

# INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee  
Washington DC

SC-M-395 Final  
April 1, 1993

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## MINUTES

395th Meeting of the Standing Committee  
Tuesday, March 23, 1993  
Room F-1244, World Bank, 1818 H Street NW  
Washington, DC

### PRESENT:

Mr. Guillermo Ramos (in the Chair)  
Mr. Jose Molina, Argentina  
Mr. Colin Adams, Australia  
Mr. Aluisio L. Campos, Brazil  
Mr. Calvin C. Chang, China (Taiwan)  
Ms. Aline Perrette, France  
Mr. Hans-Martin Lorensen, Germany  
Mr. Petros Kontos, Greece  
Mr. Anil K. Sharma, India  
Mr. Fumio Yawata, Japan  
Dr. Manuel Cáceres, Paraguay  
Mr. Alfredo Valencia, Peru  
Mr. Victoriano Leviste, Philippines  
Mr. Jerzy Strebski, Poland  
Mr. Johan Grobbelaar, South Africa  
Ms. Susan Cuscela, UK  
Mr. Kenneth Howland, USA  
Ms. Lana Bennett, USA  
Ms. Karen Levine, USA  
Mr. Durbek Akhmedov, Uzbekistan  
Mr. Edwin Mubataripi, Zimbabwe  
Dr. Lawrence H. Shaw, Executive Director  
Dr. Terry P. Townsend, Statistician  
Mr. Federico Arriola, Administrative Officer  
Mr. Carlos Valderrama, Economist  
Mr. Andrei Guitchounts, Economist  
Dr. Rafiq Chaudhry, TIS  
Ms. Rosa-Marina Soper, Administrative Assistant

Before beginning the meeting, the CHAIRMAN welcomed Mr. Colin Adams of Australia, Mr. Jerzy Strebski of Poland, Ms. Susan Cuscela of the United Kingdom and Mr. Durbek Akhmedov of Uzbekistan, who were attending a meeting of the Standing Committee for the first time.

### **1. Adoption of the Agenda**

The Agenda was adopted as presented.

### **2. World Cotton Situation**

Dr. Townsend summarized Attachment I to SC-N-395, which was distributed at the meeting. He noted that cotton prices were rising in response to reduced estimates of world cotton production. While cotton production in the Northern Hemisphere was 12% below 1991/92, he said that Southern Hemisphere production, which was now coming to the market, was expected to decline to 1.4 million tons, compared with 1.7 million tons last season. He further noted that the price spread between qualities was widening and that polyester prices were rising relative to cotton prices.

He reported that cotton yarn prices, according to the Yarn Index compiled by Cotlook Ltd., had fallen 12% this season, while raw cotton prices were down only 5%. Yarn margins were being squeezed, he said, and spinners in high cost countries were forced to reduce output. Dr. Townsend also commented that a number of normally-exporting countries were substantial importers this season (Brazil, Mexico, Turkey, South Africa and Zimbabwe).

The CHAIRMAN asked delegates for comments or statements on the cotton situation in their countries.

The delegate of PERU stated that the Secretariat's estimate of world cotton production, as presented to this meeting, shows the very substantial reduction in production of over one million tons in comparison with the forecast it made last October. The excessive estimate of production of October 1992 had, unfortunately, a detrimental effect on prices, thus affecting adversely the income of cotton farmers. With reference to Dr. Townsend's information that the present situation is "characterized for rising prices," the delegate said that in current dollar terms prices are very unsatisfactory and that in real terms they had reached an all time low.

Dr. Townsend said that ICAC estimates have been highly accurate in the past but noted that the Secretariat was not always able to predict weather developments or abrupt shifts in government policies. He said that it was his belief that farmers were always served by having the best information available at any point of time. With this information, he said, they were able to take various steps to hedge their risk in marketing their output and were certainly better off than with no information at all.

The delegate of PERU said that the most important objective of the ICAC was that of defending the prices of the fiber. Therefore, it was very important to exert great discipline and prudence in making production forecasts in order to protect the farmer.

Dr. Townsend, referring to the second question of the delegate of Peru, said that the Cotlook Index has averaged 73 US cents per pound in the last 20 years and had shown no long term upward tendency. As inflation had occurred, one must conclude that real prices have declined. He added, however, that due to yield increases real returns per hectare had been maintained.

The delegate of PERU made reference to the Cotton A Index published by the World Bank indicating a quarterly low level average of 117.7 for the last three months of 1992 and 119.5 for December, 126.1 for January and 133.2 for February 1993. Although the A Index was higher last February, the prices of cotton are far from being remunerative to farmers.

The delegate said that in cotton production there are great numbers of subsistence farmers growing cotton in very small areas or plots. Therefore, any possible increase in yields per hectare would be insignificant. However, he added that one has to consider the cost of the ever so expensive inputs that the farmers need for cultivation purposes.

The delegate asked Dr. Townsend if he had information on the increased cost of inputs used in producing cotton. He further inquired if the reason why production had declined in normally exporting countries, and which now have to import cotton as is the case of Brazil, Mexico, Turkey and some African countries, was due to their inability to compete with cotton produced in countries that stimulate production through subsidies.

Dr. Townsend referred the delegate to the cost of production studies conducted by the ICAC over the years as a possible source of information on the rising costs of inputs. He added that the causes for reduced output in the normally-exporting countries varied. In Turkey and Brazil, he said, government policies regarding trade had changed; in Mexico low cotton prices had caused producers to turn to other more remunerative crops; and in South Africa and Zimbabwe the main cause of reduced output was lack of rain.

The delegate of PERU noted that he was familiar with the cost of production studies made by the ICAC, however, he said that such studies do not cover the subject of his interest.

The delegate of AUSTRALIA said that he would be able to provide updated information regarding estimates of this season's cotton area and expected production in Australia, following a meeting of his country's Raw Cotton Marketing Advisory Committee later this month.

The delegate of GREECE asked if the rise in polyester prices was likely to continue in the long term. Dr. Townsend clarified his comments by noting that the relative rise of polyester prices was due to a smaller decline in polyester prices than in cotton prices. He said that polyester prices had fallen 2-3 cents per pound while cotton prices had fallen 20 cents. In the long run, he added, polyester prices tended to track cotton prices, as polyester could not compete with cotton in the long run if it were not price competitive.

### **3. Production and Marketing Practices of Member Governments: Report from the Secretariat on the Cotton Policy of the EC**

Dr. Townsend summarized Attachment II to SC-N-395, which was distributed at the meeting.

The delegate of GREECE said that, as the document was only distributed at the meeting, he would not be able to comment at this time.

The delegate of AUSTRALIA said he looked forward to studying the report from the Secretariat in detail. He said the presentation and analysis of production and marketing practices was a very important part of the work of ICAC. As the time was drawing near for the next Plenary Meeting, he urged that another meeting of the Working Group set up to further these discussions be held to consider the reports already presented. He further informed delegates that Australia had initiated antidumping actions against Brazil and Pakistan.

The delegate of the PHILIPPINES said his government found the reports on production and marketing practices very valuable. He proposed that the reports be compiled and published as a document for the next Plenary Meeting.

The delegate of the USA complimented the Secretariat on its report and asked if the guide price was reduced for the entire quantity of cotton produced in the EC when the maximum guaranteed quantity was exceeded. Dr. Townsend said that the guide price was reduced for all cotton produced, not just for the excess.

The CHAIRMAN noted that the Secretariat had hoped to be able to report on China's policies at this meeting as well, but had been unable to complete its work in time. The Executive Director added that reports on

production and marketing practices in China and in Central Asian Republics would be presented at the meeting scheduled for May 6, 1993.

The delegate of PERU commented that it was his understanding that the delegates of Australia and the Philippines supported a call for another meeting of the Working Group. The CHAIRMAN said that indeed another meeting of the Working Group would be useful once all the papers had been presented.

#### **4. Report of the Working Group on the Calculation of the Scale of Assessments**

The CHAIRMAN recognized Mr. Howland of the USA, who had served as Chairman of the Working Group to present the report. Mr. Howland referred delegates to the Aide Memoire dated February 10, 1993, which had been distributed with SC-N-395, which he said presented an accurate report of the meeting. He said that the Working Group recommended that no change take place in the current method of calculating the scale of assessments.

The delegate of the PHILIPPINES asked the delegate of Peru to clarify the statements which he had made in the Working Group. The delegate of PERU said that he would honor the request of his colleague from the Philippines and noted that the aide memoire related to the meeting of the working group held last February 10th was too brief and did not reflect the comments he made in said meeting. He said that in as much as he was the proponent of the working group on the calculation of the scale of assessments, he had informed the group that the scale of assessments had been changed several times in the past with the idea of adopting an equitable and fair system that would be commensurate with production and cotton trade of each of the member countries of the ICAC. He further said that he had informed the working group that before reaching a recommendation to the Standing Committee it was imperative to review and evaluate the present activities of the ICAC, its personnel, its budget, etc., bearing in mind that the main objective of the Committee was that of defending the price of cotton. He stressed the need to streamline the ICAC in the same way that private businesses, international organizations and governments are doing now.

The delegate made reference to the Committee on Commodity Problems, Consultative Subcommittee on Surplus Disposal of the FAO, which has permanent offices in Washington DC and whose work is similar to that of the ICAC as it deals in agricultural trade. It has forty-six member countries and twenty-one observer countries, prepares reports, statistical information, etc. It meets monthly under a heavy agenda and its staff is made up of only a secretary general and a secretary. The ICAC should realize, same as any other international organization, that it is in need of change as its budget is spent mostly in salaries, in too many trips, in other matters, etc. Therefore, all the components of the budget need to be considered thoroughly before making a recommendation to the Standing Committee.

The delegate of PERU noted that the meeting of the working group of February 10th was very short and lasted only six or seven minutes as its chairman circumscribed it to give only a reply to the question of whether the delegates were or were not in agreement with the present assessments. This explains the briefness of the meeting and the dissent of the delegate of Peru. The new philosophy is that the wealthy have to pay more, that is to say, a fair share of the budget.

#### **5. Other Business**

##### **a. Report of the Executive Director**

The Executive Director brought matters presented in Attachments III and IV to SC-N-395 and Memorandum 516 to the attention of delegates.

Following the information presented regarding the rankings of priority areas for Common Fund projects, the delegate of GREECE informed delegates that the Economic Office of the Greek Embassy had submitted a

project to the Secretariat on Prospects for Mediterranean Cotton which had been developed by the Hellenic Cotton Board and the Aristotelian University of Thessaloniki. He said that the project was currently in the form of an executive summary and he looked forward to presenting the complete project to the Committee at a later date.

**b. Other Matters**

There were no other matters brought before the Committee.

The CHAIRMAN adjourned the meeting at 11:25 am.

# INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee  
Washington, DC

Attachment I to SC-N-395  
March 22, 1993

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## Summary of the Cotton Outlook

The world cotton industry is entering the last third of 1992/93 expecting the smallest Southern Hemisphere harvest in six seasons, after seeing production in the Northern Hemisphere fall 12% compared with 1991/92. World production is estimated at 18.1 million tons, 2.7 million less than in 1991/92, and 500,000 tons less than the estimate of world consumption. The decline in Southern Hemisphere production to an estimated 1.4 million tons in 1992/93, compared with 1.9 million in 1990/91 and 1.7 million last season, is allowing greater upward movement in cotton prices than would otherwise be the case. Together with lower production in the Northern Hemisphere and little increase in exports from China (Mainland), the reduced production estimate for the Southern Hemisphere is responsible for the gain in the Cotlook A Index from 51 cents per pound in October 1992 to 62 cents in March 1993.

The Cotlook A Index in March 1993 was 8 cents per pound higher than a year earlier, and increased 1993/94 plantings are likely to result. Combined with better yields in Pakistan, China (Mainland) and Central Asia, the increases in area are expected to lead to greater world production in 1993/94. However, consumption is also expected to rise and 1993/94 ending stocks may decline modestly. World trade may expand in 1993/94 because of increased consumption in East Asia, principally in Thailand and Indonesia. The average Cotlook A Index during 1993/94 is expected to remain near the 19-season average of 73 cents per pound. As is always the case, substantial uncertainty exists with respect to the forecast of production, especially in China (Mainland) and Central Asia.

## Price Spreads Widening

The spread between quotes in Cotton Outlook for the highest and lowest priced types of cotton in the Upland category is widening. California SJV cotton accounts for about 60% of world exports in the fine category and is a useful indicator of the relative scarcity of cotton used in making high-count yarns from upland cotton. Quotes for SJV cotton in Cotton Outlook averaged 8% above the Cotlook A Index in 1989/90 and have been climbing as a percent of the Index since. During the current season, the SJV quote has averaged 19% above the Cotlook A Index, and quotes in recent weeks have been higher as a percent of the A Index.

The Cotlook B Index is calculated from quotes for cotton used in lower count, or coarse, yarns. As a percent of the Cotlook A Index, the B Index is falling from 94 in 1989/90 to 92 this season. Consequently, the spread between quotes for SJV and the Cotlook B Index has widened from 12 percentage points in 1989/90 to 21.

The widening spread is partially a reflection of the decline in absolute prices for all types of cotton. In 1989/90, the Cotlook A Index averaged 82 cents per pound, compared with an estimated 60 cents this season. As the general price level has declined, there has been less incentive for textile mills to minimize raw material costs by purchasing the cheapest possible cotton suitable for use in a particular yarn. The widening price spread may also reflect a scarcity of fine cotton relative to supplies of coarse cotton. The drought in California has reduced supplies of SJV and contributed to the rise in the SJV premium over the Cotlook A Index, but other contributions to the high-medium and fine categories are also relatively tight, including cotton from Colombia, Paraguay and Australia.

That the Cotlook B Index has fallen at all this season relative to the A Index is remarkable, given the declines in production in Pakistan and Texas, regions that usually contribute substantial volumes for export in the coarse category. Apparently, increased supplies of coarse cotton are being made available from other sources, probably including Central Asia and India.

Polyester prices are rising relative to the Cotlook A Index during 1992/93. Quotes in Cotton Outlook for US polyester used in blended cotton yarns rose from an average of 16% above the Cotlook A Index during 1991/92 to 31% above the index during the first two-thirds of 1992/93. Quotes for polyester from China (Taiwan) remain the lowest in the world and are still lower than cotton prices, but the gap between China (Taiwan) polyester and the A Index is narrowing. Combined with stronger economic growth in 1993 and 1994, the higher prices for polyester relative to cotton are expected to boost cotton consumption next season.

### **Hopes for Higher Consumption in 1993/94**

World cotton use is rising during 1992/93 because of increased supplies in China (Mainland), strong demand in the US, and competitive yarn production costs in Pakistan, Thailand and Indonesia; some growth is occurring in Eastern Europe. However, substantial cutbacks in cotton use are occurring in Japan, the Republic of Korea, Western Europe, Russia and Ukraine. Consequently, 1992/93 world consumption will be approximately the same as in 1988/89, and world cotton imports are falling by an estimated 8% compared with 1991/92. Over half of the decline in world trade can be attributed to reduced imports by China (Mainland) following a large harvest in 1991/92.

Prices for cotton yarn have fallen during 1992/93, suggesting reduced profitability in the spinning sector. The Cotlook Yarn Index, an average of export prices for 20 and 30-count cotton yarn from six countries, with July 1982 set equal to 100, fell from 104 in 1991/92 to 93 so far in 1992/93. The eleven-percent decline in the Yarn Index is greater than the 5% decline expected in season average cotton prices during 1992/93, partially explaining the continuing declines in cotton mill use in some countries.

Because cotton use has not increased, per capita world consumption has fallen from 3.62 kilograms in 1989 to an estimated 3.43 kilograms in 1993. World consumption in 1993 would have to rise to 20 million tons to maintain per capita cotton use at the 1989 level, compared with 18.9 million tons currently expected.

The best prospects for increased use during 1993/94 are in China (Mainland), the United States and Pakistan. The world textile industry has seen a gradual shift toward the processing of textiles in fiber producing countries and in the emerging economies of Southeast Asia. The shift in the location of mill use toward developing countries has come at the expense of the textile sectors of many industrial countries, with the notable exception of the US.

World textile fiber end-use consumption is estimated to have reached 37.9 million tons in 1992 and is expected to increase 3% to 39.2 million tons in 1993. Cotton consumption accounted for 18.6 million tons, or 49%, of fiber consumption in 1992.

### **Lower US Export Share**

The US share of world cotton trade is falling from 24% in 1991/92 to an estimated 23% this season, despite the operation of the marketing loan and competitiveness provisions in the US cotton program. US stocks remain tighter than world stocks because of rising domestic demand, keeping US prices higher than quotes for cotton of other origins. Shipments from Central Asia and Australia are also expected to account for a smaller proportion of world exports in 1992/93, while exports from Pakistan and India are expected to gain market share. Because of record production in 1991/92, Pakistan stocks at the beginning of 1992/93 were record high, permitting an expansion of exports despite a much smaller harvest. Exports from China (Mainland) are larger than in 1991/92, but by only a modest amount. Early-season estimates suggested that China (Mainland) could account for 5% of world trade in 1992/93, but China's trade share will probably be closer to 3%.

### **New Importers Emerging**

Several traditional exporters are expected to become net-importers of substantial quantities of cotton in 1992/93. Turkey purchased more than 70,000 tons in the first half of 1992/93, mostly from Central Asia, and imports by Turkey could exceed 100,000 tons.

Brazil is expected to increase imports in 1992/93 to 185,000 tons, compared with 170,000 tons in 1991/92. Contracts registered with the bolsa in Sao Paulo involving imported cotton totaled 216,700 tons between August 1992 and March 9, 1993, compared with 62,300 tons registered during the same period in 1991/92 and 28,900 tons in 1990/91. One of the major reasons for the increase in Brazilian imports during 1992/93 is high internal prices relative to comparable international quotes. Sao Paulo spot values for type 6 averaged 61.42 US cents per pound in August 1992, while the Cotlook B Index averaged at 54.52 cents. Sao Paulo prices have remained higher than the B Index throughout 1992/93 and in March 1993 the gap widened to 16.80 cents per pound. About 50,000 tons could be imported by Brazil during 1992/93 from Paraguay, but increasing quantities could come from non-traditional sources, such as Central Asia.

Mexico is expected to import 150,000 tons in 1992/93, 110,000 more than in 1991/92. Russia is facing difficulties with supplies of cotton from Central Asia and could begin exploring possibilities to import cotton from other sources.

### **Southern Hemisphere Production Down**

The 20-cent per pound decline in the season average Cotlook A Index during 1991/92 is affecting production in the Southern Hemisphere during 1993 because of reductions in planted area. Cotton area in Southern Brazil fell from 1.2 million hectares in 1991/92 to 860,000 hectares this season, and production is expected to fall 100,000 tons, even though yields will be higher. Cotton area in Argentina fell from 535,000 hectares in 1991/92 to 367,000 this season, primarily because of large debts that farmers incurred during 1991/92; a 28% decline in Argentine production is expected. Cotton plantings fell by half in the Litoral region of Colombia in 1992, and production is expected to fall from 92,000 tons to 39,000 tons.

Australian area fell in 1992, not primarily because of low prices, but because of a lack of irrigation water. Australian cotton area fell from 282,000 hectares in 1991/92 to an estimated 220,000 this season, and production is expected to decline by more than 160,000 tons.

Two Southern Hemisphere producers are experiencing increased production this season, Zimbabwe and Paraguay. Cotton production in Zimbabwe was devastated in 1991/92 by drought; better rains this season could allow production to more than double to 55,000 tons. The 1991/92 cotton harvest in Paraguay was ruined by poor weather, and yields fell to the lowest level since 1984/85. In contrast, yields in 1992/93 are expected to be record-high, despite the use of imported seed. Production is expected to increase by one-third to 200,000 tons, even though planted area fell by 21%.

### **Extra-Fine Export Commitments**

Exports of extra-fine cotton are declining during 1992/93, but the extra-fine market is not as weak as was feared at one time, and the decline this season may be less than 10,000 tons. World extra-fine cotton export commitments for 1992/93 are estimated at 130,000 tons as of mid-March, or 80% of projected shipments.

US Pima commitments reached 69,000 tons as of March 11, exceeding the estimated season total by 4,000 tons. US Pima accounts for more than 50% of world sales this season in the extra-fine category, compared with 40% in 1991/92.

Almost all other extra-fine exporters are losing market share in 1992/93. Egyptian sales reached 16,000 tons in March, 3,000 tons lower than at the same time in 1991/92. However, there is a positive impact from the government policy of pricing cotton competitively, and sales of Egyptian cotton to Germany, Switzerland, Greece and Turkey have increased. Egyptian prices do not appear to be competitive enough to keep total exports from falling. Egyptian sales to Japan, the Republic of Korea and Italy are lower in 1992/93 than in 1991/92.

# INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee  
Washington, DC

Attachment II to SC-N-395  
March 23, 1993

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## Background Information for ICAC Discussion of the EC Support Program For Cotton

The Secretariat was instructed at a Working Group Meeting in November 1992 to carry out a study of the EC income support program for cotton under the Common Agricultural Policy (CAP). The purpose of the study is to bring the matter to the attention of delegates and to develop an understanding of the issue.

Greece became a member of the European Community on January 1, 1981, and Spain acceded to membership on January 1, 1986. The membership of Greece and Spain, together with Portugal, increased the size of the European Community from nine members to the current twelve. Prior to these accessions, the degree of self-sufficiency in cotton production in the EC-9 was negligible; production in Italy amounted to less than 1,000 tons of lint per year during the 1970s, while consumption in the EC-9 amounted to approximately 1 million tons. However, production in Greece and Spain accounted for about one-fifth of consumption in the EC-12 in 1986/87. Given that cotton production in Greece and Spain is subsidized under the Common Agricultural Policy of the EC, competing exporting countries are concerned about the impact of production subsidies on cotton imports from outside the EC.

The production support scheme for seed cotton operated by the Community is based on a two-price concept in which domestic prices for seed cotton paid to producers are maintained above world market levels while prices paid by textile mills for lint are allowed to rise and fall according to world market conditions. Cotton is not classified as an agricultural product under the Rome Treaty which lists all products eligible for comprehensive support under the CAP, however the agricultural nature of cotton production is recognized. There are no barriers to cotton imports by the EC.

The level of support offered for seed cotton production is influenced by the Community's regional economic development objectives. The cotton producing areas of Greece and Spain are identified as "Objective 1 regions," regions in which the per capita GDP is less than 75% of the Community average. Through a variety of measures, including agricultural price supports, the Community is attempting to raise incomes in the Objective 1 regions.

The basic elements of the EC cotton program were announced in 1981 for the entry of Greece into the Community, and, while adjustments have been made since 1981, the overall structure of the program remains unchanged. The price support system for seed cotton instituted in 1981/82 renders cottonseed ineligible for an EC per-hectare support program for oilseeds. The EC price support program for seed cotton also replaced direct subsidy programs operated by the Governments of Greece and Spain prior to accession.

Production support is offered for cotton in the EC through the payment of aid to cotton ginners; ginners are required to pass the aid to farmers. The rate of aid is calculated as the difference between a guide price, or target price, and an estimate of the market value of seed cotton.

Since 1981/82, a guide price, based on cotton of average quality, has been established each season, representing the Community's idea as to what constitutes a fair price for seed cotton, given production costs in member countries. The guide price is established through negotiation.

A minimum price payable to growers for the base quality of seed cotton has been set 5% below the guide price each season. Upon presentation of proof of having paid at least the minimum price to growers, ginners are eligible to receive the rate of aid prevailing on the day of application. Since 1989, ginners have been able to fix a support payment in advance of the delivery of seed cotton, thus allowing ginners to sell lint forward, through the payment of a fee, refundable on the presentation of proof of having purchased seed cotton at the

minimum price.

The rate of aid paid to ginnerers is calculated daily in Brussels based on estimates of a theoretical world market price for seed cotton. Seed cotton is not traded internationally, so prices of cotton lint and cotton seed are monitored. The EC assumes that 100 kilograms of seed cotton yield 32 kilograms of lint and 54 kilograms of cotton seed. The Community also assumes an average cost for ginning each season. The determination of a market value for seed cotton is not based on a published formula available for public scrutiny, rather it is determined by civil servants working for the Community based on internal calculations.

The theoretical world market price is subtracted from the guide price. The resulting difference equals the aid payment rate to ginnerers in ECU's. By virtue of receiving aid from the Community, ginnerers are able to pay high domestic prices to farmers for seed cotton and can still sell lint competitively to textile mills at lower international levels. By establishing a minimum price paid to farmers below the guide price, the Community insures that ginnerers will always have a sufficient margin for profitable operation, thereby insuring that the marketing of cotton is never interrupted.

Between 1981/82 and 1985/86, the guide price for seed cotton rose from 760 ECU per ton to 960 ECU, but then did not rise for seven seasons. For 1992/93, the guide price increased to 1,028 ECU per ton; however this increase was only to offset technical changes in the definition of the base quality of cotton. Because the base quality was raised to reflect an improvement of 7% in the cleanliness and moisture content of seed cotton delivered within the Community, the guide price was raised accordingly. In effect, the guide price has not increased since 1985/86.

The Community also influences the quantity of cotton produced by establishing a Maximum Guaranteed Quantity (MGQ), or the maximum quantity of seed cotton for which the full rate of aid would be paid. In 1981/82, when Greece was the only significant cotton producer in the Community, the MGQ was set at 430,000 tons of seed cotton. Between 1982/83 and 1985/86, the MGQ was increased to 567,000 tons, reflecting increased production in Greece; actual production did not exceed the MGQ in any season and the full aid rates were paid to ginnerers.

Spain acceded to membership in the Community on January 1, 1986, and in 1986/87, the MGQ was increased to 752,000 tons to reflect the larger production base. Nevertheless, production exceeded the MGQ for the first time, and a proportionate reduction in the rate of aid was implemented. At the beginning of the 1986/87 season, an advance payment equal to only 88% of the calculated rate of aid was paid to ginnerers for each ton of seed cotton purchased from farmers. At the end of the season when the volume produced was determined, a supplemental payment was made.

To account for increased production in the Community in excess of the maximum MGQ of 752,000 tons, a concept known as the "adapted guide price" was introduced in 1987/88. This concept is also known as the "co-responsibility" system. The adapted guide price is less than the guide price by a percentage based on the excess of cotton production in the Community over the MGQ. The aid rate equals the adapted guide price less the estimated world price of seed cotton. Adapted guide prices are announced at the start of each season based on expected production and remain in effect for the entire year. If the estimate of production proves incorrect, resulting in either too little or too much aid being paid, an adjustment is made in the adapted guide price in the following season. Beginning in 1987/88, an upper limit of between 25% and 15% has been placed on the difference between the guide price and the adapted guide price; the upper limit is currently 15%.

Between 1987/88 and the current season, adapted guide prices fell from 903 ECU per ton to a low of 719 ECU per ton; the adapted guide price for 1992/93 is 874 ECU per ton, but is payable on the higher quality of cotton introduced as the base for this season. Because of the change in the definition of the base quality, the adapted guide price in 1992/93 is in reality about 9% below the adapted guide price in 1991/92.

The rate of aid in ECU per ton is translated into drachmae and pesetas through the use of cotton exchange rates, which may differ from other exchange rates between domestic European currencies and the ECU. The drachmae/ECU exchange rate for cotton rose from 61 in 1981/82 to 275 at the beginning of the present season. Consequently, even though the guide price rose only 15% in ECU per ton between 1981/82 and 1992/93, the guide price in drachmae quadrupled from 47,000 in 1981/82 to 240,000 at present.

In terms of US cents per pound of lint based on an assumed ginning ratio of 32% and market exchange rates published by the IMF, the guide price on which the aid rate for Greek cotton ginnerers was calculated rose from 115 cents per pound in 1981/82 to 176 cents per pound in 1991/92 and 158 cents per pound this season. Using the Cotlook A Index as a measure of international lint prices, the implied subsidy paid to Greek ginnerers ranged from a low of 11 US cents per pound of lint in 1984/85 to a high of 112 cents per pound in 1991/92. The subsidy offered to Greek ginnerers in 1991/92 was nearly twice the value of the season average Cotlook A Index. The comparison above assumes that the entire value of seed cotton price support is attributable to lint; in fact, some of the seed cotton support can be considered as support for cottonseed in lieu of eligibility for the oilseed program. Nevertheless, the amount of support offered by the Community per pound of lint is valid for comparison with international cotton prices.

For Spain, the peseta/ECU exchange rate used for cotton rose little during the 1980s, increasing from 144 in 1985/86 to 154 in 1990/91, and then fell slightly in 1991/92 and 1992/93; the guide price in terms of pesetas per ton of seed cotton fell from 139,000 in 1985/86 to 111,000 in 1990/91, but rose to 136,000 last season. However, the peseta strengthened by approximately one-third relative to the US dollar during the late 1980s. Consequently, the guide price in US cents per pound facing Spanish ginnerers rose from 127 cents in 1985/86 to 162 cents in 1990/91 and to 199 cents per pound in 1991/92. The implied subsidy paid to Spanish ginnerers ranged between 74 cents and 136 cents per pound of lint between 1985/86 and the present season. In 1991/92, the subsidy paid to Spanish ginnerers was more than twice the value of the Cotlook A Index.

An additional subsidy has been paid to small producers (defined as those who plant 2.5 hectares of cotton or less) since 1989/90. The additional payment equals 250 ECU per hectare, which represents between 13 cents and 19 cents per pound of lint at average yields per hectare in Greece and Spain. The additional support is offered to compensate smallholders for their extra costs associated with hand picking. The European Commission estimates that about 20% of cotton area in the Community, but about half of the cotton farmers in the Community, benefit from the small-producer payment.

### **Impact on Cotton Production and Imports**

Subsidies paid to ginnerers under the EC CAP have been substantial and have surely boosted production above what would have otherwise been the case. As stated in *The Agricultural Situation in the Community, 1986 Report*, page 115, "While cotton production in Greece had been in decline prior to accession, the relatively attractive support arrangements provided by the Community have encouraged a considerable expansion in planting and therefore in production; a similar pattern is expected to occur in Spain." However, even with the subsidies, EC cotton production is still just one-fourth of internal consumption. While production rose during the 1980s, it seems to be tending lower at present. Further, cotton production in the EC-12 in the year of peak production, 1988/89, represented 1.9% of world production; during the 1970s, production in the current EC-12 represented an average of 1.3% of the world total.

Cotton lint production in the current group of countries comprising the EC-12 averaged 173,000 tons per year between 1970/71 and 1983/84 and showed no significant tendency, either up or down. Production rose to 202,000 tons in 1984/85 and increased to 345,000 tons in 1988/89. The increase was caused by an expansion of cotton area, from an average of 223,000 hectares prior to 1984/85 to 392,000 hectares in 1988/89. Cotton area during the current season is estimated at a record 395,000 hectares.

Yields in the Community tended to rise during the 1970s and reached a record 1,006 kilograms of lint per hectare in 1986/87. Yields have been lower since and are estimated at 807 kilograms per hectare in the current season because of cold, rainy weather during the harvest period in Greece and a continuing drought in Spain.

An examination of data for the countries comprising the current members of the EC-12 suggests that production doubled to 345,000 tons in the Community under the auspices of the CAP between 1981/82 and

1988/89, and that the implementation of the co-responsibility system since 1986/87 has discouraged further expansion in cotton production. However, all of the decline in production between 1988/89 and 1992/93 was caused by poor weather and falling yields. Production could reach a new record if current economic incentives remain in place while weather improves. The highest recorded average yield in the Community, 1,006 kilograms of lint per hectare in 1986/87, would result in production of nearly 400,000 tons on the area planted in 1992/93.

In assessing the impact of the price support program for cotton on production in the Community, outcomes will differ depending on assumptions. If the current cotton program under the CAP were terminated, but the national price support programs for cotton offered in Greece and Spain prior to accession were renewed, production in the Community would presumably return to the average level of the 1970s of less than 200,000 tons of lint, a reduction of between 100,000 tons and 150,000 tons per year from the current amount.

If the current cotton program under the CAP were terminated and not replaced by national price support programs in Greece and Spain, then EC cotton production would presumably fall by an even greater amount, possibly being reduced to less than 100,000 tons. However, estimates of production without subsidies are extremely vague; as is the case in many countries, decades have passed since cotton production in Greece and Spain occurred without the benefit of government price support programs of some kind.

It would also make a difference whether subsidies under the CAP were eliminated only for cotton or whether the price support programs for grains, oilseeds and other crops were also terminated. If all CAP subsidies were ended, the decline in cotton production could be less than if cotton subsidies alone were ended. In the same vein, if cotton production subsidies in other countries were eliminated simultaneously with the elimination of CAP supports, the decline in cotton production in Greece and Spain would likely be less than if only the EC price supports for cotton were eliminated.

An econometric study conducted within USDA in the early 1980s suggested that a 1% change in the price of cotton paid to farmers in Greece and Spain, assuming the prices of other crops did not change, would result in changes in area planted to cotton ranging from .6% to 3%. A reasonable assumption is that a sustained 1% reduction in cotton prices relative to competing crop prices would lead over several years to a 1% reduction in area devoted to cotton.

Since 1981/82, the implied subsidy offered for cotton to Greek ginneries has averaged 40% of the guide price, while in Spain the implied subsidy has averaged 58% of the guide price since 1985/86. Thus, a reasonable conclusion is that cotton area, and thus cotton production, in the Community would have been between 40% and 60% lower in the absence of a cotton price support program, assuming that supports for other crops would have remained in effect. In terms of tons, production during 1987/88 through 1991/92 could have been lower by between 120,000 tons and 180,000 tons per year; shipments by exporters outside the EC would presumably have been higher by a like amount.

During the 5-year period between 1987/88 and 1991/92, 180,000 tons would have represented 3% of average world trade in cotton. Using the price model developed by the Secretariat, season averages of the Cotlook A Index would have been about 1 US cent per pound higher each season during the period 1987/88 through 1991/92 if EC production had been 180,000 tons per year lower than was actually the case.

# INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee  
Washington, DC

Attachment III to SC-N-395  
March 22, 1993

## Rankings of Priority Areas for Projects Considered for Financing by the Common Fund for Commodities

Following revised procedures for appraisal of projects submitted to the Common Fund for Commodities, a special meeting of the Standing Committee took place on January 14, 1993, for the purpose of submitting lists of priority areas of study or activity. The Secretariat faxed a combined list of priority areas to all delegates to the Standing Committee on January 14, 1993, for the purpose of ranking areas in which the country involved has an interest. The rankings were to be returned to the Secretariat within 30 days.

Technically, only three countries responded by February 16, the 30 day deadline. Given the newness of the process, the Secretariat chose to extend the deadline to await other responses in the hope of securing additional responses. By March 11, the Secretariat had received eight responses and compiled the rankings submitted. The average rankings were as follows, with a low number indicating a high ranking:

Project Area	Average Rank
Breeding and genetics: Collect and maintain an active germplasm bank to anticipate future needs in genetic improvement	13.88
Breeding and genetics: Conduct regional variety tests.	12.50
Breeding and genetics: Develop and evaluate new lines with higher yields and better fiber quality	10.13
Control of diseases and nematodes: Develop and evaluate disease resistant varieties (special emphasis on bacterial blight and fusarium wilt)	12.00
Control of diseases and nematodes: Evaluation of fungicides to control damping-off	18.38
Control of diseases and nematodes: Study and monitoring of diseases (mainly bacterial blight and fusarium wilt), and testing of available germplasm to identify suitable genetic tolerance or resistance	15.25
Control of weeds: Determination of an optimal weed control strategy combining chemical, mechanical and cultural control methods	18.88
Cotton production economics: Gather information on the costs of production and gross margins obtained by cotton producers to aid in farm policy decisions	18.13
Cotton utilization: Application research to develop new products and uses for cotton	9.75
Cotton utilization: Development of a comprehensive technical guide (which could be used as a textbook) to cotton utilization from harvesting through the various stages of textile manufacturing which could be used universally to enhance cotton fiber utilization	14.25
Cotton utilization: Increasing the use of cotton in non-woven products	13.63
Cotton utilization: Preparation of an analysis of fiber utilization in a spectrum of cotton producing countries and specific recommendations for increasing cotton utilization within these countries as well as internationally	12.13
Cotton utilization: Valorization of cotton stems for paper paste or charcoal	19.88
Cotton utilization: Valorization of mote fibers produced with lint cleaners	18.88
Fiber technology: Determination of spinning characteristics of promising lines	8.50
Fiber technology: Regional fiber quality tests	10.13
Fiber technology: Obtain information from commercial spinners on the performance of present varieties in terms of fiber quality	9.25
Improved cultural practices: Comparative studies of irrigation management systems to rationalize water use at the farm level	11.63
Improved cultural practices: Comprehensive evaluation of minimum tillage and conventional tillage soil preparation strategies and determination of criteria for recommendation of each system	15.50

<b>Project Area</b>	<b>Average Rank</b>
Improved cultural practices: Development of a methodology to predict yield responses to nitrogen fertilization	16.63
Improved cultural practices: Growing irrigated cotton with reduced amount of water	10.13
Improved cultural practices: Introduction and development of irrigated long staple cotton in the Senegal River valley	24.75
Improved cultural practices: Producing quality cotton under rainfed conditions	16.50
Improved cultural practices: Study of post-sowing tillage techniques and determination of soil quality criteria to recommend various practices	22.25
Mechanization of production: Comparative evaluation of different systems for delinting to obtain high quality seeds	21.50
Mechanization of production: Development of cotton pickers specially suitable for medium size farms	23.50
Pest management: Control of boll/budworm complex and other cotton insects by means of an Integrated Pest Management strategy including chemical, biological and cultural methods of control	8.88
Protection of natural resources: Establishment of a data base to assess the environmental impact, in terms of liquid and solid waste, of both cotton and synthetic fiber production, as they relate to the product, the atmosphere, the land and general health. This data base would profile the chemical, water and energy inputs to fibers production.	12.13
Protection of natural resources: Establishment of a data base to determine the incidence of residues of pesticides and other chemicals in raw fiber, as well as in yarns and fabrics after finishing; to make comparisons with manmade fibers; and to devise methods for mitigating any undesirable residues identified	11.63
Reducing cotton stickiness: Development of field remedies for the processing problems encountered with sticky cotton	9.25
Reducing cotton stickiness: Elimination of stickiness in cotton when ginning	8.50
Reducing cotton stickiness: How to remove cotton honeydew from lint in economically feasible ways	11.38
Reducing cotton stickiness: Pest management for non-sticky cotton	7.63
Reducing fiber damage: Adding trash content, short fiber content and neps to basic cotton classification measures for market evaluation	12.25
Reducing fiber damage: Comprehensive studies of mechanical harvesting systems, including pickers and strippers, with special emphasis on fiber quality	13.75
Reducing fiber damage: Development of genetic and crop management remedies to the dye-defect problems encountered from neps caused by immature fibers	14.00
Reducing fiber damage: How to improve cotton harvesting and ginning to reduce damage to cotton fiber	8.50
Reducing fiber damage: Studies of the impact of harvesting systems on the type of ginning machinery to be used, determine maximum grades to be achieved with minimal fiber quality deterioration	18.13
Studies of yield constraints in cotton	15.75
Transfer of technology to producers	15.00

The project area with the highest ranking (lowest numerical average ranking) is Pest Management for Non-sticky Cotton. Three project areas were tied for the second highest ranking: Determination of Spinning Characteristics of Promising Lines; Elimination of Stickiness in Cotton when Ginning; and How to Improve Cotton Harvesting and Ginning to Reduce Damage to Cotton Fiber.

The Secretariat will proceed actively to solicit project proposals addressing these areas of concern.

# INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee  
Washington, DC

Attachment IV to SC-N-395 Revised  
April 1, 1993

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## Preparations for the World Cotton Research Conference-1 Brisbane, Australia, February 1994

A revised brochure has been prepared for the Conference which includes additional details of the Conference (the schedule for the payment of registration fees and submission of papers and summaries). The brochure has been provided to all members of the International Committee with the request to distribute it among the researchers in their areas. 600 copies of the brochure were supplied to FAO to send them to their regional offices. 1000 copies have been supplied to the Conference Committee in Australia. The brochure was also distributed at the US Beltwide Cotton Conferences held in New Orleans in January. The brochure is also being mailed to about 400 cotton researchers in the ICAC database.

### Registrations

In total, 125 researchers have registered for the conference so far. This total includes 48 registrations from Australia and 77 from Argentina, Belgium, Brazil, China (Mainland), Egypt, France, Germany, Greece, India, Iran, Israel, Kenya, New Zealand, Nigeria, Philippines, Spain, Thailand, Uganda, UK, USA, Uzbekistan, Zambia and Zimbabwe. The registrants are categorized according to their specialization as follows:

Agronomy/Physiology	42
Breeding and Genetics	23
Insect Pest Control	47
Others	19

Out of the total of 125, 103 intend to present papers at the conference. 14 have registered to participate in the two-day field trip and 44 in the four-day field trip.

### Change of Venue

Initially it was planned that a University of Queensland campus would be used as main venue for the Plenary Sessions as well as Group Meetings/Workshops. The Conference Committee in Australia has informed ICAC that, while the hostel at the University will remain available for participants, planned events at the University will prevent the venue to be used for the Plenary Sessions. A hotel in the city of Brisbane will be used as the main venue, with some workshops at the University. Change in the venue will not increase the cost of the Conference to the sponsors or participants.

### Role of the Conference Committee

So far, pre-registrations have been received by the ICAC Secretariat. In order to allow the Conference Committee to play a greater role, the registration process has been transferred to the Conference Committee. Overall coordination will however remain with the ICAC. The selection of keynote speakers is currently being finalized with the Conference Committee and the sponsoring organizations (ICAC, FAO and the Australian Cotton Research and Development Corporation).