

**Standing Committee
Washington, DC**

**SC-M-409 Final
January 30, 1995**

MINUTES

**409th Meeting of the Standing Committee
Wednesday, January 18, 1995
Room H1-200, World Bank, 600 19th Street NW
Washington, DC**

PRESENT: Mr. Fumio Yawata (in the Chair)
Mr. Jose Molina, Argentina
Mr. Tom Grealy, Australia
Ms. Marie-Ange Katzeff, Belgium
Mr. Aluisio Lima-Campos, Brazil
Mr. Calvin Chang, China (Taiwan)
Ms. Maria-Angelica Arbelaez, Colombia
Mr. Pekka Voutilainen, Finland
Mr. Pascal Macioni, France
Mr. Karlheinz Liebsch, Germany
Ms. Anna Constantinidou, Greece

Ms. Maria-Claudia Marini, Italy
Ms. Cristina Martinez, Paraguay
Mr. Victoriano B. Leviste, Philippines
Mr. Jerzy Strebski, Poland
Dr. Sergey S. Dmitriev, Russia
Mr. J. L. Miranda, Spain
Mr. Cengiz Berksoy, Turkey
Ms. Elaine Needleman, UK
Ms. Lana Bennett, USA
Mr. Eldwine De Santis, USA
Ms. Rozlyn Sikora, USA
Mr. Bakhtiyar Ibragimov, Uzbekistan
Mr. Edwin Mubataripi, Zimbabwe
Dr. Lawrence H. Shaw, Executive Director
Dr. Terry P. Townsend, Statistician
Mr. Federico Arriola, Administrative Officer
Mr. Andrei Guitchounts, Economist
Dr. Rafiq Chaudhry, TIS
Ms. Rosa-Marina Soper, Secretariat

The CHAIRMAN welcomed Ms. Rozlyn Sikora of the USA, who was attending a meeting of the Standing Committee for the first time.

1. Adoption of the Agenda

With regard to agenda item 3, the delegate of the USA said it was her understanding at the last Standing Committee Meeting that the salary and benefits of the Secretariat were to be discussed at the next meeting. The Executive Director noted for information that the pending decision was the salary of the Executive Director, although the salary and benefits of the Secretariat could of course be discussed at any time and usually were in connection with the budget, another item on the proposed Agenda. The delegate of the USA said that a decision with regard to the salaries and benefits of the entire Secretariat staff had been pending since the 52nd Plenary Meeting in New Delhi. The CHAIRMAN ruled that the salary and benefits of the entire Secretariat could be discussed under item 3.

The delegate of the USA proposed moving item No. 2 on the Agenda, the discussion of the World Cotton Situation to the end of the Agenda, if indeed there was time for it at all, due to the time required to discuss other items which had been carried forward from past meetings.

The Executive Director objected strongly to the deemphasis of the discussion of the world cotton situation, which he said was the main purpose and function of the Standing Committee under the Rules.

The delegate of the PHILIPPINES supported the proposal of the USA. The delegate of ARGENTINA sought a compromise by moving the discussion of the world cotton situation to item 4 on the Agenda, so that there would still be time for it during the meeting. BRAZIL supported the proposal of Argentina. The CHAIRMAN found a consensus for the change proposed by Argentina.

2. Audit Reports for 1993/94

The CHAIRMAN summarized Attachment II to SC-N-409 and the requirement that the audit reports of the financial statements of the Committee and its Staff Retirement Plan be approved by the Standing Committee. He noted information provided by the Executive Director regarding misstatements and misunderstandings in the audit reports.

With regard to the Executive Director's comment that the tax reimbursement agreement applied to more than US citizens, the delegate of the

USA asked who else the agreement applied to and whether the clarification should include permanent residents. The Executive Director noted that permanent residents were liable to pay US income taxes and were covered by the agreement. He said the agreement applied to any part or full-time employees of the Secretariat, which currently included one permanent resident in addition to two US citizens (in addition to the Executive Director). The delegate of the USA also asked for the calculated gross salaries used to make retirement contributions. The Executive Director noted that the information had been supplied to the Standing Committee on several occasions in the last two years but said it would be again provided to any delegate requesting it. The delegate of the USA noted that the salary information needed to be updated.

There being no other comments, the CHAIRMAN found a consensus for the approval of the audit reports of the financial statements of the Committee and the Staff Retirement Plan together with the information provided by the Executive Director.

With regard to Performance Audit, the CHAIRMAN noted that at the last meeting it had been proposed by the USA that all recommendations of the

Performance Audit be adopted but that there had not been unanimity. The CHAIRMAN found that again there was not unanimity for adoption of all recommendations and decided to consider the recommendations one-by-one.

With regard to the proposal that the accrual basis of accounting be adopted, there was not agreement to change the basis of accounting. The Executive Director said it was not possible to change from a cash basis unless the Rules, which specified that “expenditures shall be debited to the accounts of the fiscal year in which payments are actually made” and that “receipts shall be credited to the accounts of the fiscal year in which funds are actually received,” were amended. The representative of the USA took the position that the accrual basis could be adopted without a Rules change because cash accounting is an integral part of the accrual system and therefore cash accounting and cash flow statements would continue to be maintained. The delegate of the USA then deferred to the representative from the US State Department, a trained accountant, who further elaborated this point and, in response to questions from other delegates, said he concurred with the auditor that a switch to accrual accounting should entail minimal cost, that the software for this system is readily avail-

able and that accrual accounting had become the standard system in nearly all organizations. The CHAIRMAN asked delegates to consult authorities in their capitals regarding the necessity for a Rules change. It was decided that the Secretariat would produce accrual accounts on a parallel basis for the information of the Standing Committee and would provide estimates of the costs of providing the additional information.

It was further agreed that a separate account would be established for the Reserve Fund, that the Secretariat would develop an accounting manual, that invoices would be marked paid, that deposit slips would be prepared by the mail opener, that the Executive Director would review bank statements, that the use of a lockbox system would be investigated, that quarterly travel expense reports would be submitted to the Standing Committee, that the Executive Director's travel expense reports would be submitted to the Chairman of the Standing Committee for review, that written employee performance reviews would be initialed by employees, and that the staff regulations would be reviewed annually and recommendations for necessary modifications be submitted to the Standing Committee.

With regard to the collection of assessments, the Executive Director noted that the Standing Committee's current policy was to permit members to receive services and remain members as long as they made regular payments toward the settlement of their arrears or submitted payment plans. It was decided to amend this policy to apply the Rules strictly but consult the Standing Committee before the implementation of specific actions, such as the discontinuance of services or the suspension of membership.

With regard to the Staff Retirement Plan, the Executive Director was asked to solicit the opinion of the Secretariat staff regarding the creation of individual retirement accounts and to provide the Standing Committee with detailed information on the costs involved in the change.

3. Salary of the Executive Director

The CHAIRMAN noted that SOUTH AFRICA, whose delegate was unable to attend the meeting, had expressed the opinion that the matter of the Executive Director's salary be referred to the Advisory Committee.

The delegate of AUSTRALIA said the Standing Committee had a responsibility to develop a recommendation. He asked for more time to look at the proposal made by Germany at the 408th Meeting.

The delegate of GERMANY noted that the proposal of his government was to set the salary of the Executive Director at UN salary grade D2 with appropriate adjustments for the differences in benefits.

The delegate of the USA said her government's position was that there should be a scale of salaries for each position at the Secretariat and supported the views of Germany and Australia that the UN scale be examined, together with its procedures for the computation of benefits. She expressed concern that the discussion on the matter of salaries and benefits had been going on for a very long time and that it was time to land a decision. She asked the Chairman to suggest a means by which deliberations could be expedited.

The CHAIRMAN decided to form a working group open to any interested delegates to work toward a recommendation. Given the fact that Secretariat salaries were based on the UN scale until 1987 and that the salary

scale was abandoned in that year, he instructed the Executive Director to prepare a paper for the working group giving the historical background of salary determination at the Secretariat and the reasons for the decision to discontinue the use of a salary scale in 1987.

4. World Cotton Situation

Dr. Townsend presented Attachment I to SC-N-409. He noted the significant rise in world cotton prices and reported that the Secretariat currently estimated that the Cotlook A Index would average 87 US cents per pound in 1994/95 and 89 cents in 1995/96. He said the Secretariat believed that cotton prices would be higher on average in the 1990s than in the 1980s due to slowing in the pace of yield increases in major countries. He noted that the shortfall in cotton production in a number of countries developing their spinning industries was resulting in increased world cotton trade as these countries became cotton importers and as traditional importers faced less competition in the yarn market. He noted that spinning margins had been restored to average levels. Dr. Townsend also noted that subsidies to cotton production in the USA and the EU had fallen. In the USA he said the expected spending in the fiscal year 1995 was 4 cents per pound

of production, compared with 29 cents in 1993. In the EU, aid to ginnerers --- in addition to the market price --- had fallen to an equivalent of 77 cents per pound from \$1.44 per pound in 1992.

In response to a call from the CHAIRMAN for statements from member countries or questions, the delegate of the PHILIPPINES asked if a margin calculation could be made for cotton farming. Dr. Townsend said that the Secretariat did not calculate an index of input prices in individual producing countries, noting the difficulties involved because of differences in production technologies. He said the Secretariat did survey the cost of production and inputs used in producing cotton on a regular basis.

The delegate of SPAIN asked for clarification of the years used in measuring subsidies in the USA. Dr. Townsend said the figures presented referred to fiscal years beginning October 1 of the previous calendar year.

The delegate of ARGENTINA inquired about the impact of increased market prices on subsidies in the USA and the EU. Dr. Townsend noted that published formulas resulted in decreased subsidies when market prices

rose in the USA. While the formulas used were not public in the EU, it appeared that increased market prices also led to reduced subsidies there.

The delegate of the USA asked about the lag-time between changes in cotton prices and the reflection of those changes in yarn prices. Dr. Townsend noted that there was generally a 12 to 18 month lag.

The CHAIRMAN noted that there was not sufficient time to discuss items 5 and 6 on the financial situation and the proposed budget for 1995/96 but took up item 7, the appointment of research associates, due to the need for applicants to the program to have sufficient time to make their travel arrangements.

5. Appointment of Research Associates for 1994/95

The CHAIRMAN referred to Attachment VI.

The delegate of the USA asked the cost of the program and the procedure for accepting nominations. The Executive Director said the program was budgeted at a total cost of \$20,000. He referred the delegate to Memorandum 561 in which it was requested that applications to participate in the

program be sent to the delegate to the Standing Committee. He said that a copy of notification of receipt of all applications was forwarded to the delegate to the Standing Committee.

The delegate of the USA said her country's preference was for all applications to come through delegates, noting that the USA was unaware of the applications from the USA and needed to evaluate all potential nominees as well as consider each activity in light of the budgetary situation. The Executive Director said that applications received by the Secretariat for future programs would be referred to Standing Committee delegates.

The CHAIRMAN found a consensus for the recommendation of the Secretariat that 15 research associates be appointed as detailed in Attachment VI and that the remaining candidates be appointed alternates. He took note of the inclusion of the United Kingdom in the list of priorities between Paraguay and Greece, due to an omission.

The hour being late, the CHAIRMAN proposed adjourning the meeting. The Executive Director noted that he had had the opportunity to meet with a number of delegates to discuss the financial situation and the proposed

budget. He offered to meet with any other delegates who needed clarification of the material presented. He further asked delegates to submit their comments on the proposed budget to him in writing so that the budget process could go forward. The CHAIRMAN adjourned the meeting at 12:30 pm.

Above Average Cotton Prices Likely During Remainder of 1990s

Disease, pests and environmental concerns in key countries could limit the growth in world cotton production during the remainder of the 1990s, leading to higher prices on average during the next five-to-ten years, compared with prices in the most recent ten years. However, slow growth in world cotton production will constrain consumption over the next several years, probably leading to a loss of market share for cotton. Those cotton producers who are able to increase output will benefit from the expected increase in cotton prices, and the proportion of world production accounted for by the largest countries is likely to fall. Cotton spinners in countries which import cotton may also benefit from lessened competition with spinners in cotton producing countries experiencing difficulties.

The Cotlook A Index averaged 67 cents per pound during the most recent ten seasons, compared with an average of 76 cents per pound during the

eleven seasons prior to 1984/85. The lower average during the past decade reflected rapid increases in world yields, combined with stagnant consumption after 1987/88. However, conditions in the 1990s may be similar to those of the 1970s, with yields rising slowly and consumption expanding with increases in population and income. The season average Cotlook A Index is estimated at 87 cents per pound in 1994/95, and current estimates point to an even higher average in 1995/96.

The world average yield rose from 410 kilograms per hectare in 1980/81 to a record 600 kilograms in 1991/92. The average increase of 3% per year was caused by the introduction of household production incentives in China (Mainland), expanded use of fertilizer and pesticide in developing countries, the introduction of new seed varieties, and an increase in irrigated area. World cotton area did not rise during the 1980s, but the increase in yields enabled production to climb from 14 million tons in 1980/81 to a record 21 million in 1991/92; the rise in world production was sufficient to keep pace with consumption, and ending stocks increased from 5 million tons in 1980/81 to 9 million in 1991/92.

However, the world average yield fell in 1992/93 and did not recover in 1993/94, nor is the average this season likely to be as high as in 1991/92. Further, the problems affecting production in several countries are not likely to be corrected in one season. Because of the continuing nature of the problems affecting producers, world cotton production will probably have difficulty keeping up with increases in consumption over the next several years. Production is estimated at 18.4 million tons in 1994/95, and approximately 19 million in 1995/96. World consumption is estimated at 18.8 million tons this season and approximately 19 million next season, the same as production.

Half of world cotton production is occurring this season in four countries experiencing specific difficulties expanding production. The average yield in China (Mainland) rose by two-thirds to 900 kilograms per hectare between 1980/81 and 1984/85 but has declined since. Even in 1991/92, the most recent year of large production in China, the national yield was 4% lower than in 1984/85. Cotton production in China (Mainland) is being made more difficult by the development of resistance to pesticides in the boll worm, a cotton pest. Resistance develops when pesticides are applied improperly, killing only weaker members of a population and allowing

stronger insects to survive and reproduce. The development of resistance in pest populations in China may have begun in the late 1980s when yields fell below 800 kilograms per hectare, but excellent weather in 1991/92 obscured the problem. The Chinese cotton yield fell below 700 kilograms in 1992/93, but a shift in area away from the regions that are worst affected and excellent weather in 1994/95 led to improved results. Nevertheless, resistance to pesticides in China is reported to be spreading to new production areas. Temperatures in November and December 1994 were also relatively mild, suggesting increased numbers of boll worms in 1995. A long term solution to resistance will require the development of new varieties and new agronomic practices, and production in China (Mainland) may be less than domestic consumption more often than not during the remainder of the 1990s. Consequently, China is likely to be a net importer during most years, drawing supplies from the rest of the world and helping to maintain international cotton prices at higher-than-average levels.

Yields in Pakistan have fallen during each of the last three seasons, after more than doubling to 770 kilograms per hectare by 1991/92. The declines in yields have been caused by the leaf curl virus and heavy pest pressures and were not mitigated during 1994/95 by good weather. The leaf curl vi-

rus is present throughout the major growing region in Pakistan, and only a multi-year process of developing resistant varieties will lead to a substantial recovery in yields. Because of the problems with the leaf curl virus, production in Pakistan has fallen from 2.2 million tons in 1991/92 to an estimated 1.2 million this season, and production is less than consumption. Cotton mill use in Pakistan grew at an average rate of 11% per year between 1980/81 and 1993/94 and rose to 1.5 million tons. The Government of Pakistan favored the development of the cotton spinning industry by restricting exports of lint to make supplies available domestically at prices lower than those prevailing in international markets. However, the declines in cotton production have created domestic shortages and caused prices in Pakistan to rise to world levels. Consequently, the advantage spinners in Pakistan previously enjoyed has been eliminated, and mill use may decline this season as a result.

Cotton yields in Uzbekistan did not decline during the 1980s, but harvested area fell by one-fourth between 1987/88 and 1994/95, to 1.5 million hectares. The decline in area was a result of concerns about the impact on the environment of over-use of water and chemicals in the production of cotton. Because of the decline in area, cotton production fell below 1.3 mil-

lion tons in 1994/95, compared with 1.7 million tons in 1988/89. With the decline in production, exports from Uzbekistan are being forced lower, and the government does not intend to expand the area devoted to cotton in order to boost production in the future. Rather, increases in yields may offset further declines in area to maintain cotton production near the current level over the next several years.

The average cotton yield in India reached 315 kilograms per hectare in 1989/90 and again in 1992/93, but a lower yield occurred last season. The average for 1994 is estimated again to be below 300 kilograms. Indian yields have not fallen as sharply during the last two seasons as in Pakistan. Heavy rain in August and September and a cyclone in October have contributed to the reduction in yields this season. However, the leaf curl virus has also been identified as a factor reducing yields in northern India this season and may contribute to reduced production in the future. As in China (Mainland) and Pakistan, reduced yields in India have led to increases in domestic prices and slower growth in domestic cotton consumption.

World Consumption Reduced by Tight Supplies

Even though the world economy is growing rapidly and the underlying demand for cotton is probably expanding, world cotton use is not rising substantially this season because of tight supplies. World use is now estimated at 18.7 million tons this season, compared with 18.6 million in 1993/94, marking the ninth season in which world use has been between 18 and 19 million tons.

World consumption has been held in check the last several years by declines in the former USSR and government-imposed constraints on expansion in China (Mainland). Those causes for slow growth in world cotton use remain in evidence this season. Consumption in the former COMECON group fell from 2.8 million tons in 1988/89 to 1.3 million tons last season, and a further decline to 1.2 million tons is expected in 1994/95; consumption in China (Mainland) reached 4.5 million tons in 1986/87 and remains at that level today. However, consumption in Pakistan may decline in 1994/95 for the first time in over a decade, and growth in cotton use in

India is estimated at less than 1% during 1994/95 because of high domestic cotton prices.

Because of reduced cotton supplies in China (Mainland), Pakistan and India, world cotton yarn prices have risen and exports of yarn to Japan and other countries in East Asia are being reduced; mill use in the yarn importing countries in Asia and Europe may rise as a result. Mill use of cotton is also increasing in the United States, Turkey and Brazil. The Cotlook Yarn Index, an indicator of export prices for cotton yarn from major suppliers with July 1982 equal to 100, rose to a record of nearly 140 in mid-January, an increase of 60% since November 1993. With the increase in the Yarn Index in recent months, the difference between the Yarn Index and the A Index, commonly thought of as the spinning margin, has risen to the average level of the 1980s. The spinning margin had been below the average of 19 percentage points since early 1993.

World Trade Expanding

Reflecting improving prospects for spinners in importing countries, world cotton trade is estimated at more than six million tons this season, the high-

est since 1991/92, the first year in which trade between the republics of the former USSR was counted as international. Further, world exports in 1995/96 are forecast to rise again, and world trade may continue to expand over the next several years. World cotton exports averaged 4.4 million tons in the early 1980s, but then rose to a new level of 5.7 million tons in 1986/87. Despite a redefinition of trade within the former USSR after 1990/91, world trade in 1993/94 was only marginally higher than in 1986/87. However, imports by traditional exporters, including China (Mainland), India, Pakistan and Turkey, as well as rising consumption in Asia and Europe are boosting trade. Exports are rising from the United States, Francophone Africa, Argentina and Greece. The US share of world exports is rising from one-fourth in 1993/94 to one-third this season.

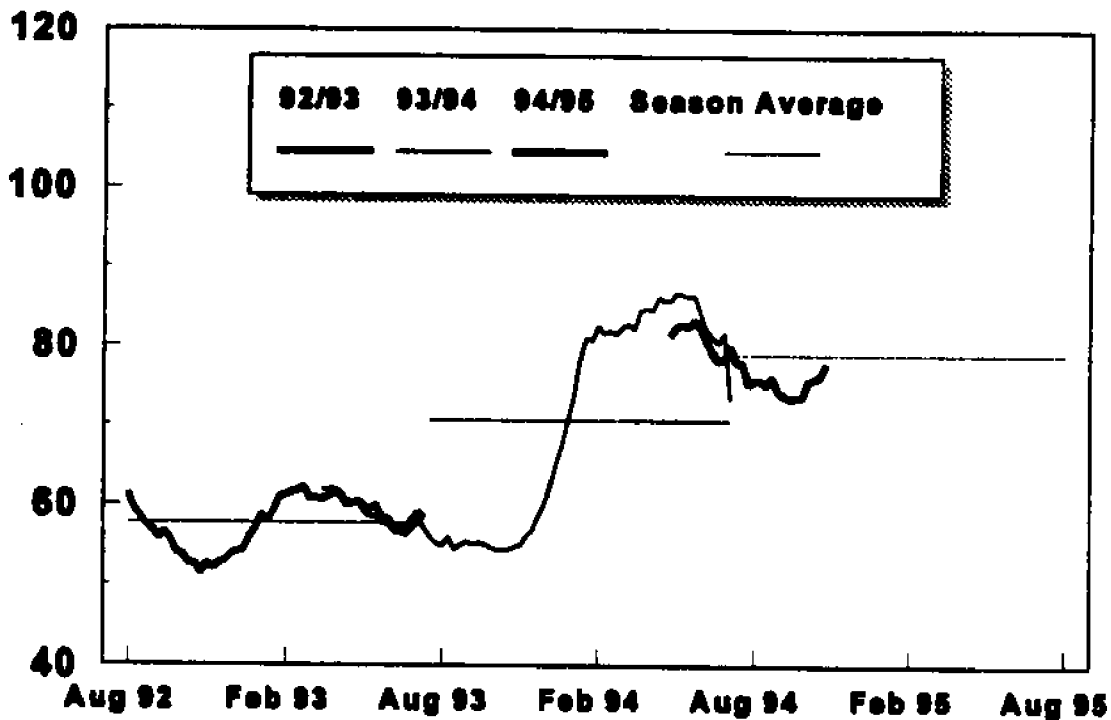
Higher Prices Resulting in Lower Production Subsidies

Production subsidies offered by the governments of the United States and the EU are declining this season in response to increases in market prices. In the United States, the highest Step 2 payment rate made to exporters of

US cotton fell from nearly 6 cents per pound in 1992/93 and nearly 7 cents last season to 2.5 cents in 1994/95; currently no Step 2 payments are being made. Total US government outlays on the upland cotton program, including income and price support programs and the competitiveness provisions, are estimated at \$400 million this fiscal year, compared with \$2.2 billion two years ago and \$1.5 billion last year. When divided by total production, spending on the US cotton program is falling from 29 cents per pound of cotton in fiscal 1993 to an estimated 4 cents per pound this year. The US government will not require that any cotton land be devoted to conserving uses in 1995/96 as a condition of eligibility for income and price supports; in 1994/95 producers were required to divert 11% of their cotton area. In the EU, the rate of aid paid to cotton ginners has fallen from 75 ECUs per 100 kilograms of seed cotton in early 1992/93 (\$1.44 per pound of lint) to 45 ECUs presently (77 cents per pound of lint).

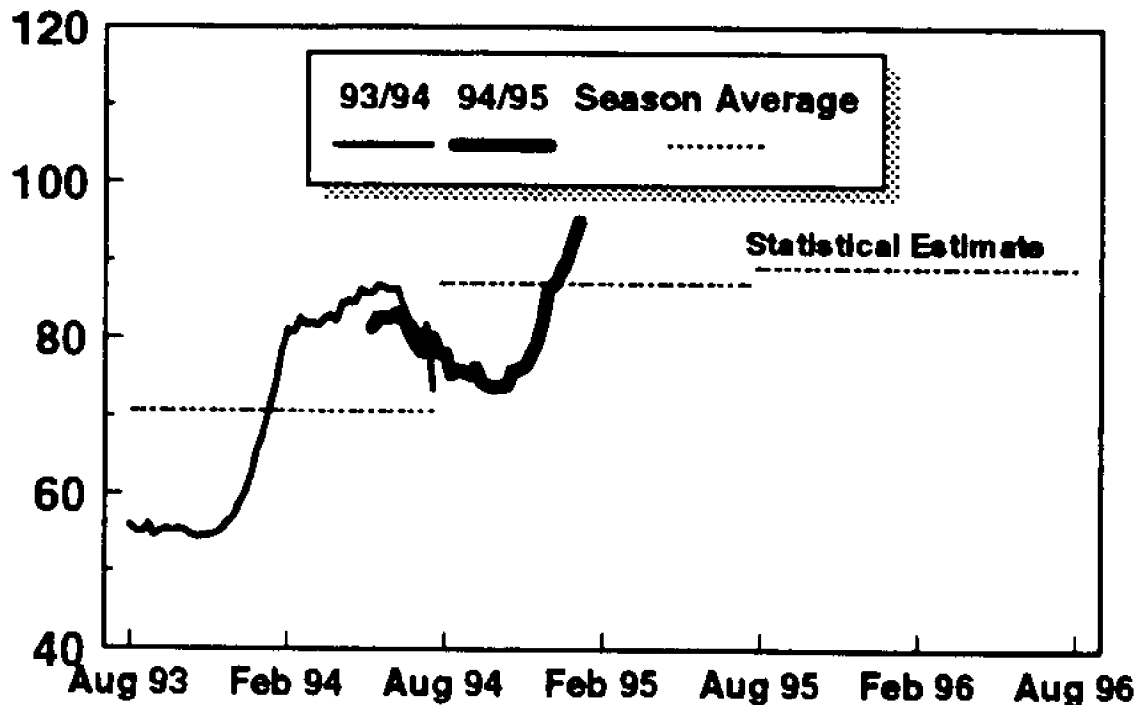
COTLOOK A INDEX

US Cents per Pound



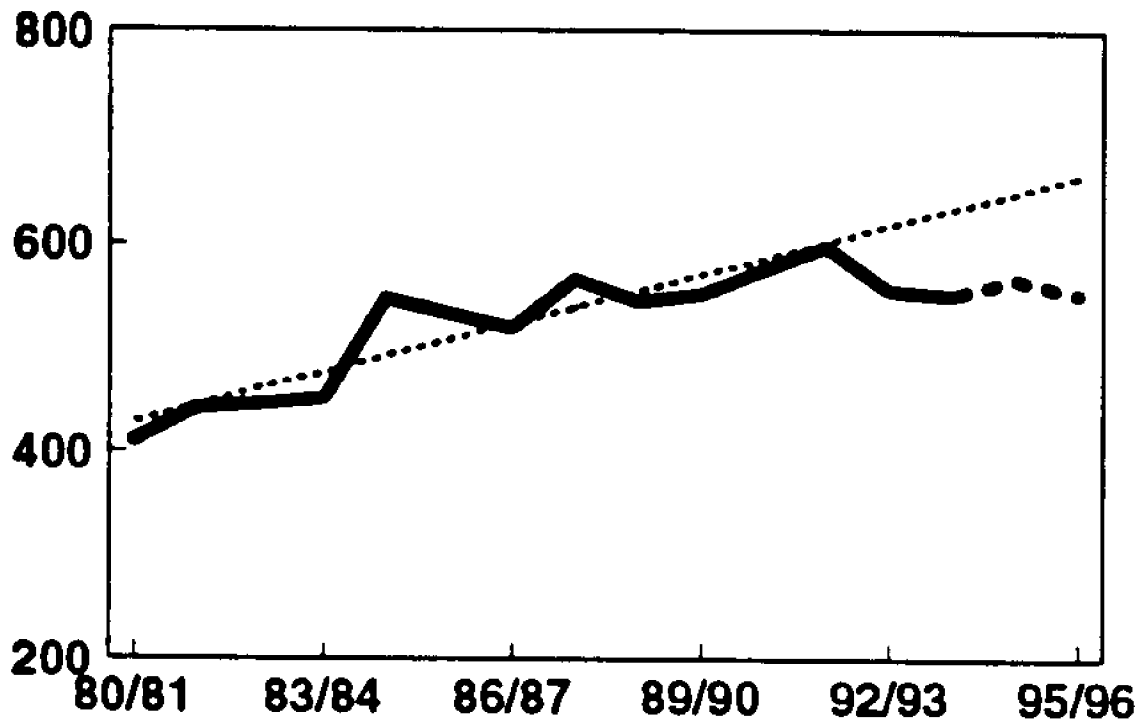
COTLOOK A INDEX

US Cents per Pound



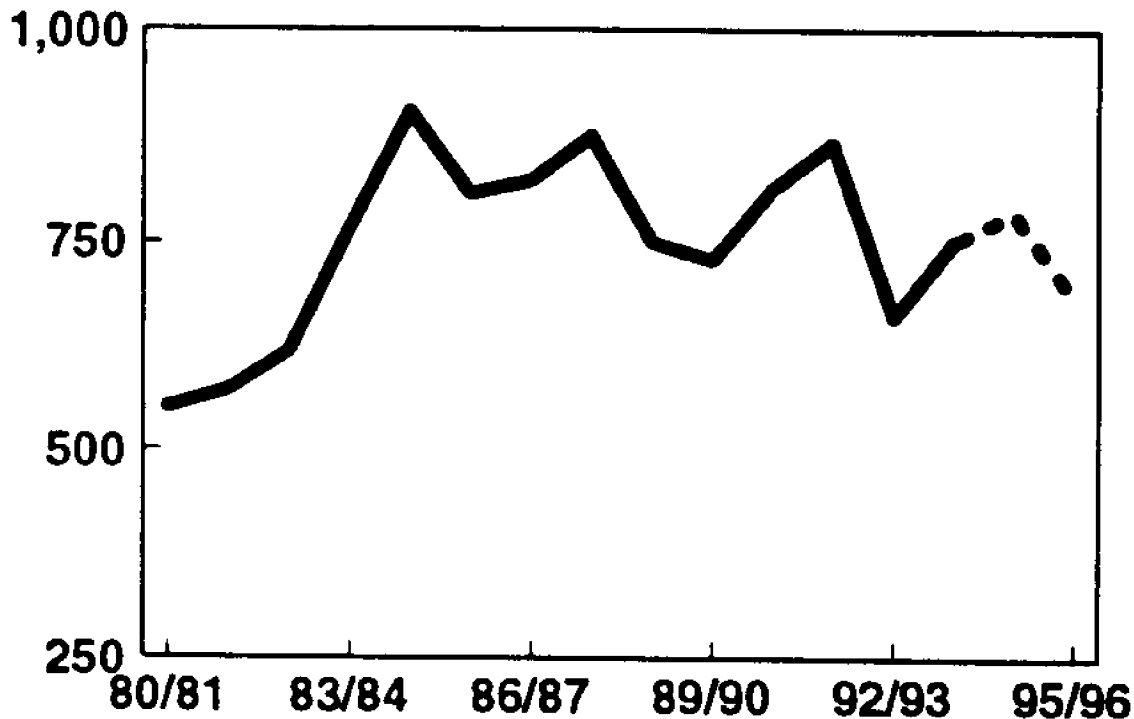
WORLD COTTON YIELDS

Kilograms per Hectare



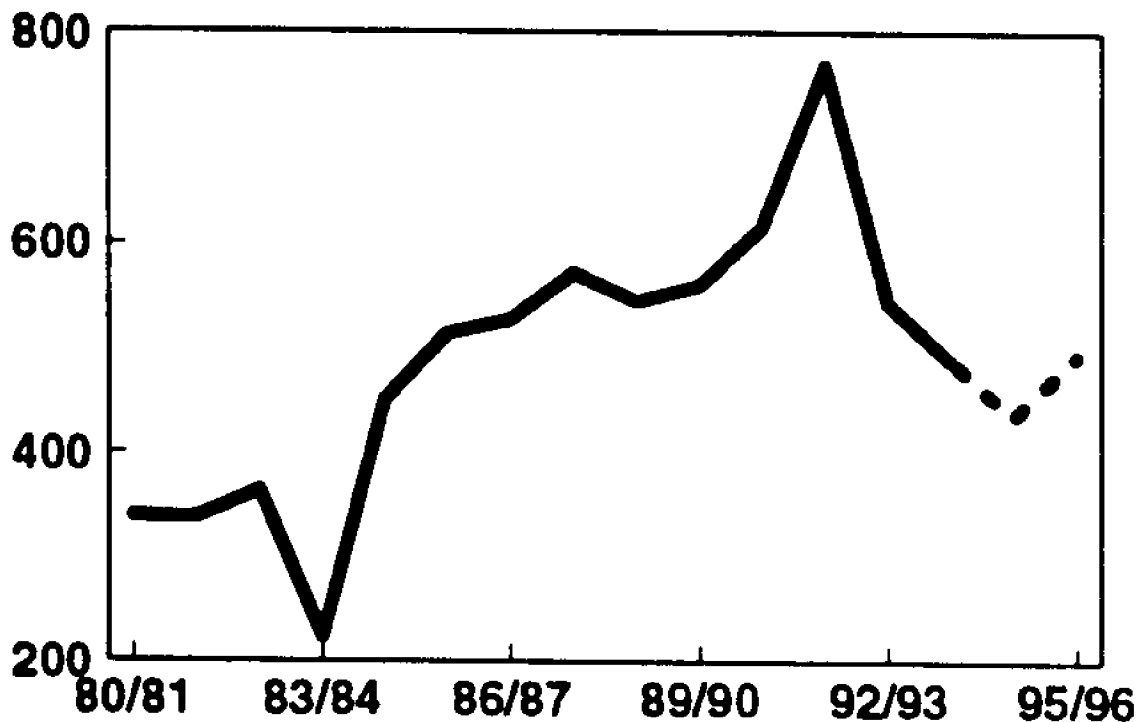
CHINA (M) COTTON YIELDS

Kilograms per Hectare



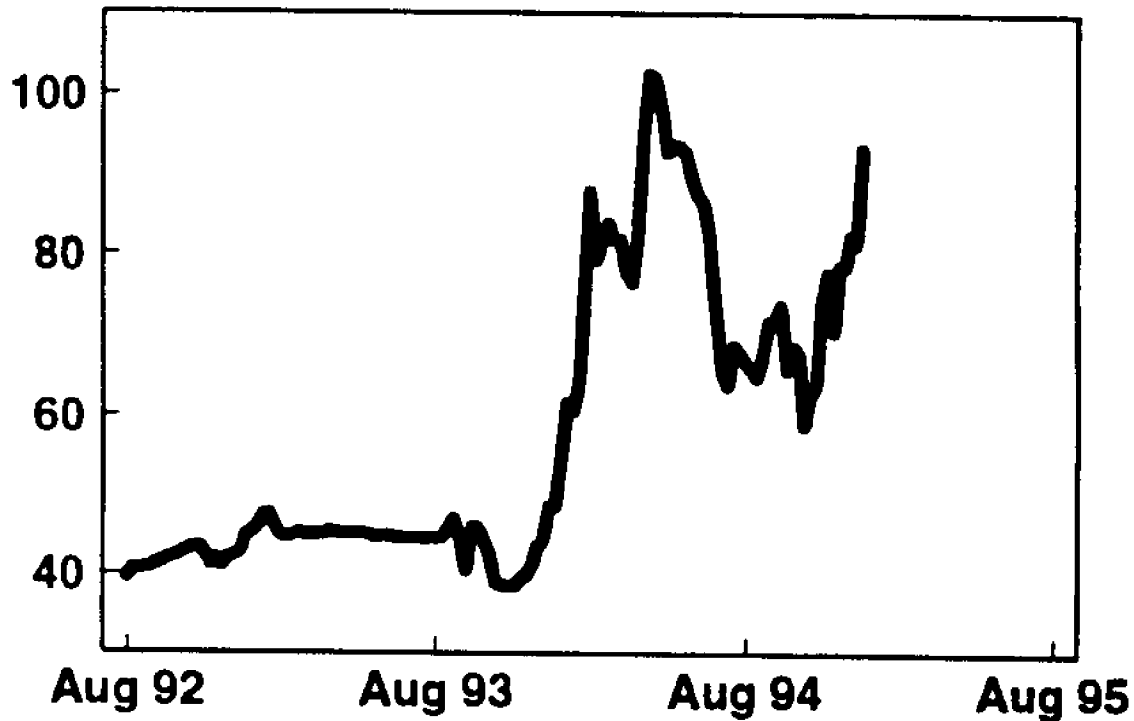
PAKISTAN COTTON YIELDS

Kilograms per Hectare



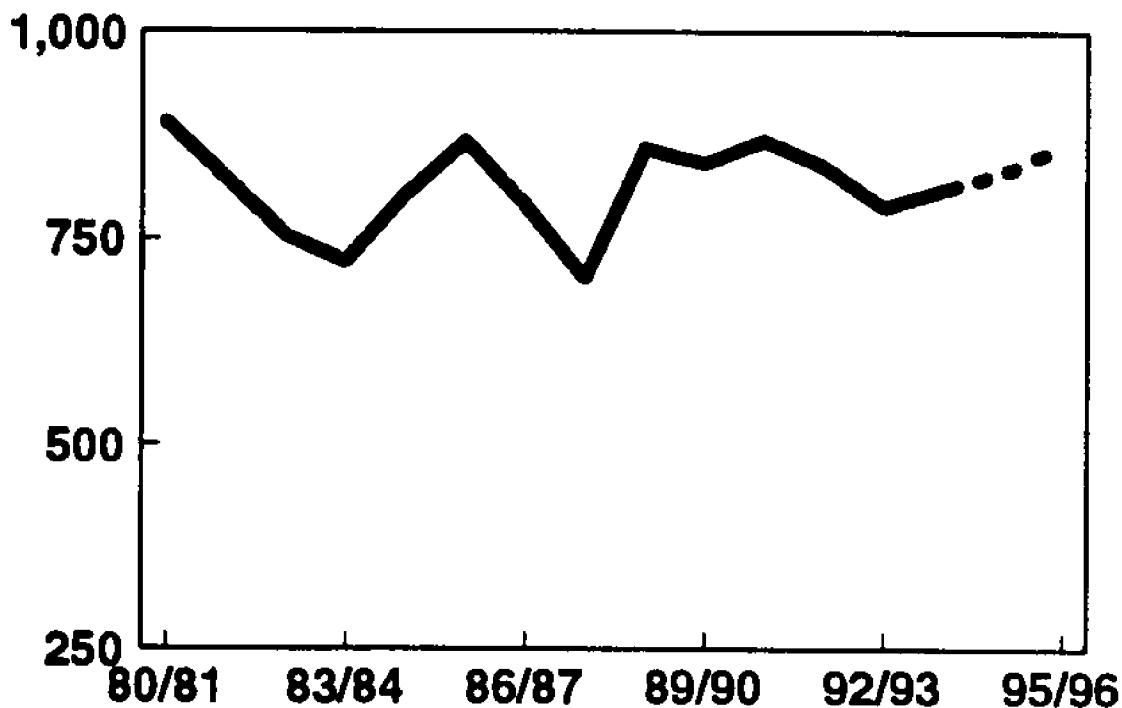
PAKISTAN COTTON PRICES

US Cents per Pound, Niab 78



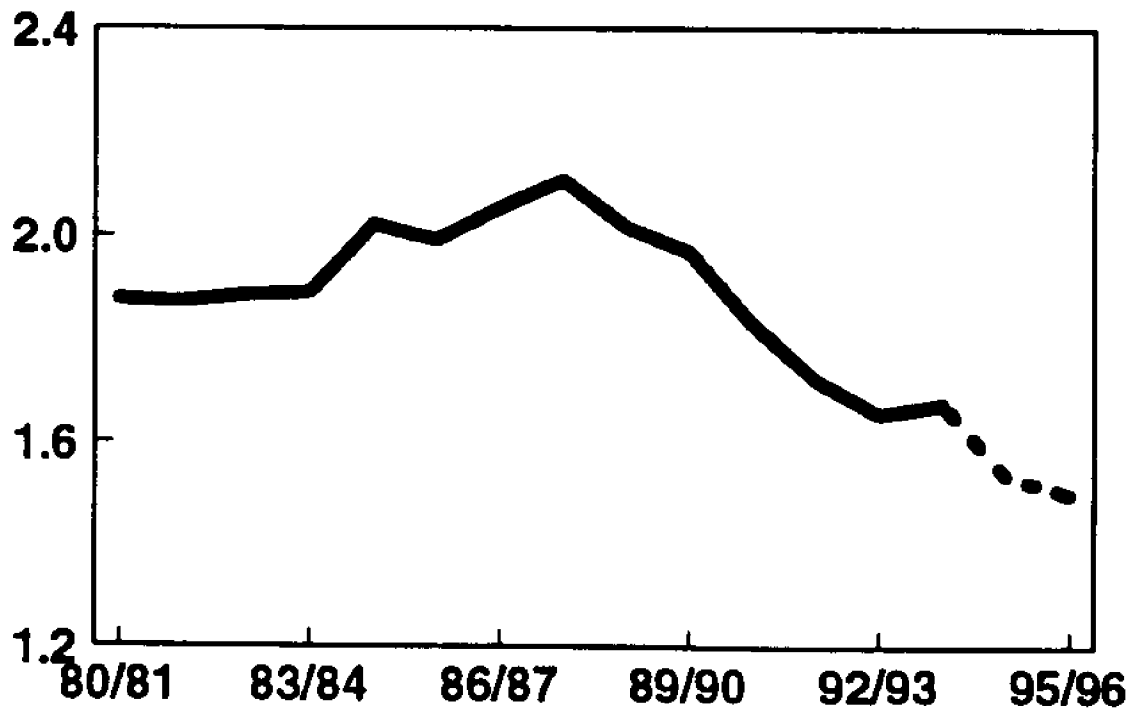
UZBEKISTAN COTTON YIELDS

Kilograms per Hectare



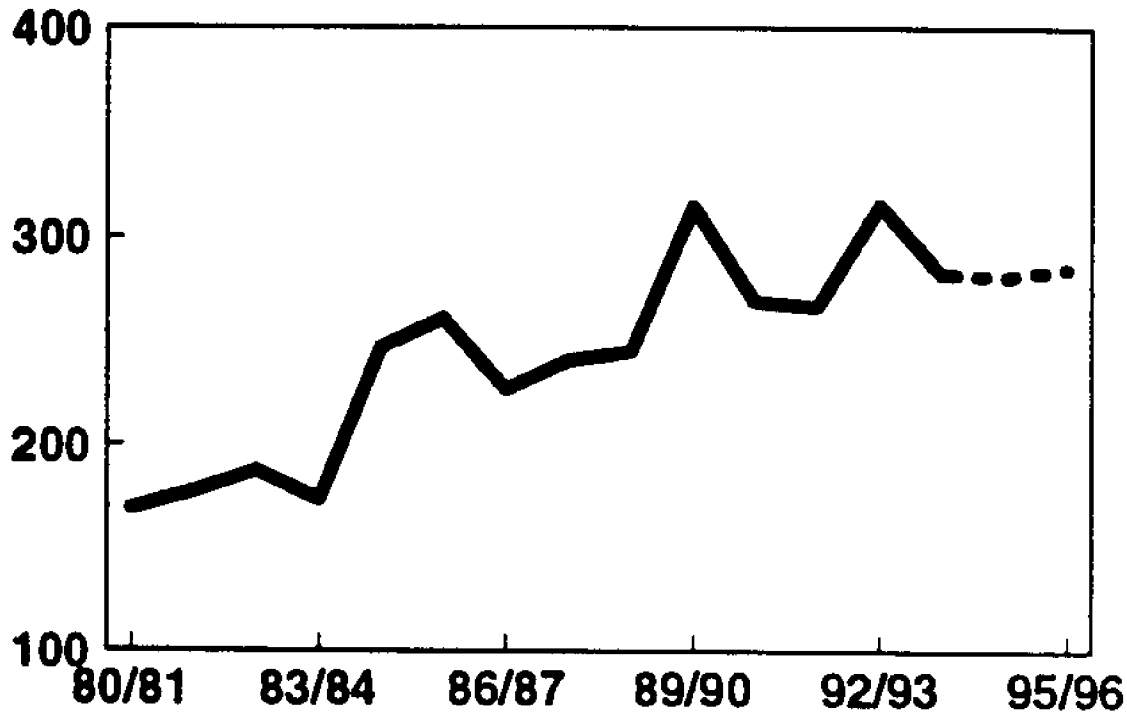
UZBEKISTAN COTTON AREA

Million Hectares



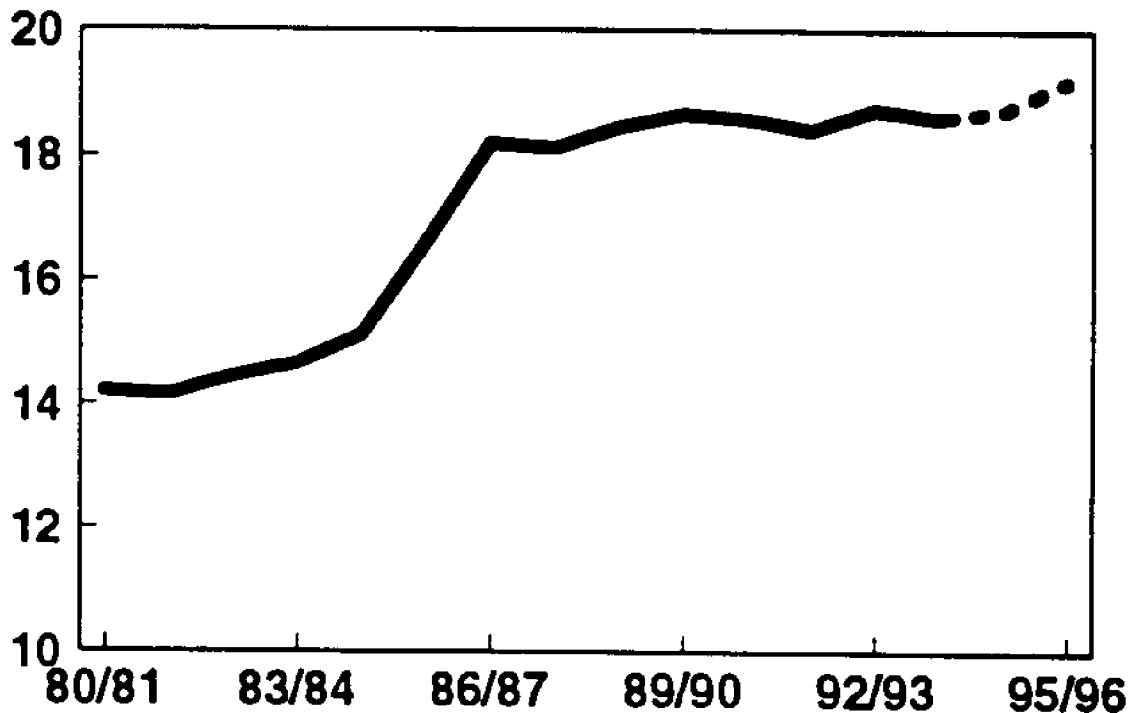
INDIA COTTON YIELDS

Kilograms per Hectare



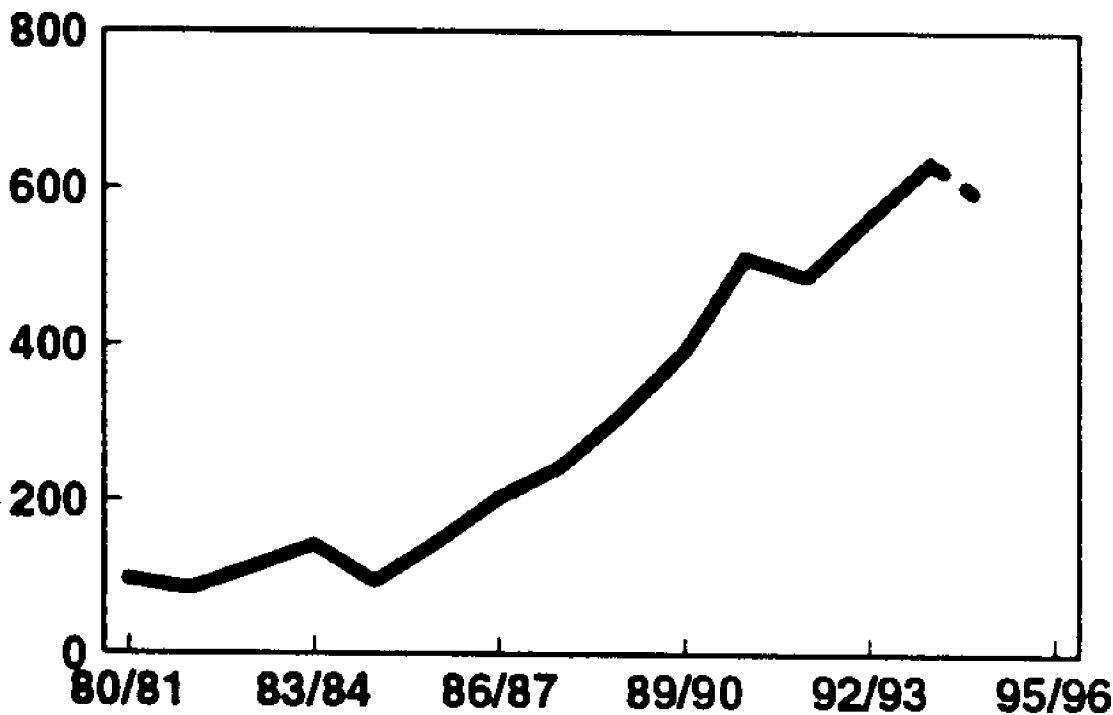
WORLD COTTON CONSUMPTION

Million Tons



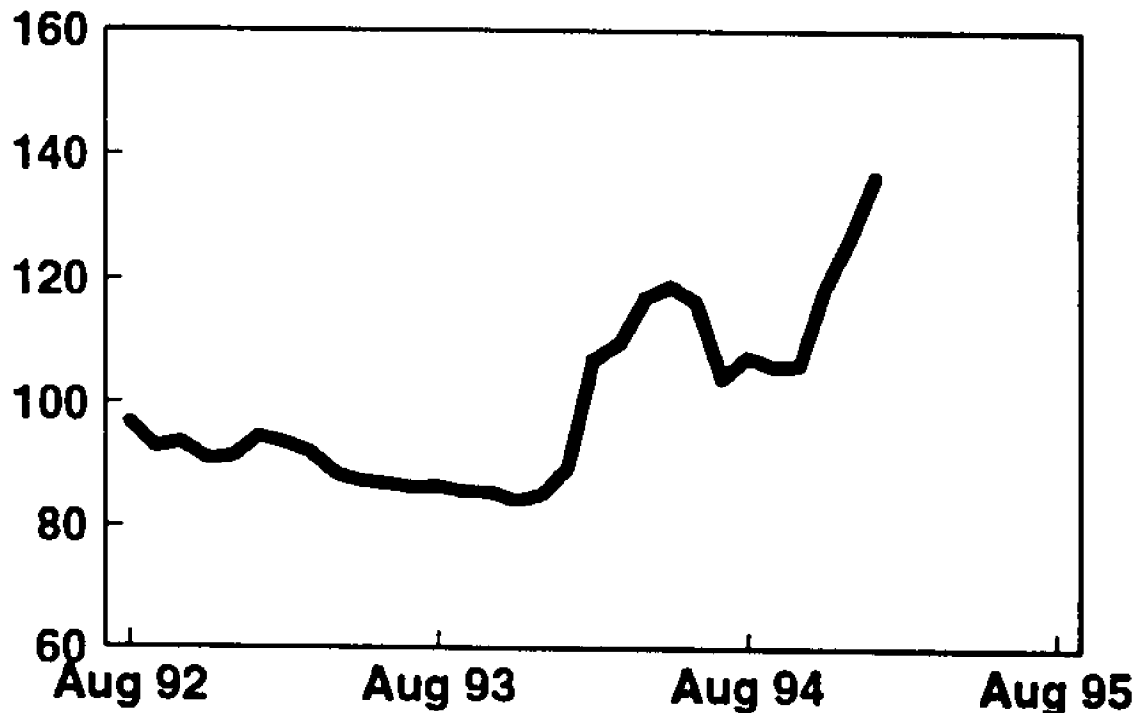
PAKISTAN COTTON YARN EXPORTS

Thousand Tons



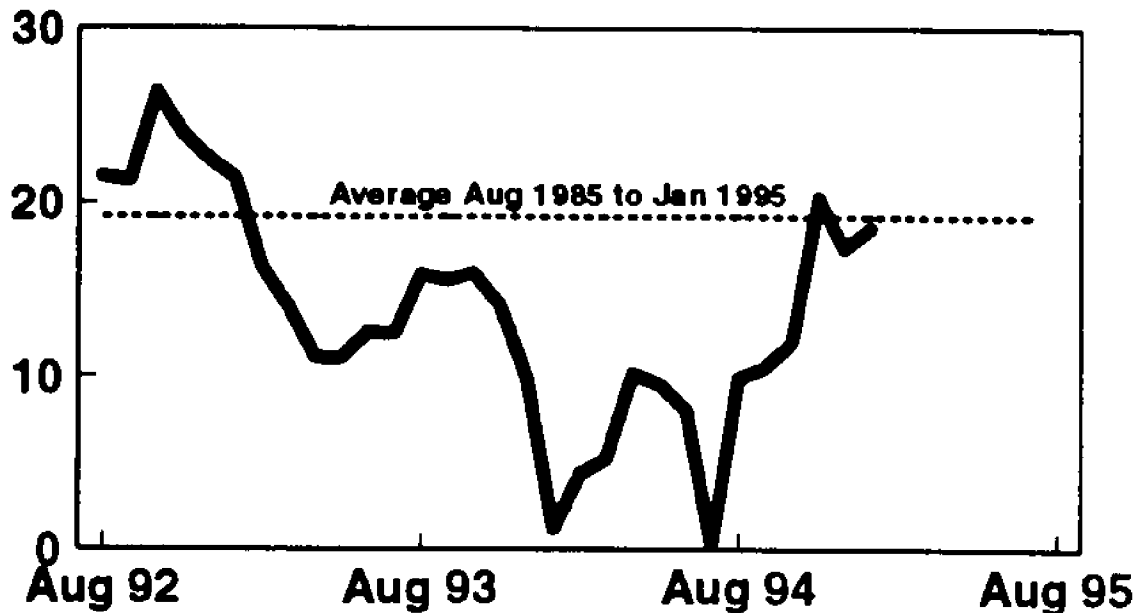
COTLOOK YARN INDEX

July 1982 = 100



ESTIMATED SPINNING MARGIN*

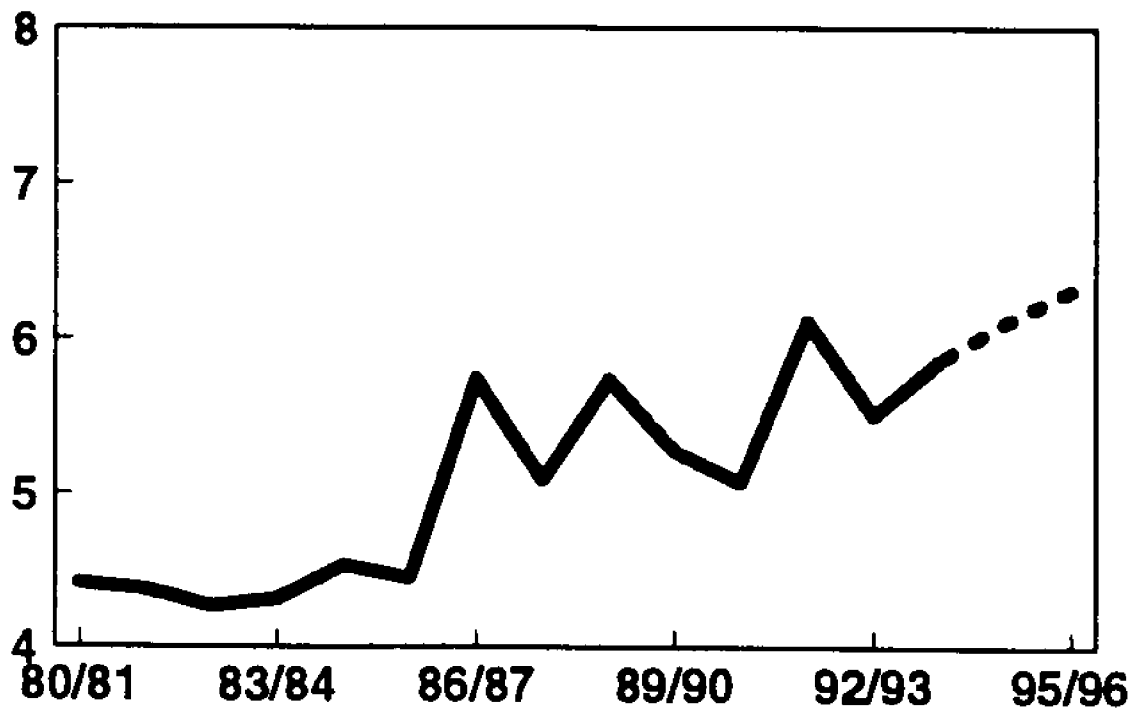
July 1982 = 100



* Cotlook Yarn Index minus the A Index converted to July 1982 = 100

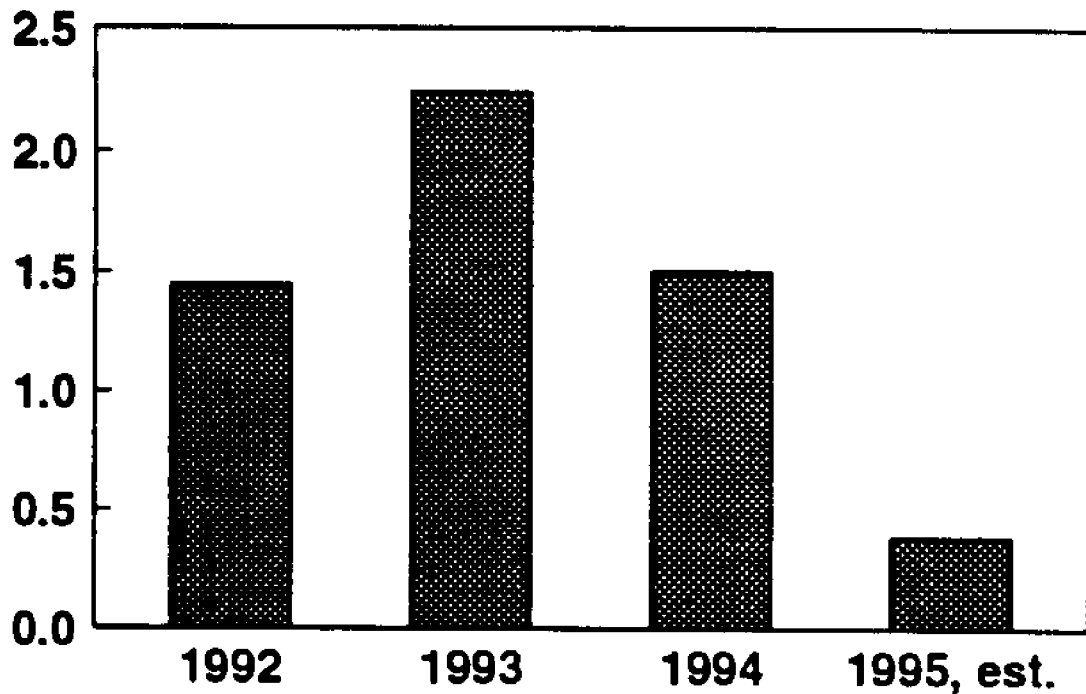
WORLD COTTON TRADE

Million Tons



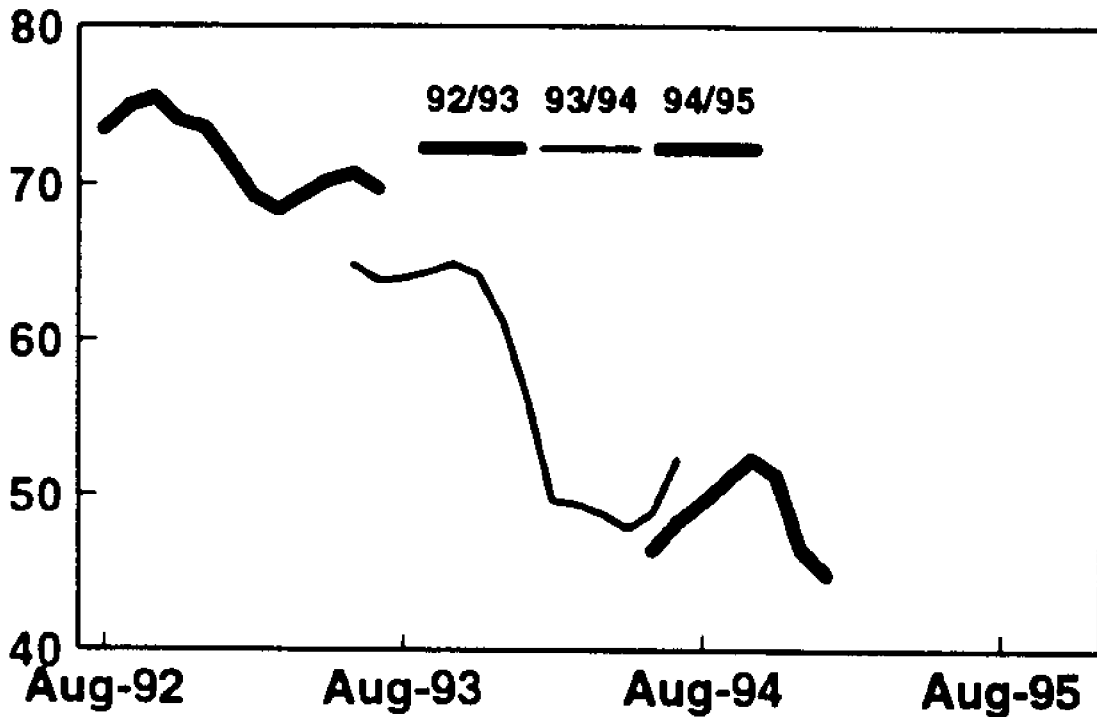
US UPLAND COTTON OUTLAYS

Billion Dollars



EU COTTON SUPPORT

ECU per 100 Kilograms Seed Cotton



SUPPLY AND DISTRIBUTION OF COTTON

18 January 1995

Years Beginning August 1

| | 1990 | 1991 | 1992 | 1993 Est. | 1994 Proj. | 1995 Proj. |
|---------------------|------|------|------|--------------|---------------|---------------|
| Million Metric Tons | | | | | | |

BEGINNING STOCKS

| | | | | | | |
|--------------------|--------------|--------------|--------------|--------------|-------------|-------------|
| WORLD TOTAL | 6.176 | 6.775 | 9.305 | 8.637 | 6.91 | 6.78 |
| CHINA (MAINLAND) | 0.989 | 1.589 | 3.243 | 3.000 | 2.23 | 2.51 |
| UNITED STATES | 0.653 | 0.510 | 0.807 | 1.015 | 0.77 | 0.70 |
| NET EXPORTERS | 2.825 | 3.200 | 4.028 | 3.880 | 3.11 | 2.73 |
| NET IMPORTERS 1/ | 3.351 | 3.576 | 5.277 | 4.757 | 3.80 | 4.04 |

PRODUCTION

| | | | | | | |
|--------------------|---------------|---------------|---------------|---------------|--------------|--------------|
| WORLD TOTAL | 18.971 | 20.707 | 17.970 | 16.805 | 18.36 | 19.14 |
| CHINA (MAINLAND) | 4.547 | 5.672 | 4.508 | 3.739 | 4.45 | 4.10 |
| UNITED STATES | 3.376 | 3.835 | 3.531 | 3.513 | 4.30 | 4.35 |
| INDIA | 1.989 | 2.053 | 2.380 | 2.065 | 2.13 | 2.28 |
| UZBEKISTAN | 1.593 | 1.443 | 1.306 | 1.358 | 1.28 | 1.30 |
| PAKISTAN | 1.638 | 2.180 | 1.539 | 1.368 | 1.19 | 1.39 |
| TURKEY | 0.655 | 0.561 | 0.574 | 0.602 | 0.63 | 0.68 |
| OTHERS | 5.174 | 4.963 | 4.132 | 4.160 | 4.39 | 5.05 |

SUPPLY AND DISTRIBUTION OF COTTON

18 January 1995

Years Beginning August 1

| | 1990 | 1991 | 1992 | 1993 Est. | 1994 Proj. | 1995 Proj. |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Million Metric Tons | | | | | | |
| CONSUMPTION | | | | | | |
| WORLD TOTAL | 18.591 | 18.420 | 18.761 | 18.621 | 18.73 | 19.20 |
| CHINA (MAINLAND) | 4.225 | 4.250 | 4.550 | 4.523 | 4.55 | 4.60 |
| UNITED STATES | 1.885 | 2.093 | 2.232 | 2.268 | 2.40 | 2.54 |
| INDIA | 1.958 | 1.903 | 2.088 | 2.169 | 2.18 | 2.24 |
| PAKISTAN | 1.343 | 1.434 | 1.514 | 1.521 | 1.37 | 1.37 |
| FORMER COMECON | 2.408 | 1.955 | 1.608 | 1.283 | 1.17 | 1.16 |
| JAPAN & NIC's 2/ | 1.636 | 1.565 | 1.401 | 1.270 | 1.23 | 1.24 |
| EU | 1.274 | 1.162 | 1.124 | 1.228 | 1.28 | 1.31 |
| OTHER SOUTHEAST ASIA 3/ | 0.800 | 0.915 | 0.967 | 1.038 | 1.09 | 1.16 |
| OTHERS | 3.064 | 3.142 | 3.278 | 3.321 | 3.46 | 3.58 |
| EXPORTS | | | | | | |
| WORLD TOTAL | 5.080 | 6.113 | 5.510 | 5.853 | 6.11 | 6.31 |
| UNITED STATES | 1.697 | 1.447 | 1.132 | 1.494 | 2.00 | 1.98 |
| UZBEKISTAN | | 1.052 | 1.300 | 1.288 | 1.08 | 1.15 |
| FRANCOPHONE AFRICA | 0.505 | 0.530 | 0.541 | 0.552 | 0.62 | 0.70 |
| AUSTRALIA | 0.329 | 0.459 | 0.371 | 0.367 | 0.24 | 0.27 |
| CHINA (MAINLAND) | 0.202 | 0.131 | 0.149 | 0.163 | 0.15 | 0.15 |
| PAKISTAN | 0.272 | 0.448 | 0.256 | 0.069 | 0.02 | 0.03 |
| INDIA | 0.255 | 0.000 | 0.243 | 0.065 | 0.01 | 0.08 |

SUPPLY AND DISTRIBUTION OF COTTON

18 January 1995

Years Beginning August 1

| | 1990 | 1991 | 1992 | 1993 Est. | 1994 Proj. | 1995 Proj. |
|-----------------------------|--------------|--------------|---------------|--------------|---------------|---------------|
| Million Metric Tons | | | | | | |
| IMPORTS | | | | | | |
| WORLD TOTAL | 5.255 | 6.333 | 5.863 | 5.935 | 6.31 | 6.4 |
| JAPAN & NIC's 2/ | 1.680 | 1.557 | 1.345 | 1.273 | 1.25 | 1.26 |
| EU | 1.081 | 1.017 | 0.952 | 1.110 | 1.18 | 1.19 |
| FORMER COMECON | 0.532 | 1.595 | 1.238 | 0.990 | 0.95 | 0.94 |
| OTHER SOUTHEAST ASIA 3/ | 0.812 | 0.921 | 0.933 | 1.023 | 1.06 | 1.15 |
| CHINA (MAINLAND) | 0.480 | 0.362 | 0.053 | 0.174 | 0.53 | 0.65 |
| TRADE IMBALANCE 4/ | 0.175 | 0.220 | 0.354 | 0.082 | 0.20 | 0.09 |
| STOCKS ADJUSTMENT 5/ | 0.044 | 0.022 | -0.230 | 0.002 | 0.03 | 0.00 |
| ENDING STOCKS | | | | | | |
| WORLD TOTAL | 6.775 | 9.305 | 8.637 | 6.905 | 6.78 | 6.82 |
| CHINA (MAINLAND) | 1.589 | 3.243 | 3.000 | 2.227 | 2.51 | 2.51 |
| UNITED STATES | 0.510 | 0.807 | 1.015 | 0.769 | 0.70 | 0.53 |
| NET EXPORTERS | 3.200 | 4.028 | 3.880 | 3.109 | 2.73 | 2.78 |
| NET IMPORTERS 1/ | 3.576 | 5.277 | 4.757 | 3.796 | 4.04 | 4.03 |
| ENDING STOCKS/USE 6/ | 0.38 | 0.44 | 0.39 | 0.33 | 0.33 | 0.33 |
| COTLOOK A INDEX 7/ | 82.95 | 63.05 | 57.70 | 70.60 | 87* | 89* |

SUPPLY AND DISTRIBUTION OF COTTON

18 January 1995

Years Beginning August 1

| | 1990 | 1991 | 1992 | 1993 Est. | 1994 Proj. | 1995 Proj. |
|--|----------------------------|------|------|--------------|---------------|---------------|
| | Million Metric Tons | | | | | |

1/ Includes Brazil, China (Mainland), Colombia, Mexico, Turkey and traditional importers except Greece

2/ Japan, China (Taiwan), Hong Kong, the Republic of Korea, Singapore

3/ Indonesia, Malaysia, Philippines, Thailand, Vietnam

4/ The inclusion of linters and waste, changes in weight during transit, differences in reporting periods and measurement error account for differences between world imports and exports.

5/ Difference between calculated stocks and actual; amounts for forward seasons are anticipated

6/ World-less-China (Mainland) ending stocks minus China net exports, quantity divided by world-less-China consumption

7/ U.S. Cents per pound. Model results for 1994/95 and 1995/96 are based on net China (Mainland) trade, ratios of world-less-China (Mainland) ending stocks to use, barter sales from Central Asia, and futures prices

*/ 95% confidence intervals extend 8 cents per pound above and below each point estimate

Audit Reports for 1993/94

At its 407th Meeting, the Standing Committee contracted with McQuade and Drolet, a local public accounting firm, to conduct audits of the financial statements of the ICAC and the ICAC Staff Retirement Plan as of June 30, 1994, and to perform a performance audit. Audit reports were delivered to the Secretariat the week of September 19, 1994. Representatives of McQuade and Drolet presented their reports to the Standing Committee at the 408th Meeting.

Audits of Financial Statements

It is the responsibility of the Standing Committee to approve the audit reports of the financial statements of the ICAC and the ICAC Staff Retirement Plan. Once approved, the reports will be distributed to member governments.

In approving the reports, the Executive Director wishes to inform the Standing Committee that the material in the audit reports contains inaccuracies and misunderstandings with regard to the financial operations of the ICAC. These problems were brought to the attention of McQuade and Drolet, which chose not to incorporate the corrections in their reports. It should also be noted that McQuade and Drolet apparently has had no experience in auditing the accounts of international, intergovernmental organizations; it has consistently treated the Committee as if it were a private trade organization such as an organization of bankers or lawyers. Furthermore, it should be noted that McQuade and Drolet completed their reports on the basis of administrative reports prepared by the Secretariat with only limited time spent at the offices of the Secretariat.

The following matters are brought to the Standing Committee's attention:

1. The Reserve Fund on June 30, 1994, was \$511,000. A temporary transfer of \$100,000 was authorized by the Standing Committee on June 28, 1994, but this decision was not final until ten days after the Meeting due to the lack of a quorum.

2. The tax reimbursement agreement with the US Government applies to any individuals who are liable to pay US federal income taxes, not just US citizens.
3. The lease for office space contains an escalation clause whereby the annual rent is adjusted by .3 of the inflation rate, not the inflation rate. There is also a provision for adjustment of rents to cover changes in the operating costs of the building.
4. The lease negotiated in 1993 for seven years included an escalation from a basic rent of \$19 a square foot to \$21 a square foot with the beginning of the sixth year. The amounts shown in Note C on lease commitments are in error because of the assumption made in regard to the inflation adjustment, lack of consideration of the increase in basic costs in the sixth year and a miscalculation of the liability in the year ending June 30, 2000, which should represent eight months lease payments rather than two.

5. The Committee contributes to the Staff Retirement Plan 14.8% of a calculated gross compensation for each employee rather than 14.8% of each participant's compensation.
6. The totals of actual disbursements and budgeted disbursements shown on page 8 of the audit of the financial statements are different from the figures reported on page 9. The figures on page 8 are correct.
7. The amounts shown for the assets of the Staff Retirement Plan on June 30, 1994, differ from the administrative records of the Trustee. Differences are at least in part due to checks written by the Committee but not yet received by mutual fund administrators on June 30. No reference was made in the audit report to these differences. Differences appear to have been reconciled by the auditors through a reduction in figures reported for investment income in the year ending June 30, 1994. The Trustee's records for the year show substantially higher investment income.

Performance Audit Report

Under the Rules, no action by the Standing Committee is required regarding the performance audit report, which is a special report contracted by the Standing Committee.

At the 408th Meeting of the Standing Committee, two delegates supported adopting the recommendations of the performance audit report in total. It was noted that this was a new item of business at the Meeting, the adoption of which would have required unanimity. There was not unanimity at the Meeting for adopting the recommendations in total. The matter of adopting the recommendations in part or in total was deferred to the 409th Meeting. The Executive Director was instructed to present his views on the matter in writing.

The Executive Director would like to refer delegates to the Standing Committee to Attachment II to SC-N-408, which presented his comments on the performance audit recommendations. He would also like to note further that no recommendations in the report are likely to lead to any cost savings. Adopting the recommendations of the report will lead to increased costs. These costs involve increased allocation of Secretariat and Stand-

ing Committee resources for administrative tasks (thus reducing available resources for observing and discussing the world cotton situation). They also involve increased monetary costs. Some of the changes require amendments to Committee regulations (Rules and Regulations, Staff Retirement Plan and Staff Regulations).

In order to minimize the cost of any changes in operating procedures, the Executive Director would like to present the following options to the Standing Committee regarding the recommendations of the performance audit report:

1. Basis of accounting. Despite statements to the contrary by McQuade and Drolet, the Rules specify that the accounts of the Committee be kept on a cash basis (Article VIII, Section 3a and b: "Expenditures shall be debited to the accounts of the fiscal year in which payments are actually made. Receipts shall be credited to the accounts of the fiscal year in which funds are actually received.") McQuade and Drolet's lack of experience with international intergovernmental organizations is evident. It is the view of the Executive Director that changing the basis of accounting to an accrual basis would be a costly mistake. The result would be reports that

would provide no useful additional information to the Standing Committee and which would obfuscate the financial condition of the Committee. The Standing Committee, under the Rules, can request any financial reports it desires. The Executive Director suggests that, instead of taking steps to amend the Rules and Regulations without regard for the benefit of the new information, the Standing Committee instruct the Executive Director to prepare administrative reports of the accounts of ICAC on an accrual basis in tandem with the reports currently being prepared on a cash basis. Once the reports can be compared, the value of the information relative to the cost of providing it can better be assessed.

2. Separation of the Reserve Fund. The Executive Director has no objection to the creation of separate accounts for the Reserve Fund. The costs involved in administrative time and loss of interest income involved will be minor. The ICAC has operated for more than 50 years without physically separate Reserve and Working Fund accounts; at no time, in the knowledge of the Secretariat, were funds transferred from the Reserve Fund to the Working Fund without authorization from the Standing Committee.

3. Accounting manual. The Secretariat cannot support paying McQuade and Drolet any additional sums for the development of an accounting manual. The Executive Director suggests expanding the existing folder at the Secretariat on accounting procedures into an accounting manual using Secretariat resources as they are available.

4. Changed procedures for the collection of past uncollected assessments. Attachment IV to SC-N-409 presents the Secretariat's views on this issue. It is up to the Standing Committee to take action in this matter, weighing the costs of loss of membership in the Committee against the benefits of a speedier receipt of assessments. While the dollar amount of uncollected assessments tends to rise over time, current fiscal procedures, as detailed in Attachment IV, safeguard the financial viability of ICAC. McQuade and Drolet's lack of experience with international intergovernmental organizations is also evident in this recommendation.

5. Cancellation of invoices. The Secretariat is prepared to cancel all invoices by marking "paid" on them.

6. Separation of duties. The Secretariat is prepared to have checks received stamped by the person opening the mail and have this same person prepare deposit slips. The Executive Director is prepared to receive and review bank statements.

7. Use of lockbox system. The Secretariat is already investigating the costs of using a lockbox system and is prepared to adopt its use if the costs are in proportion to the benefit received (increased interest income).

8. Travel expenses. The Secretariat is prepared to present quarterly reports of travel expenses to the Standing Committee. The Executive Director is prepared to provide his travel expense reports to the Chairman of the Standing Committee for his review.

9. Changes in the Staff Retirement Plan. The Executive Director cannot support the adoption of a retirement plan with separate employee accounts as the benefit received would not exceed the cost. A new staff retirement plan would have to be prepared and adopted. It is estimated that the legal costs of preparing this document would exceed \$10,000. The

choice of participants in investment media would be restricted due to minimum investment amounts. The Secretariat sees no benefits.

10. Performance reviews. The Executive Director is prepared to conduct annual employee performance reviews in writing (existing procedure) and to have them initialed by employees.

11. Annual review of staff regulations. The Secretariat is prepared to review the Staff Regulations on an annual basis and to make recommendations to the Standing Committee for their modification.

Salary of the Executive Director

It was decided at the 52nd Plenary Meeting that an objective salary comparability study would be conducted during calendar year 1994 to examine the relationship between the salaries and benefits of the Secretariat of the Committee and those of other international, intergovernmental organizations in the context of the Washington DC area. Once the results of the study were available, the matter of the salary of the Executive Director during his contract which began on January 1, 1994, could be discussed.

The Wyatt Company was engaged by the Standing Committee to compare the salaries and benefits of the Secretariat with other international, intergovernmental organizations of like size and function. In choosing a firm to conduct the salary comparability study, the Standing Committee opted for a firm willing to conduct a study based on published or readily available data at a cost of \$5,000, as opposed to a firm which would conduct a custom survey at a cost of \$35-40,000.

The Wyatt Company presented its draft report to the Committee on September 27, 1994; representatives appeared at the 408th Meeting of the Standing Committee to discuss the draft report. In the report, the Wyatt Company computed estimates of comparable salaries for the Secretariat positions and a range of 50% (minimum-maximum) around the averages. It was the conclusion of The Wyatt Company that ICAC Secretariat net salaries were on average 84% of the level of salaries in a comparable group defined by Wyatt as "a blend of the international community with the trade association/not-for-profit community." The Executive Director's salary was gauged at 94% of the average of the market. Four positions at the Secretariat were gauged at less than 80% of the average of the market. The Wyatt Company noted a sparsity of published or publicly available information on salaries at international, intergovernmental commodity organizations.

As a result of the findings of the study, the Executive Director has proposed making salary adjustments for the positions where ICAC salaries were below the minimum salaries of the market in the 1995/96 budget.

The purpose of the salary comparability study was to adjust the salary of the Executive Director. The Standing Committee would seem to have the following options:

1. The Executive Director's salary could be increased in line with the findings of the study that he is underpaid relative to the market.
2. The Standing Committee can reject the findings of the salary comparability study based on published data and commission a custom survey from The Wyatt Company or another provider at a cost of perhaps \$20,000 from Wyatt or \$35-40,000 from another provider.
3. The Standing Committee can follow the precedent of other international, intergovernmental commodity organizations and set the salary of the Executive Director at a UN salary grade with appropriate adjustments for differences in benefits.
4. The Standing Committee can refer the matter to the Advisory Committee.

At the 408th Meeting of the Standing Committee, one delegate said the Wyatt study was unacceptable because salaries at the World Bank and other financial organizations in Washington were used as comparators. Three other delegates expressed their disappointment in the Wyatt study. One delegate spoke in support of tying the salary of the Executive Director to the UN salary scale.

The Financial Situation of the ICAC

The finances of the ICAC are in good shape. The budget is fully financed each year; the assessment for each year is collected in full; and the payment of past debts by members of the Committee has led to a buildup in working funds which has been used to reduce assessments in the past seven years by an amount equivalent to more than half the current annual assessment.

The only financial problem which the ICAC faces is a shortage of working funds, due to an excessive reduction in the working fund in 1993/94. A temporary solution to this problem provided by the Rules and Regulations is a temporary transfer from the Reserve Fund to the Working Fund. A permanent solution to the problem will be the increase in the Working Fund from a current level of 9% of the budget to a level sufficient to cover variations in the funds of the ICAC due to variations in members' rate of payment of their assessments.

At the 408th Meeting of the Standing Committee, alternative solutions to the problem of a shortage of working funds were proposed: Revision (reduction) of the approved budget for 1994/95 to cover any shortage of funds; and reduction of future budgets to a level of the collection of current year assessments (75% of the total). The impact of such steps is discussed below.

The Assessment Is Collected in Full

The assessments made each year in connection with the budget are collected in full (see attached chart on assessments collected in ten years).

They are however not settled in full in the budget year. On average (using the experience of the Committee since 1977), 5% of the assessment is paid in advance (before July 1 of the budget year). Payments in advance occur only when the budget and scale of assessments are decided early in the year (by June 1 or earlier). Delaying the passage of the budget thus leads to a deterioration of cash flow.

73% of the assessment is usually received in the budget year (see attached chart on assessment by year received). This percentage varies

from year to year. It has been as high as 95% (1957/58) and as low as 62% (1993/94). In recent years (1977/78 to present) it has varied from 82% to 62%.

15% of the assessment is usually received in the second year. Thus, within two years, the Committee usually receives 93% of the total assessment. A further 4% is received on average in the third year, 3% in the fourth year and 1% each in the fifth, sixth and seventh years. The sum of these percentages is 103.

The Committee receives more than 100% of the assessment amount due to the practice of the Committee to exclude countries which are more than two years in arrears from the calculation of the scale of assessment. These countries are excluded from the calculation but are still assessed an amount based on the calculation made. As a result of this practice, which was instituted in 1979, the finances of the ICAC remain sound.

Prior to 1979, the record of the collection of assessments was also good. With the exception of the first few years of the collection of assessments (1946/47-1951/52), 100% of the assessment has been collected for all

years except 1964/65 and 1961/62, when only 99% appears to have been collected and 1954/55, when only 98% appears to have been collected.

Collection experience for recent years also appears to be good. 94% of the assessment for 1992/93 has been collected through December 22, 1994, compared with 96% expected on average through December 31. 90% of the 1993/94 assessment has been collected, compared to an average expectation of 87%. Also, through December 22, 62% of the assessment for 1994/95 has been collected, compared to an average of 55% by December 31.

Payment of Past Debts Has Permitted Assessments to be Reduced

As countries which are in long arrears settle their debts, the funds are added to the working fund and used to reduce assessments in future years. For the assessments for 1979/80 to 1991/92, the Committee has received more than 100% of the amount for each year except 1982/83 where there was a shortfall of 2% (due to assessments made to countries which have since withdrawn). The total amount of funds received from

countries which were not included in the calculation of assessments to date has been \$560,000. Assessments were reduced by \$516,000 in the period from 1987/89 to 1993/94. In addition, in 1985 \$50,000 in assessment payments by one member in long arrears was added to the Reserve Fund instead of using it to reduce assessments.

The Budget of ICAC is Fully Financed

Even though member governments do not pay the entire assessment in the budget year, the budget is fully financed, as payments are received for prior years which offset the shortfall in payments for the current year.

In the period since 1977, 100% of the assessed amount has been received on average. 5% of the assessed amount is received as payments in advance for the next year's assessment, 73% as payments for the current year and 22% as payments of assessments for prior years.

Payments received during the year have varied during the history of the Committee from a low of 79% of the assessed amount in 1947/48 and 1949/50 to 120% in 1951/52 (see attached chart on assessments received in year). In recent years the range has been from 83% to 112%. A low per-

centage of the assessment was received in 1977/78 (83%), 1981/82 (85%), 1989/90 (92%) and 1993/94 (91%). In each of these years, the working fund declined significantly. Years in which there was a shortfall were years when essentially no funds were received in advance and when there was significantly below average collection of the current year's assessment (the budget was approved late in three of the four years).

As of December 22, 1994, 87% of the assessment for 1994/95 has been received (\$622,000 in current year payments and \$253,000 in prior year payments).

The Need for a Working Fund

While the assessment is collected in full eventually and the budget is financed in full, there is a need for a working fund to cover shortfalls in revenue at times when governments, for one reason or another, are slower than average in making payments to the Committee.

Under the Rules the annual assessment is due on July 1 and payable in the three months from July 1 to September 30. If all member countries paid their assessments in this three month period, the ICAC would require

working funds to finance its operations in the July-September quarter. On average the Committee spends 26% of its budget in this quarter; thus initially the Committee would require 26% of the budget as a working fund.

Actual experience however is that member countries pay only 29% of their assessments in the first quarter of the fiscal year, with the remaining amount paid over the rest of the fiscal year and not paid in total, as discussed above, for another six years. On average, as also discussed above, the receipts of payments of assessments for the current year and for prior years is sufficient to cover the budget. A working fund is required to cover expenditures in quarters in which the payment of assessments, whether for the current year or prior years, is less than average.

There is no formula to determine the exact amount necessary in the Working Fund. The amount of the Working Fund would appear to be best determined by the experience of the Committee in the collection of assessments. The experience of other international organizations could be a guide but would be relevant only if these organizations had the same sources of revenue and collection experience as the ICAC.

The amount of the Working Fund has been discussed many times in the history of the Standing Committee. In 1963, the Executive Director of the Committee noted that the auditors had recommended that the total funds (Working and Reserve) of the Committee be equal to one year's budget. With the Reserve Fund at approximately 50% of the budget, he expressed the opinion that it was not necessary to have a working fund which was 50% of the budget, rather a fund was needed to cover several months of operation. He recommended a working fund of approximately 33% of the budget, or four months operating expenses.

Working funds rose during the 1960s and 1970s. At the beginning of the 1977/78 fiscal year, the Working Fund was 55% of the budget (see attached chart on quarterly changes in the Working Fund). Due to slowness in the payment of assessments in 1977/78, the Working Fund fell to 35% of the budget. Similar problems led to a decline in the Working Fund to 21% of the budget by January 1983.

With the payment of past debts, the Working Fund rose to 68% of the budget in 1987/88. With the budget for 1989/90, the Standing Committee decided to finance part of the budget of the Committee by drawing down

working funds in two installments of \$100,000 each, with the goal of achieving a working fund which was, at the end of the fiscal year, 28% of the budget in the coming year.

With these reductions, the Working Fund had fallen, at the end of the 1992/93 fiscal year, to 31% of the budget at the beginning of the 1993/94 fiscal year. In 1993, the Standing Committee again decided to finance part of the budget of the Committee by drawing down working funds, this time in one installment of \$157,000, with a goal of achieving a working fund which was to be, after a number of years, 9% of the budget.

In 1993/94, the planned reduction in the working fund plus the shortfall in the collection of assessments of 9%, together with slightly higher spending as a result of decisions of the 52nd Plenary Meeting, led to working funds dropping to .3% of the budget at the end of the fiscal year and negative working funds during July and August 1994.

The experience of 1993/94, combined with a historical view of changes in working funds, suggests that a working fund of 9% of the budget, one month's operating expenditures, is inadequate to cover shortfalls in the re-

ceipt of assessments. It appears that a percentage closer to previous rule of 28% would be appropriate.

When the Executive Director agreed with the suggestion of the delegate of the USA that the working fund be reduced to around 9% of the budget, he modeled the average receipt of assessments to conclude that a working fund of 12% of the budget falling over a few years to 9% would leave the Committee with sufficient working funds to operate. What he did not take into account was potential fluctuations around this average.

The following table shows simulated receipts of assessment revenues (in US\$000) and actual receipts. It should be noted that in 1993/94, in three quarters, actual receipts were less than those expected on average with a total shortfall of 28% of the budget. This shortfall has since been made up by above average receipts in the first two quarters of 1994/95.

| Quarter | Forecast Receipts | Actual Receipts | Difference |
|----------------|--------------------------|------------------------|-------------------|
| 1991,1 | 300 | 477 | +177 |
| 1991,2 | 278 | 273 | -5 |
| 1991,3 | 188 | 75 | -113 |
| 1991,4 | 167 | 158 | -9 |
| 1992,1 | 343 | 404 | +61 |
| 1992,2 | 316 | 389 | +73 |
| 1992,3 | 214 | 112 | -102 |
| 1992,4 | 179 | 187 | +8 |
| 1993,1 | 324 | 541 | +217 |
| 1993,2 | 301 | 110 | -191 |
| 1993,3 | 205 | 196 | -9 |
| 1993,4 | 174 | 41 | -133 |
| 1994,1 | 329 | 469 | +140 |
| 1994,2 | 305 | 406 | +101 |

It is proposed that the working fund be set at 25% of the budget, a level roughly equivalent to three months operating expenses. The cost of achieving this level in one year would be excessive to member governments and would be disruptive of government budgeting processes (a large increase in assessments in 1995/96 due to a required \$475,000 addition to working funds and reduction in assessments in 1996/97). It is proposed that the 25% level be achieved over a period of four years. This period would be one in which working funds would be at a low level. It is further proposed that regular authority be given to transfer funds on a temporary basis from

the Reserve Fund in order to cover temporary shortfalls in the receipt of assessments. The need for this authority would be greatest in 1995/96 and 1996/97.

Achieving Adequate Working Funds Through Reduced Expenditures

It was proposed in the 408th Meeting of the Standing Committee that the ability of the Committee to achieve necessary working funds by reducing authorized expenditures in the 1994/95 fiscal year and by budgeting expenditures in 1995/96 and subsequent years at the level of actual receipt of assessments for the current year be investigated.

1994/95

In lieu of temporarily transferring \$100,000 of funds from the Reserve Fund to the Working Fund, it was proposed that the Executive Director provide the Standing Committee a menu of options to reduce expenditures by \$100,000 or more in the current budget year (including provision of minimum services, a freeze on travel, cessation of all training activities and a salary freeze).

In failing to spend the budgeted amounts, the Committee would violate its agreement with member countries when the assessment for 1994/95 was made. There are also limited opportunities for such temporary reductions. Salaries are generally adjusted on July 1 of each year and no further adjustments made during the year. Thus a salary freeze provides no additional funds. The unobligated travel budget remaining is approximately \$9,500 and is anticipated to be spent in appearances before the Common Fund for Commodities in support of projects involving grants to Pakistan, USA, United Kingdom, France and Cameroon; in making arrangements for Plenary Meetings of the ICAC; in securing membership in the Committee; and in participating in training programs in Spain and the USA. The Research Associate program for 1994/95 has been budgeted at \$20,000; this program has already been announced and applications received. While savings could be made by reducing the availability of publications to member governments, the sales policy adopted this budget year requires that the publications be produced and made available to paid subscribers. Not providing this information to member government coordinating agencies would create serious ill-will. Office expense could be reduced from budgeted amounts by \$14,000 (reduction in budgeted spending for equipment

and supplies, audit and representation) although most of these expenditures would have to be made in the future. These expenditure reductions are summarized, with their implications, as follows:

| | | |
|--|-----------------|--|
| Cessation of travel | \$ 9,500 | No additional grants from the Common Fund for projects (\$4 million pending) Plenary Meeting costs in 1995/96 likely higher |
| Cancellation of Research Associate Program | \$20,000 | Countries expecting to participate will have ill-will toward ICAC |
| Reduced number of publications to member countries | \$ 5,000 | Member countries will be discriminated against vis-a-vis paid subscribers |
| Reduced office expenses | \$14,000 | Effectiveness of Secretariat will be reduced; liability for replacing supplies and equipment will be pushed forward to 1995/96 |
| Total | \$48,500 | |

Even if all these steps were taken, there could still be a need to transfer funds from the Reserve Fund to the Working Fund as quarterly shortfalls in the receipt of assessments have ranged up to \$200,000. In addition any shortfall in expected publication and interest income revenues may create a shortfall in working funds in the remainder of the fiscal year.

1995/96 and Future Years

It was proposed at the 408th Meeting of the Standing Committee that the budget be reduced to the level of receipt of current year assessments (75%) in order to keep revenues and expenditures balanced. This action would not likely lead to an improvement in the working funds of the Committee.

Under the Rules and Regulations, the assessment to member countries is calculated from the budget. Thus if the budget is reduced by 25%, the assessment will be reduced by 25%. There would be a potential gain in working funds from the receipt of assessments from past years (made on the basis of larger budgets). However, this gain would likely be offset by the reduction in membership in the Committee as a result of the budget reductions.

Currently 78% of the assessment is received either in advance or during the fiscal year (as opposed to the round number of 75% used at the 408th Meeting). If the budget for 1995/96 were reduced by 78%, it would involve reductions in spending of \$285,000. The only way a reduction in spending of this magnitude could be achieved would be by a significant reduction in

services offered. It would likely be necessary to eliminate the provision of all language services, both at the Secretariat and at Plenary Meetings. In addition to eliminating language services, it would also be necessary to reduce staff by three persons to achieve the lower budget.

The impact of the elimination of language services, which was vehemently rejected at the 52nd Plenary Meeting, would likely be the withdrawal from membership of countries which depend on language services for participation in the work of the Committee. 16 countries would be affected. At least 10 of these countries would likely withdraw from the Committee as their representatives could not participate in Plenary Meetings.

A reduced number of members would mean that the assessment would have to be increased for the remaining members. It is estimated that the equal contribution would increase by 19% and the prorata contribution per ton of cotton trade would rise by 32%. In addition, the normal payments of assessments for prior years would likely be interrupted as countries withdrawing from membership in arrears postpone the payment of these obligations. A shortfall in these payments would actually accelerate the need for

working funds, resulting in a requirement of \$275,000 over the four years in addition to the amounts required without budget reduction.

The following figures (US\$000) have been calculated to show the result of reducing the budget to 78% of otherwise proposed amounts:

| Year | Budget | Assessment | Collection of Assessment | Additions to Working Fund Required |
|-------------|---------------|-------------------|---------------------------------|---|
| 1995/96 | 1008 | 1033 | 911 | 175 |
| 1996/97 | 1058 | 1078 | 1030 | 175 |
| 1997/98 | 1111 | 1098 | 1092 | 150 |
| 1998/99 | 1167 | 1096 | 1114 | 100 |

Application of the Rules with Regard to Arrears

The Rules and Regulations of ICAC provide that, when a member government is in arrears for 12 months, it be notified that the provision of documents and other services will be discontinued in six months time, if payment is not received, and that, if payment is not received in a further six months, membership will be suspended, unless the Standing Committee decides otherwise.

In general, this Rule has been applied loosely by the Standing Committee and the Executive Director, in recognition that circumstances of governments sometimes prevent them from being current in their obligations and that the Committee is better served by a membership representing a larger rather than smaller number of cotton countries.

As discussed above, the financial integrity of the ICAC is protected by the policy of excluding countries in long arrears from the assessment calculation. As a result, the assessment amount is collected in full. The extra burden placed on members in good standing when these countries are excluded from the calculation is offset by the fact that the countries in long arrears pay a somewhat higher assessment than they would have if included in the calculation and that the overall assessment is reduced when payments of arrears are made (as noted above these payments have permitted an overall reduction in assessments of over \$500,000).

The assessment situation was last addressed in detail in 1987 and 1988. 17 governments in arrears were notified that their membership would be suspended if payment of the arrears was not received in twelve months

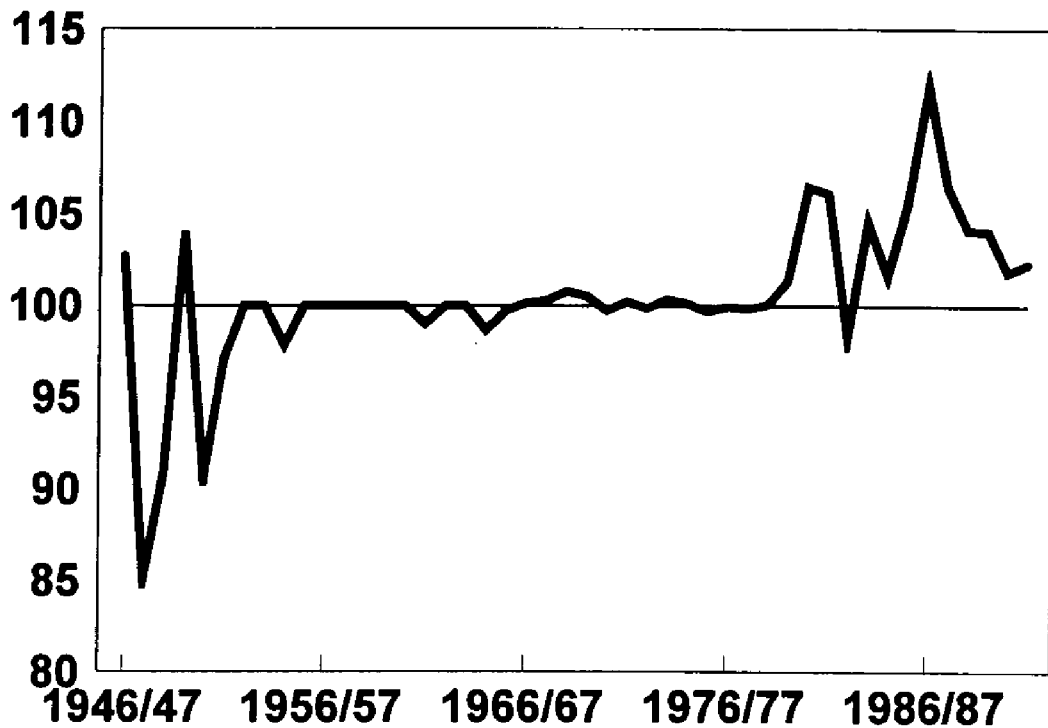
time. If countries were unable to pay their arrears, they were asked to acknowledge them and provide a payment plan.

Five of the countries involved withdrew from membership (one has since rejoined). One country was suspended from membership. Two countries made payment of part of their arrears but remained in long arrears. Nine countries remaining as members settled their arrears.

At present, the following countries are in arrears for more than 12 months (except for an amount less than 15% of the current assessment): Argentina, Brazil, Colombia, Guatemala, Iran, Nicaragua, Senegal, Tanzania and Uganda. Six of these countries will currently not be included in the assessment calculation for 1995/96. If the membership of the other three countries is suspended, in 1996/97 the equal contribution for the remaining members would rise by 8% and the prorata contribution per ton of cotton trade by 3%.

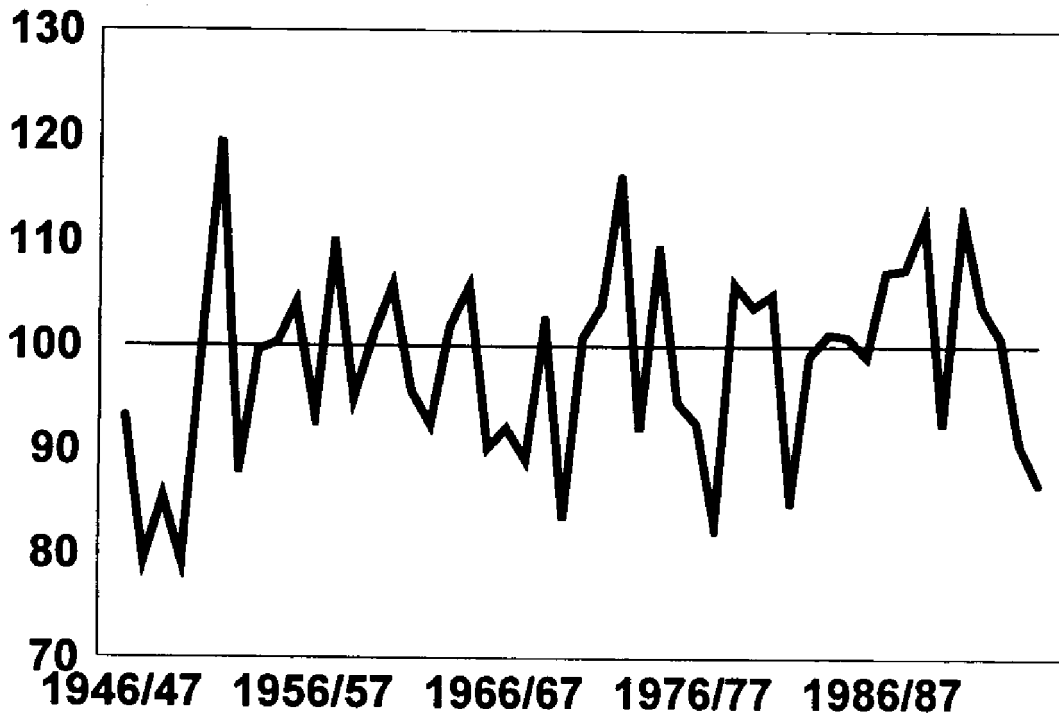
Assessments Collected in Ten Years

Percent



Assessments Received in Year

Percent



Assessment by Year Received

Percent

120

100

80

60

40

20

0

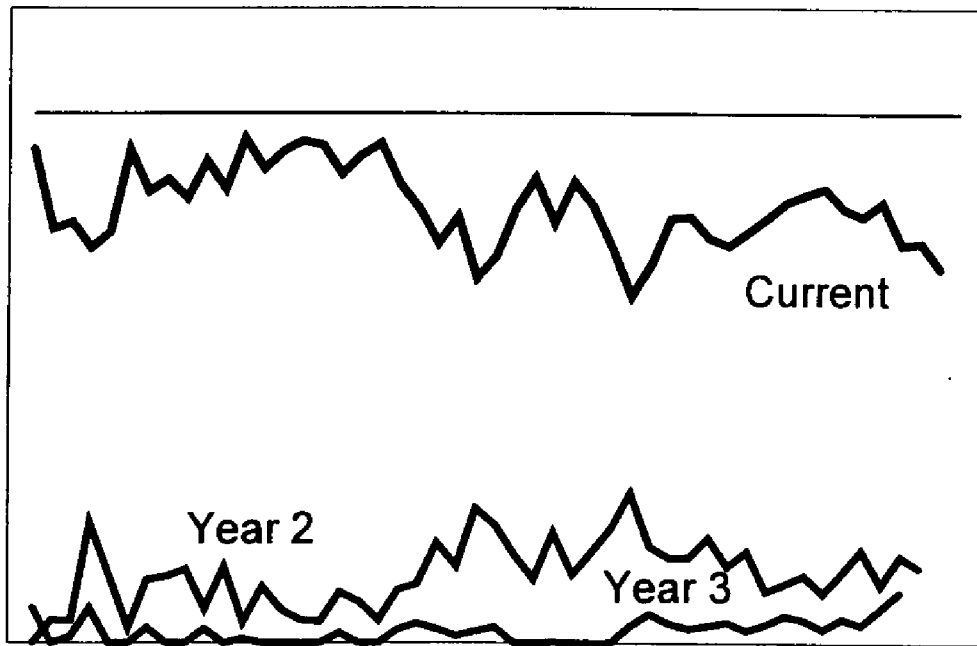
1946/47

1956/57

1966/67

1976/77

1986/87



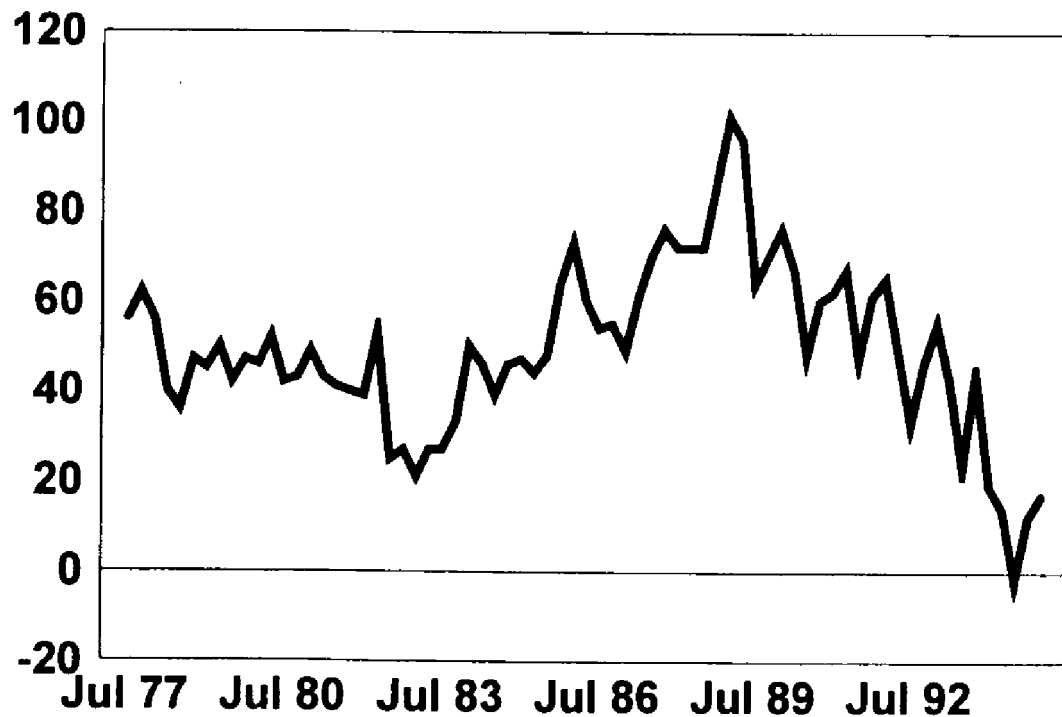
Current

Year 2

Year 3

Working Fund

Percent of Budget



Proposed Budget and Assessment for 1995/96

It is proposed that the Committee's budget for 1995/96 be set at US\$1,293,700. In order to finance this budget and to restore the working funds of the Committee, an assessment of US\$1,193,700 is proposed. The allocation of this assessment to member countries will depend on the average trade in raw cotton in the four years 1990/91, 1991/92, 1992/93 and 1993/94, figures for which are still preliminary.

Proposed Activities

In the period July 1, 1995, to June 30, 1996, the following activities are proposed:

Economics and Statistics:

Observe developments affecting the world cotton situation and maintain and develop complete, authentic and timely statistics relating to world production, trade, consumption, stocks and prices of cotton, other textile fibers and textiles. Provide this information in a timely fashion to member governments and otherwise assist them in the utilization of cotton information. Analyze and report on government policies affecting the world cotton market. In carrying out these activities the Secretariat will

Prepare and publish six issues of *COTTON: Review of the World Situation*, in English, French and Spanish languages. Translate and publish the annual review (the September/October issue) into Arabic and Russian.

Prepare and publish a paper edition of *COTTON: World Statistics* in October 1995 and a CD-ROM edition of the complete basebook of cotton statistics in April 1995.

Prepare and publish *WORLD TEXTILE DEMAND, WORLD COTTON TRADE* and the *OUTLOOK FOR COTTON SUPPLY IN 1995/96* in October 1995.

Technical Information:

Gather and disseminate information pertaining to cotton research programs. Facilitate the exchange of information and the development of better lines of communication among scientific workers in order to promote a better understanding of research problems. In carrying out these activities the Secretariat will

Prepare and publish four issues of *THE ICAC RECORDER* in English, French and Spanish languages.

Conduct a program for 5-7 research associates from member countries on developments in cotton production research.

Prepare a report on the cost of producing cotton.

Provide financial and logistical assistance for the fifth meeting of the Latin American Association for Cotton Research and Development, which is being hosted by the Nicaraguan government in the fall of 1995.

Forum

Serve as a forum for international discussions on matters related to cotton prices. Offer suggestions to member governments regarding measures suitable and practicable for the furtherance of international collaboration directed towards developing and maintaining a sound world cotton economy. In carrying out these functions, the Secretariat will

Assist the Standing Committee in discussions of the world cotton situation.

Prepare documents for, conduct and publish the proceedings of the 54th Plenary Meeting of the Committee in Manila, Philippines, October 22-27, 1995. Prepare for the 55th Plenary Meeting to be held in Tashkent, Uzbekistan, in 1996.

Maintain communications with governments and other organizations interested in cotton.

Manage the finances and administration of the Committee.

Proposed Expenditures

The expenditures required to carry out these functions are detailed on the following table. The expenditures are shown in the major categories used in budget presentations and financial statements of the Committee since 1946. The definition of the categories is as follows: Salaries and benefits includes net of tax salaries paid to employees, two-thirds of the cost of life, health and disability insurance programs and contributions to the Staff Retirement Plan and the Committee's cost of income tax reimbursements to employees required to pay taxes on their incomes from the Committee; printing includes the cost of duplicating camera-ready materials prepared by the Secretariat for Committee publications and minutes and background materials for meetings of the Standing and Advisory Committee; occupancy includes the cost of rent of the office space used by the Secretariat; travel includes the cost of transportation to and subsistence of staff at the Plenary Meeting, a program of visits to member countries once each three years and attendance at international and professional meetings; training and support includes the costs of conducting the annual Research Associate program, whereby individuals from member countries participate in a training program, and support for regional cooperation in cotton pro-

duction research; language services includes the cost of translating publications, Plenary Meeting documents and proceedings and the cost of interpretation in the five official languages of the Committee at Plenary Meetings; communications includes mailing, courier, telephone, fax, telex and electronic data services; and office expenses includes the cost of subscriptions to publications, computer software and hardware, furniture, insurance, office supplies, audit and representation expenses, as well as miscellaneous expenditures for visas, bank charges, immunizations etc.

Budgeted Expenditures of the International Cotton Advisory Committee

| | 000 US\$ | | | | Distribution (%) | | | |
|------------------------------------|----------|---------|---------|---------------------|------------------|---------|---------|---------------------|
| | 1992/93 | 1993/94 | 1994/95 | Proposed 1995/96 | 1992/93 | 1993/94 | 1994/95 | Proposed 1995/96 |
| ECONOMICS/ STATISTICS | 470.3 | 485.0 | 502.2 | 528.6 | 41.4 | 41.3 | 42.9 | 40.9 |
| Salaries and benefits | 335.4 | 343.7 | 351.2 | 398.9 | 29.5 | 29.3 | 30.0 | 30.8 |
| Printing | 18.0 | 23.0 | 17.5 | 15.0 | 1.6 | 2.0 | 1.5 | 1.2 |
| Occupancy | 36.3 | 32.8 | 33.0 | 34.8 | 3.2 | 2.8 | 2.8 | 2.7 |
| Travel | 28.0 | 23.5 | 18.0 | 23.0 | 2.5 | 2.0 | 1.5 | 1.8 |
| Training and support | 0.0 | 0.0 | 20.0 | 0.0 | 0.0 | 0.0 | 1.7 | 0.0 |
| Language services | 6.0 | 9.5 | 10.0 | 11.5 | 0.5 | 0.8 | 0.9 | 0.9 |
| Communications | 29.7 | 34.4 | 34.5 | 26.5 | 2.6 | 2.9 | 2.9 | 2.0 |
| Office expenses | 17.0 | 18.2 | 18.0 | 18.9 | 1.5 | 1.5 | 1.5 | 1.5 |
| TECHNICAL INFOR- MATION | 201.5 | 190.1 | 184.2 | 224.3 | 17.8 | 16.2 | 15.7 | 17.3 |
| Salaries and benefits | 109.5 | 118.7 | 120.7 | 132.1 | 9.7 | 10.1 | 10.3 | 10.2 |
| Printing | 4.0 | 1.5 | 4.3 | 6.0 | 0.4 | 0.1 | 0.4 | 0.5 |
| Occupancy | 14.5 | 13.1 | 13.2 | 13.9 | 1.3 | 1.1 | 1.1 | 1.1 |
| Travel | 13.5 | 14.0 | 9.5 | 14.5 | 1.2 | 1.2 | 0.8 | 1.1 |
| Training and support | 33.5 | 26.5 | 0.0 | 30.0 | 3.0 | 2.3 | 0.0 | 2.3 |
| Language services | 10.0 | 0.0 | 7.5 | 8.0 | 0.9 | 0.0 | 0.6 | 0.6 |
| Communications | 7.4 | 7.3 | 7.5 | 10.5 | 0.7 | 0.6 | 0.6 | 0.8 |
| Office expenses | 9.2 | 9.1 | 21.5 | 9.2 | 0.8 | 0.8 | 1.8 | 0.7 |

Budgeted Expenditures of the International Cotton Advisory Committee

| | 000 US\$ | | | | Distribution (%) | | | |
|-----------------------|----------|---------|---------|---------------------|------------------|---------|---------|---------------------|
| | 1992/93 | 1993/94 | 1994/95 | Proposed 1995/96 | 1992/93 | 1993/94 | 1994/95 | Proposed 1995/96 |
| FORUM | 462.6 | 499.8 | 483.6 | 540.9 | 40.8 | 42.5 | 41.3 | 41.8 |
| Salaries and benefits | 247.7 | 274.5 | 282.5 | 290.0 | 21.8 | 23.4 | 24.1 | 22.4 |
| Printing | 17.8 | 17.3 | 16.2 | 14.5 | 1.6 | 1.5 | 1.4 | 1.1 |
| Occupancy | 21.8 | 19.7 | 19.8 | 20.9 | 1.9 | 1.7 | 1.7 | 1.6 |
| Travel | 47.0 | 62.5 | 42.0 | 59.0 | 4.1 | 5.3 | 3.6 | 4.6 |
| Language services | 58.0 | 57.5 | 55.0 | 92.0 | 5.4 | 4.9 | 4.7 | 7.1 |
| Communications | 22.9 | 22.7 | 22.6 | 24.7 | 2.0 | 1.9 | 1.9 | 1.9 |
| Office expenses | 48.3 | 45.6 | 45.5 | 39.8 | 4.3 | 3.9 | 3.9 | 3.1 |
| TOTAL | 1,134.4 | 1,174.9 | 1,170.0 | 1,293.7 | 100.0 | 100.0 | 100.0 | 100.0 |
| Salaries and Benefits | 692.6 | 736.9 | 754.4 | 821.0 | 61.0 | 62.7 | 64.5 | 63.5 |
| Printing | 39.8 | 41.8 | 38.0 | 35.5 | 3.5 | 3.6 | 3.2 | 2.7 |
| Occupancy | 72.6 | 65.5 | 66.0 | 69.6 | 6.4 | 5.6 | 5.6 | 5.4 |
| Travel | 88.5 | 100.0 | 69.5 | 96.5 | 7.8 | 8.5 | 5.9 | 7.5 |
| Training and support | 33.5 | 26.5 | 20.0 | 30.0 | 3.0 | 2.3 | 1.7 | 2.3 |
| Language services | 74.0 | 67.0 | 72.5 | 111.5 | 6.5 | 5.7 | 6.2 | 8.6 |
| Communications | 60.0 | 64.4 | 64.6 | 61.7 | 5.3 | 5.5 | 5.5 | 4.8 |
| Office expenses | 74.5 | 72.8 | 85.0 | 67.9 | 6.6 | 6.2 | 7.3 | 5.2 |

Expenditures in 1995/96 will be affected by the following decisions and circumstances:

Decisions of the 53rd Plenary Meeting

It was proposed, and there was no objection, that member countries receive ten free copies of Committee publications (Review, World Statistics and Recorder), as opposed to the one free copy assumed in the budget for 1994/95. If all member countries take full advantage of this decision, the printing and mailing expenses of the Committee will likely be increased by \$10,000. In addition the increase in the number of free subscriptions will reduce potential income from the sale of publications by at least \$30,000, assuming that one-fifth of the additional persons or agencies receiving free publications would have subscribed.

It was proposed, and there was no objection, that the Committee support financially regional networks for cotton production research. It is proposed that \$10,000 be allocated in 1995/96 to assist the successful outcome of the fifth meeting of the Latin American cotton production research network. Previous support to regional networks was budgeted in 1990/91 and 1991/92 at \$15,000 for support of two networks.

It was proposed, and there was no objection, that resolutions and the draft and final statement at the Plenary Meeting be translated for the benefit of delegates during the Plenary Meeting. While these statements are translated after the Plenary Meeting for inclusion in the proceedings of the Meeting, translation at the Meeting will involve additional costs, which are estimated at \$5,000.

Circumstances in 1995/96

The Plenary Meeting will be held in the Philippines, at a substantial distance from Washington DC. As in the case of the 52nd Plenary Meeting, which was held in India, the costs of the Committee in travel to the Plenary Meeting for staff and in providing for a team of acceptable interpreters will be relatively high. It is estimated that the cost of interpretation will be \$61,000, compared to a budgeted cost of \$30,000 in 1994/95. In 1980, the cost of interpretation at a Plenary Meeting in the Philippines was \$47,000, which in inflation-adjusted dollars would be \$92,000. In 1994/95, a team of local interpreters was used for French, English and Spanish at a reduced cost. A team of Arabic and Russian interpreters was brought from the USA. The interpretation into French and Spanish was unsatisfactory, due

either to the ability of the interpreters or their lack of familiarity with cotton matters. It is proposed that an experienced team, hired in the USA, be employed in 1995/96.

The cost of travel of staff to the Plenary Meeting is estimated at \$31,000. An additional \$6,000 is budgeted for pre-Plenary travel to Uzbekistan to make arrangements for the Plenary Meeting in 1996. These costs were budgeted at \$25,000 in 1994/95.

Together, the location of the Plenary Meeting is likely to result in expenses of \$43,000 more than in 1994/95. The Secretariat will make all efforts to minimize these expenditures and plans to investigate the possibility of hiring local interpreters in the Philippines, utilizing local staff instead of ICAC staff and reducing subsistence costs. However, it is unlikely that most of the increase can be avoided due to the element of distance.

The salary comparability study conducted earlier this year showed that while the salaries of all positions at the Secretariat were below the market, some positions were below even the minimum levels suggested by the consultant for the positions. It is proposed that equity adjustments be

made in 1995/96 to the salaries of positions gauged to be substantially below the market. \$25,000 has been budgeted for this purpose.

The cost of living in the Washington DC area has increased approximately 3% in the past year.

It is estimated that health insurance costs will increase by 5% in 1995/96. In addition, the Committee's share of health insurance costs has already risen over the budgeted level for 1994/95 due to transitions of individual staff coverage from single to family categories. Further increases are expected to occur in 1995/96 due to additional changes in rate categories. Overall, the Committee's share of these costs is expected to be \$10,200 greater in 1995/96.

In order to prevent assessments from rising in 1994/95, part of the travel program of the Secretariat was postponed. Restoring the normal travel program adds \$15,000 to travel costs in 1995/96.

The above decisions of the 53rd Plenary Meeting and circumstances are responsible for an increase of \$144,000 in budgeted expenditures from 1994/95. Spending in the printing, communications and office expenses

categories are likely to be lower in 1995/96. The reductions in printing and communications are largely due to the reduced number of publications being printed and mailed, which offsets increases expected in US mailing costs. In the office expense category, it is not planned to purchase a further review article from CAB International (a reduction of \$11,800) and audit expenses are budgeted at a lower level due to the hiring of a local auditor.

Financing the 1995/96 Budget

Revenues, in addition to member government assessments, likely to be available to finance the 1995/96 budget are the following:

| | |
|---|-------------------|
| Sales of publications | \$ 90,000 |
| Interest income | \$ 30,000 |
| Registration fee at Plenary Meeting for observers | \$ 30,000 |
| Total | \$ 150,000 |

Sales of publications are currently on track to reach the \$120,000 budgeted in 1994/95 if the normal seasonal pattern of ICAC publication sales

holds. Most subscriptions expire on December 31 and are renewed in the first three months of the calendar year. It is assumed that the increase in the number of free subscriptions will reduce potential publication sale income by \$30,000.

Interest income was budgeted in 1994/95 at \$40,000. It is unlikely to reach this level as the funds of the Committee have been substantially less than anticipated when the \$40,000 estimate was made. Reduced working funds will also limit interest income in 1995/96.

It is proposed that observers and all members of official delegations in excess of two at the Plenary Meeting be charged a registration fee of \$350. This fee will entitle participants to all documents of the meeting including the proceedings. The abrupt adoption of a sales policy for all Committee documents in June 1994, after invitations to the Plenary Meeting had been mailed, resulted in an unsatisfactory situation where observers at the Recife Meeting did not receive full documentation.

Addition to the Working Fund

When the Working Fund was first reduced in 1989, delegates to the Standing Committee were informed that, at some future date, it would be necessary to add funds to the Working Fund to keep the Working Fund at a fixed percentage of the budget (Attachment II to SC-N-367, p.4). In 1993, delegates were further warned that it would be necessary to add funds to the Working Fund in 1995/96 (Attachment III to SC-N-396, p.2). A shortage of working funds which developed in 1994, due to the inadequate provision for fluctuations in the receipt of assessments, has increased the need for additions to the Working Fund.

If the Working Fund is restored to a level of 25% of the budget over a 4 year period, the following sums would be required to be added to working funds in the next several years:

| | |
|---------|------------|
| 1995/96 | \$ 50,000 |
| 1996/97 | \$ 100,000 |
| 1997/98 | \$ 100,000 |
| 1998/99 | \$ 75,000 |

The total assessment for 1995/96 would therefore be \$1,193,700, calculated as follows:

| | |
|---------------------------------|--------------|
| Budget | \$ 1,293,700 |
| Less: Other Revenue | \$ 150,000 |
| Plus: Addition to Working Funds | \$ 50,000 |
| Equals: Assessment | \$ 1,193,700 |

Under the Rules and Regulations, 40% of this assessment, \$477,480, will be divided equally among all member countries. The Standing Committee has excluded since 1979 countries in long arrears from this calculation. There are currently six countries in arrears for more than two years (Brazil, Guatemala, Iran, Nicaragua, Senegal and Tanzania). Some of these countries may settle their arrears in the next few months. It is also expected that one or two additional countries will join the Committee before July 1, 1995. Thus, \$477,480 is likely to be shared among, say 37 countries, for an equal assessment of \$12,905. The remaining \$716,220 will be distributed among the 37 countries in proportion to their trade. Assessments will be made to the countries not included in the calculation, using the same equal assessment and prorata contribution per bale of cotton trade.

Addition to the Reserve Fund

It is expected that it will be necessary to increase the Reserve Fund to \$590,000 to cover the contingent liabilities of the Committee as of June 30, 1996. Detailed estimates will be made at a later date.

Appointment of 1994/95 Research Associates

The 1994/95 Research Associate program was announced in Memorandum 561 of November 10, 1994. The program will be a ten day seminar on the concepts and methods used in estimating and forecasting cotton production, consumption, trade and prices. The seminar will be held in Washington DC and at a field location from April 24 to May 3, 1995 (the dates of the program were changed in Memorandum 564 of January 4, 1995).

Twenty-nine applications to participate in the seminar were received by the closing date for applications, January 15, 1995, from 14 countries, as follows:

| Country | Name | Organization | Title/Position |
|----------------|--------------------------------|--|---|
| Argentina | Alejandro H. Valeiro | INTA | Coordinator Rural Development |
| Australia | Max Foster | ABARE | Commodity Analyst |
| China (Taiwan) | Gwo-Tsuen Jou | China Textile Institute | Chief Short Staple Spinning Section |
| | Yenmeng Li | Ministry of Economic Affairs | Section Chief Statistics Department |
| | Li-Chung Huang | Chung Fu Textile Corp. | Head Sales Dept. |
| | Chang Chun Shlang | Hualon Corporation | Plant Vice-Manager |
| | Chan Mien | Hualon Corporation | Plant Vice-Manager |
| | Chi-Wu Chiang | Dollar Textile Corp. | General Manager |
| Colombia | Jorge Andrade Castillo | Cotton and Cocoa Prices Stabilization Fund | Technical Secretary |
| | Sarah Pareja | Ministry of Agriculture | Advisor |
| Egypt | Ahmed Moustafa Mohamed Aly | Cotton and International Trade Company | Managing Director |
| | Mahmoud Taha Nawar | Cotton Research Institute | Chief Researcher |
| Greece | Kiratso Kosmidou-Dimitropoulou | Hellenic Cotton Board | Director Planning and Research Division |
| | Urania Kechagia | Cotton and Industrial Plants Institute | Director |
| Iran | Attaollah Nazeri | General Department of Cotton & Oil Seeds | Economic and Commercial Surveys |

| Country | Name | Organization | Title/Position |
|----------------|------------------------|--|--|
| Pakistan | Barkat Ali Soomro | Pakistan Central Cotton Committee | Vice President |
| | Mushtaq Ahmad Chaudhry | Cotton Research Station Multan | Assistant Botanist |
| | Syed Hassan Raza | Farmer | Cotton Production and Marketing |
| | Mumtaz Muhammad Khan | Farmer | Cotton Production and Marketing |
| Paraguay | Gerardo Lopez | Ministry of Agriculture | Vice Minister |
| | Ricardo Pedretti | Ministry of Agriculture | Director Agricultural Research |
| Russia | Victor V. Batanin | Ministry of Foreign Economic Relations | Chief Expert Multilateral Economic Cooperation |
| | Dmitri Amounts | Menatep Bank | Project Manager Textiles |
| Sudan | Representative | Sudan Cotton Company Ltd. | |
| Turkey | Saime Gullu | Undersecretariat for Foreign Trade | Section Chief General Directorate of Exports |
| UK | Michael Edwards | Cotlook Ltd. | Deputy Editor |
| | Lawrence McVeigh | Natural Resources Institute | Assistant Program Manager |
| USA | Jesse Barr | National Cotton Council | Assistant Director Economic Services |
| | C. Kevin Brinkley | National Cotton Council | Agricultural Economist |

Recommendation

Budgeted funds would permit the appointment of a maximum of 15 persons. The Secretariat recommends that one research associate be appointed from each of the 14 countries which applied. It is proposed that the remaining position be allocated to the second nominee of Russia, which has not participated in the program in the past and which has been a member of the Committee (as the USSR) since 1962. The Secretariat further recommends that the additional nominees from other countries be appointed alternates, to be appointed in case the first nominee from their countries is unable to attend. If there is a vacancy in one of the appointments in countries with no alternates, the Secretariat recommends that the vacancy be filled with alternates in the following order by country, based on past participation in the research associate program: Paraguay, UK, Greece, China (Taiwan), Colombia, USA, Pakistan, Egypt.

The regulations of the Committee provide for the Secretariat to receive research associates at any time at no cost to the Committee. Thus, applicants able to come at their own cost would also be welcome.

**Standing Committee
Washington, DC**

**Attachment VII to SCN-409
January 4, 1995**

QUARTERLY STATEMENT

Beginning Balance, Receipts and Disbursements of ICAC as of December 31, 1994

| | July-December 1994 | Budget 1994/95 |
|---------------------------------------|---------------------------|-----------------------|
| Beginning Balance | \$515,079 | |
| <hr/> | | |
| Receipts: | | |
| Assessments: | | |
| Current year | 622,499 | 1,009,500 |
| Prior year | 272,580 | |
| Year in Advance | | |
| Other Income | 50,927 | 160,500 |
| <hr/> | | |
| Total Receipts | 946,006 | 1,170,000 |
| <hr/> | | |
| Disbursements: | | |
| Economics & Statistics | 268,734 | 502,200 |
| Technical Information | 89,819 | 184,200 |
| Forum | 295,996 | 483,600 |
| <hr/> | | |
| Total Disbursements | 654,549 | 1,170,000 |
| Excess of Receipts over Disbursements | 291,457 | |
| <hr/> | | |
| Ending Balance | 806,536 | |
| Working Fund | 262,536 | |
| Reserve Fund | 544,000 | |

Uncollected Assessments of Member Governments of ICAC
as of December 31, 1994

| Country | Current Year | Prior Years |
|---------------|----------------|----------------|
| Argentina | \$19,401 | |
| Brazil | 32,500 | 38,003 |
| Cameroon | 13,800 | |
| Colombia | 14,300 | 12,800 |
| Côte d'Ivoire | 17,100 | |
| Greece | 19,300 | 1,300 |
| Guatemala | 11,900 | 64,108 |
| Iran | 10,600 | 18,700 |
| Israel | 13,500 | |
| Mexico | 18,600 | 100 |
| Nicaragua | 12,000 | 68,906 |
| Pakistan | 35,500 | 1,376 |
| Paraguay | 26,200 | |
| Poland | 19,200 | |
| Sénégal | 11,600 | 19,600 |
| Sudan | 17,900 | |
| Tanzania | 14,100 | 22,300 |
| Turkey | 25,400 | |
| Uganda | 10,800 | 10,200 |
| Uzbekistan | 67,800 | |
| Zimbabwe | 13,700 | |
| Total | 425,201 | 257,393 |

Does not include \$453,125 of uncollected assessments of member governments who have withdrawn or whose membership has been discontinued.

Report of the Executive Director

In the period since the last meeting of the Standing Committee, the Secretariat of the Committee has been involved in the following activities:

Economics and Statistics

Monthly updates of the Review of the World Cotton Situation were published on November 30 and December 23. This report (8 to 10 pages) was faxed to Coordinating Agencies and to paid subscribers. These reports contained updated estimates of cotton production, consumption, trade and stocks by country for 1994/95 and 1995/96. Detailed estimates were also made in December of export commitments by country to provide estimates of available supplies of cotton in the remainder of the season, information of value to both exporting and importing countries. Price estimates were updated as well, reflecting the growing tightness of cotton supplies worldwide.

Press releases summarizing changes in the Secretariat's estimates of the world cotton situation were issued at the end of November and December. These releases, which do not include country-by-country detail, were also faxed to delegates to the Standing Committee.

Sales of Committee publications in economics and statistics were \$45,000 in the first six months of the fiscal year, following the Committee's decision to restrict the availability of free publications. Sales had been forecast at \$40,000 in the period. As outstanding subscriptions expired at the end of 1994, the bulk of new publication sales are expected in the second half of the fiscal year (January-June).

Dr. Townsend presented a paper on changes in the structure of cotton merchandising at the Beltwide Cotton Conferences of the National Cotton Council of the USA in San Antonio, Texas, in early January. In the paper Dr. Townsend concluded that there had been no increase in the degree of concentration of world cotton trade in the last ten years.

Carlos Valderrama, Economist, will participate in a National Cotton Forum in Colombia the last week of January. Mr. Valderrama will discuss the likely evolution of cotton prices over the next 18 months.

Technical Information

The December issue of *THE ICAC RECORDER* was published in December in English, French and Spanish. The publication included discussions of cotton production and research in Sudan and Chad and problems with bollworms in Pakistan. Bollworm infestations, especially resistance to chemical control among bollworms, appear to have been responsible for much of the loss of production in Pakistan this season. While the whitefly-transmitted leaf curl virus is a major problem in Pakistan in normally dry seasons, this season's wet fall resulted in unexpected bollworm problems. The Recorder also included a bibliography of recent research on bacterial blight.

Dr. Rafiq Chaudhry presented a paper at the Beltwide Cotton Conferences on changes in the structure of cotton research. Dr. Chaudhry presented the results of the ICAC survey on current research in cotton. At the invitation of the Colombian coordinating agency, he will discuss the organization

of cotton research at the National Cotton Forum to be held at the end of the month in Bogota.

Survey forms on the use of insecticides, bale coverings and the cost of producing cotton are being prepared by the Secretariat. The survey on the use of insecticides is a result of a decision of the 53rd Plenary Meeting. The survey on bale coverings is at the request of textile manufacturers for greater information about bale coverings and options to purchase cotton-covered bales. The survey on the cost of production is a part of the work program of the Secretariat to collect this information every three years.

The Secretariat is preparing a proposal to the Consultative Group on International Agricultural Research (CGIAR) to establish an international cotton research institute. It was suggested at the 52nd Plenary Meeting that the Secretariat explore the possibilities of establishing such an institute.

Forum

The Executive Director plans on January 25 to support the submission of a project proposal to develop cotton varieties resistant to whitefly-transmitted gemini viruses before the Consultative Committee of the Common Fund

for Commodities. The project asks for Common Fund assistance of \$1.4 million for work in Pakistan, the USA and the United Kingdom. He will be accompanied by Dr. Peter Markham of the John Innes Centre in the United Kingdom. While in Amsterdam, the Executive Director will sign the project agreements for the project on control of the cotton boll weevil in Argentina, Paraguay and Brazil. It is hoped that funds for the project, which total \$1.9 million over five years, will begin to flow soon.

The Secretariat met with a delegation from the Central Asian Republics of Uzbekistan, Tajikistan and Kirghizstan on January 11. In attendance were representatives from the Ministries of Foreign Economic Relations and Agriculture and the Councils of Ministers, as well as key cotton organizations. The meeting allowed renewal of contact between ICAC and Tajikistan whose representatives have participated in two Plenary Meetings.

Administrative Matters

The Government of Mexico withdrew its intent to withdraw from membership in the Committee for sixty days at the request of the new authorities of the Mexican Government.

The Secretariat received payments of assessments for 1994/95 from the following Governments or their agents in the period November 22, 1994, to January 17, 1995: Argentina, Italy, Russia, USA, Cote d'Ivoire. Payments for previous years were received from Argentina, Greece, Pakistan, Mexico and Brazil. The Secretariat appreciates the efforts of these members to settle their arrears.

At the request of the Standing Committee, a letter was sent in early December to the Ambassadors to the USA of all member countries by the Chairman of the Standing Committee, requesting their support for the prompt settlement of all obligations to the ICAC.

The Administrative Officer plans to discuss arrangements for the forthcoming Plenary Meeting with Philippine officials at the end of January. Included in the discussions will be the possibility of hiring interpreters for the meeting locally, arranging for locally-hired support staff for the meeting and minimizing hotel costs for the Secretariat and delegates.