all matters other than quality.

The Cotton States Arbitration Board was moved to Atlanta, Georgia, in 1928 and remained there until 1972 when it was transferred to Memphis, Tennessee. Arrangements were then made with the Board of Supervising Cotton Examiners of the United States Department of Agriculture to perform arbitration work for the industry.

The operations of the Board are coordinated by an Executive Committee composed of a member and an alternate from NCTO and ACSA/Amcot. Changes in the Rules and Regulations of the Board are considered in the annual Joint Meeting between the two organizations.

A detailed explanation of services available to mills and merchants is provided in a separate section.





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**RULES AND REGULATIONS  
OF THE  
COTTON STATES  
ARBITRATION BOARD**

**I. ORGANIZATION**

**RULE 1:** This Board is organized jointly by the American Cotton Shippers Association/Amcot and the National Council of Textile Organizations, and it is to be governed by an Executive Committee composed of one representative and alternate of each of the above Organizations.

**RULE 2:** The Executive Committee shall endeavor to hold one meeting annually as soon after the annual meetings of the American Cotton Shippers Association/Amcot and the National Council of Textile Organizations, as is practicable. Special meetings will be held upon written request of any member of the Executive Committee.

**II. PROTECTION FROM  
INFLUENCE**

**RULE 3:** No manufacturer or shipper will be allowed, under any circumstances, to communicate with the Arbitration Board in any way in expressing their opinion about anything, except to request return of samples, provided notice is made within ten days of the arbitration. It will be the duty of everyone connected with the Arbitration Board to advise the Executive Committee, in writing, if anyone approaches them directly or indirectly endeavoring to influence them in the discharge of their duties.

**RULE 4:** In case anyone tries to influence the Board on any arbitration or classification, by notifying them of their previous class on the cotton, it will be the duty of the Executive Committee to advise the membership of each Organization in writing of the entire circumstances of the matter.

**III. PROCEDURE FOR  
ARBITRATION**

**RULE 5:** All parties to an arbitration should come to a definite understanding of the question in dispute before its submission to the Arbitration Board.

**RULE 6:** All samples sent for arbitration must be accompanied by instructions stating clearly the points to be arbitrated and the names of the parties to the arbitration, also setting forth the terms of the contract relating to the number of bales to be arbitrated, grade, and/or staple, micronaire, or HVI.

**RULE 7:** Parties requesting arbitration should send copies of their instructions to all other interested parties, so that there will be no conflict of instructions. In the absence of exceptions from second parties, arbitrations will be held according to the instructions received.

**RULE 8:** Unless otherwise advised, the basis of all arbitrations is considered to be the **Southern Mill Rules**, as amended to date of contract. Special clauses not included in these rules, which are included in the contract of sale, will be taken into consideration in the arbitration. All arbitrations will be held strictly in accordance with the letter and intent of contract and in case all points of any contract are not covered by the rules, herein set forth, such points are to be arbitrated according to the general interpretation of the trade in regard to same, the Arbitration Board to interpret such points to the best of their ability.

**RULE 9:** The Executive Committee shall have the authority to refuse the services of the Board for the purpose of acting on other than bona fide arbitrations should they decide it is in the best interest of the Board, in order to secure more efficient results.

#### **IV. SAMPLES**

**RULE 10:** The names of the parties interested in the outcome of the arbitration are not to be disclosed to the classers whose returns are to be made on the merit of the samples submitted.

**RULE 11:** The samples and types submitted for arbitration are to bear an identification number or mark on the outside of the sample package. Other exterior markings should include the number of bales and the "Type" name.

**RULE 12:** If samples and types are not prepared properly, it will be the privilege of the Board to return them for proper preparation prior to submission for classing.

**RULE 13:** All samples submitted for arbitration shall be fair and representative of the bales and acceptable to the USDA Board of Cotton Examiners. Samples are to be drawn from each side of the

bale and couponed. Sample size should accommodate two HVI readings.

**RULE 14:** All samples shall be properly wrapped and each sample must have an identification tag enclosed, with a maximum of 65 samples per package. Marks and number of bales must show distinctly on outside of the packages.

It is the purpose of this Board to avoid putting before the arbitrators any samples that will in any way identify the cotton, or parties interested. Samples containing tags that show, in addition to numbers, other data such as marks, names of mills, shippers or warehouses, or notation of grade or staple should not be sent. Any samples, which do not conform to this rule, may be returned to the sender for proper preparation.

## **V. QUALITY ARBITRATION**

### **A. Against Standards of the USDA**

**RULE 15:** The basis of all arbitrations for grade and/or staple shall be the Official Universal Cotton Standards of the United States Department of Agriculture for grade and/or the Official Cotton Standards of the United States Department of Agriculture for length of staple, except arbitrations of cotton sold against private type or types for grade or staple, or both.

### **B. Against Private Types**

**RULE 16:** Where sales are made on a private type for grade and/or staple, arbitration will be held against the actual type on which purchase is made, or against a sealed type, approved and sealed on or before contract entered into by interested parties.

**RULE 17:** Private types are to be sent to the USDA the first arbitration of the fiscal year (July 1-June 30) and that type will be used for all arbitrations that fiscal year.

### **C. Effect of Previous Arbitration**

**RULE 18:** The Board will class cotton for either mill or shipper on Universal Standards for grade and on Government Standards for staple, or against private types. However, it will not be incumbent on mills, or other buyers, to accept the Board's class on the samples submitted for classification before tender or shipment. They will

have the privilege of demanding arbitration on redrawn samples at destination. The Board will not be responsible for any variation on their class on samples submitted before tender or shipment, and their class on the samples submitted for arbitration or classification of the cotton after tender or shipment.

**RULE 19:** It will also be against the rules of the Board for anyone having had cotton classed before tender or delivery against contract to notify the Board regarding its previous class on the cotton, in case the cotton is arbitrated after tender or delivery.

#### **D. Arbitrations for Grade**

**RULE 20:** No cotton arbitrated by the Board will be passed for grade against Official Universal Cotton Standards unless equal thereto.

**RULE 21:** On all arbitrations for grade against Universal Cotton Standards, where the grade of the samples submitted for arbitration is equal to or better than any sample in the Standard, the cotton will be passed against the description of the Standard.

**RULE 22:** When arbitration is requested against "Bright" on any of the Universal Standards for grade, the cotton will be classed against one color grade above its leaf grade.

#### **VI. MICRONAIRE ARBITRATIONS AND OR/HVI ARBITRATIONS**

**RULE 23:** Samples for micronaire and/or HVI arbitrations are to be submitted under the procedures outlined in "TV SAMPLES."

**RULE 24:** Micronaire and/or HVI arbitration techniques shall be the same as those used in determining these data for the original Smith-Doxey Classification.

#### **VII. OUTTURNS**

**RULE 25:** The Board will send outturns to both interested parties and the party requesting the arbitration in coordination with the other party shall determine the "passes" and the "not ups."

#### **VIII. FEES**

**Rule 26:** Current fee schedules can be obtained from the American Cotton Shippers Association or the National Council of Textile

Organizations (NCTO). The following are services for which fees will be charged:

Color Grade and/or Leaf Sample- .....\$ 2.20

HVI Classification, including Color  
and/or Leaf Grade .....\$4.00

HVI Classification, excluding Color  
and/or Leaf Grade .....\$2.70

(HVI Classification includes, micronaire, length, uniformity, trash and color).

**RULE 27:** The party requesting the arbitration shall be responsible for payment to USDA for classing fees. The requesting party is the party sending the samples to the Board. The requesting party is responsible for billing the other party for their pro-rata share of the arbitration cost.

**IX. AUDITS**

**RULE 28:** The Executive Committee may have a complete audit of accounts of the USDA results made annually or more often at its discretion. The results of audits are to be sent to all members of the Executive Committee.

**X. AMENDMENTS**

**RULE 29:** The rules governing the Arbitration Board cannot be altered or amended until such alterations or amendments are approved by the Committee representing the shippers' and by the manufacturers' organization, and adopted by the organizations.

**OUTLINE OF SERVICES  
AVAILABLE FOR QUALITY  
ARBITRATIONS BY COTTON STATES ARBITRATION  
BOARD**

**AND**

**TECHNICAL ARBITRATIONS BY THE BOARD OF  
APPEALS UNDER  
SOUTHERN MILL RULES**

The Southern Mills Rules were promulgated in 1925 by the American Cotton Manufacturers Association and the American Cotton Shippers Association as a guide to proper and fair procedure in the conduct of commercial trading relations between their members. These rules also apply to all who voluntarily choose to include them as the basis of their contract.

Concerning disputes, it is the opinion of the two groups that when two parties to a contract have entered therein with full knowledge of the requirements thereof -- knowing that disinterested Boards have been set up to settle any differences that may occur between them -- then it is the duty of each party to the contract to submit any dispute to these Boards.

Each year the National Council of Textile Organizations (NCTO), the American Cotton Shippers Association (ACSA), and Amcot committees review the Rules of the Cotton States Arbitration Board and Southern Mill Rules. Amendments or new rules are carefully considered to assure that trade requirements of mills and shippers are satisfied. Changes adopted by the Annual Joint Meeting of ACSA/Amcot and NCTO are referred to the respective Boards of Directors, and after approval, are referred to the two memberships and then incorporated in the rule books.

**QUALITY**

Section XI "Arbitration," Rule 38 of the Southern Mill Rules, authorizes the arbitration of quality disputes between shippers and mills under the rules of the Cotton States Arbitration Board. The CSAB is supervised by a four-man Executive Committee composed of a representative and alternate appointed by the Presidents of the National Council of Textile Organizations and the American Cotton Shippers Association. The Executive Committee shall make periodic or annual reports to the annual ACSA/Amcot-NCTO Joint Meeting.

In 1972, the CSAB was moved from Atlanta, Georgia to Memphis, Tennessee, for economic reasons. The Executive Committee made arrangements with the Board of Supervising Cotton Examiners (BSCE), now the Quality Control Section, of the U.S. Department of Agriculture in Memphis, to perform arbitration services for the industry.

A schedule of fees for the various services offered by the CSAB are conveyed by the Executive Committee to the respective memberships, usually on an annual basis.

**PROCEDURE FOR  
SUBMISSION OF  
QUALITY DISPUTES**

Submission of samples, conduct of the arbitration, reviews and fees are contained in the rule book of the CSAB, contained elsewhere in this booklet.



**BOARD OF APPEALS  
FOR ARBITRATIONS OTHER  
THAN QUALITY**

Section XI "Arbitration," Rule 39 of the Southern Mill Rules created the Board of Appeals -- sometimes referred to as the "Southeastern Appeal Board" -- to consider disputes between buyer and seller as to:

- whether a shipment or shipments conform to the terms of sale;
- the amount of any allowances;
- the interpretation of purchase and sales contracts made under Southern Mill Rules, or
- the interpretation of any section of the Southern Mill Rules.

The Board of Appeals is composed of one representative each appointed by the Presidents of NCTO and ACSA/Amcot. They are selected for their knowledge of the Southern Mill Rules, experience in their respective industry and their reputation for integrity and fairness. They serve without compensation, donating their services for the convenience of members of the three Associations.

In the event that a member of the Board of Appeals is involved in a controversy submitted for arbitration, or feels he has a bias concerning the issue, that member shall remove himself from that particular case. The organization, whose representative is so involved, shall immediately appoint another representative for that case only. Should the Board be unable to reach a unanimous decision in any case, its members shall mutually agree upon a third party to act with them and his decision shall be final. The Board shall appoint a Secretary to assist them.

**THE BOARD SHALL:**

- render decisions only on bona fide disputes; hypothetical questions will not be considered;
- reserve the privilege of refusing action on any dispute submitted if it feels the case at point has disagreements not involving SMR or it does not have sufficient evidence to properly judge the issues;
- in addition to disputes between a mill and a shipper, consider disputes between two shippers or two mills, when either party is a member of NCTO or ACSA/Amcot;
- not consider counterclaims for contracts that have been completed;

- ask either of the parties for additional information or clarification of statements made in their briefs;
- consider cases on an ex parte basis if the other party, after having received written notice by Registered Mail, Return Receipt Requested, states that he will not submit his side of the dispute or fails to respond within fifteen (15) days, or if either party to the case refuses to remit the arbitration fee or refuses to state in writing that they will abide by the decision rendered by the Board;
- order the losing party to pay the amount of the judgment due the other party within five business days from the date of the issuance of the arbitration award;
- not consider any submission for arbitration from a party who has failed to pay a judgment previously rendered against it by the Board.

**PROCEDURE FOR  
SUBMISSION OF DISPUTES**

The party to the dispute initiating the arbitration shall submit a letter to the appropriate Secretary as designated by the NCTO or ACSA/Amcot requesting arbitration of the dispute with the opposing party, stating in writing that they will abide by the decision of the Board of Appeals and provide a copy of the contract subject to the SMR, together with the original and three copies of a concise brief outlining the points in the dispute.

NCTO Cotton Comm. Secretary:	1776 I Street, NW, Suite 900 Washington, DC 20036-3700
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ACSA/Amcot Domestic Mills Secretary:	William E. May 88 Union Ave., Suite #1204 Memphis, TN 38103
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- In order to avoid delay, the party initiating the arbitration shall furnish the opposing party with a copy of his letter to the Secretary together with a copy of his brief. Thereafter, each party shall furnish the opposing party with a copy of any Supplemental Brief in response that is submitted to the designated Secretary for the Board's consideration.
- Each party to the dispute shall prepare concise briefs detailing the points at issue. Copies of the contract, subject to the SMR, and other pertinent supporting evidence shall be part of each party's brief, and each party shall signify in their letter to the Secretary that they will abide by the decision rendered by the

Board of Appeals and pay the judgment within five business days from the date of the issuance of the arbitration award.

- The opposing party shall have fifteen (15) calendar days from the date of receipt of the initiating party's original brief in which to submit a brief in response. The date of receipt shall be no later than the date in which the appropriate ACSA/Amcot or NCTO Secretary receives the submission.
- No more than one Supplemental Brief or response shall be submitted for consideration by the Board. The party initiating the arbitration shall have ten (10) calendar days to respond to the Original Brief of the opposing party and the opposing party shall have ten (10) calendar days to respond to the Supplemental Brief or response submitted by the party initiating the arbitration.
- To ensure an unbiased decision the disclosure of the identity of the parties is not permitted. Accordingly, SMR disputes are submitted in brief form and no oral testimony is permitted. The identities of the parties shall be withheld from the arbitrators adjudicating the dispute through the redaction of the identity of the parties by the designated Secretary. Therefore, the Original and Supplemental Briefs and/or any accompanying affidavits or any information requested by the Board, and provided by the parties in response to such a request, shall be the sole determinant for any decision rendered
- Members of the NCTO, ACSA, or Amcot shall include a check for \$1,000 with his brief to cover cost of the arbitration. The winner of the arbitration will have his check returned to him.
- NCTO and ACSA/Amcot members requesting an ex parte decision shall deposit \$1,000 with the appropriate Secretary. If the opposing party has a decision rendered against him, he shall be assessed \$1,000. If this amount is collected, the original deposit will be refunded to the party requesting the ex parte arbitration.
- Non-members of NCTO and ACSA/Amcot, or attorneys submitting cases on behalf of such non-member parties, shall incur a charge of \$2,000 per case or the actual expenses, whichever is higher. A check for \$2,000 must be included with the submission of the Original Brief.

### **CONSIDERATION OF THE CASE:**

Upon receipt of a request for arbitration, in proper form as outlined above, the Secretary to the Board of Appeals shall:

- determine whether the party has failed to pay a judgment rendered against it by the Board;
- remove all clues as to the identity of the parties at interest;
- number cases on a consecutive basis which number shall follow throughout;
- notify the party who has failed to submit his brief by Registered Mail, Return Receipt Requested, that his response must be received within fifteen (15) days;
- refer briefs of the contending parties to the Board of Appeals or, if one of the parties has failed to respond as indicated above, submit the case on an ex parte basis.

### **THE BOARD OF APPEALS SHALL THEN:**

- receive the briefs of the parties or, if the case is submitted on an ex parte basis, consider the brief of the party initiating the arbitration;
- carefully consider all briefs submitted and, if additional information is needed, request the Secretary to secure it from the appropriate party;
- if in agreement, render a unanimous decision, which shall be final;
- if unable to agree, mutually agree upon a third party whose decision shall be final;
- in decisions involving a third representative (or umpire), the dissenting member of the Board of Appeals has the right to state his reasons for disagreeing with the majority opinion.
- should either party seek to have judgment entered upon the award pursuant to the 9USC §9, they may do so by applying to a court of competent jurisdiction located in Memphis, Tennessee.

### **THE SECRETARY SHALL THEN:**

- upon receipt of the Decision of the Board of Appeals, promptly mail to all parties in the dispute a copy of such Decision, together with a copy of all of the briefs submitted;
- promptly mail a copy of the Decision to the Secretaries of the National Council of Textile Organizations, the American Cotton Shippers Association, and Amcot for publication to their respective memberships;

- add the Decision and Briefs to the permanent record of cases of the Board of Appeals.

**NON-PAYMENT OF ARBITRATION AWARDS:**

Should the losing party fail to pay the judgment rendered by the Board of Appeals within 30 days following the publication of the award, the winning party shall notify the Secretary, along with notice to the losing party, and the Secretary shall publish the failure of the losing party to pay such award on a list that shall be maintained by the Secretary. The list of parties who have failed to honor an award issued by the Board of Appeals shall be circulated with current updates to the members of the NCTO, ACSA, and Amcot.

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**Those having occasion to use the services of the Cotton States Arbitration Board or the Board of Appeals will facilitate the handling of their cases by carefully complying with the conditions and procedures enumerated above.**

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