



INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee
Washington, DC

SC-M-427 Final
June 16, 1997

MINUTES

427th Meeting of the Standing Committee
Wednesday, June 4, 1997
Room H1-200, World Bank, 600 19th Street NW
Washington, DC

PRESENT:

- Mr. Victoriano B. Leviste (in the Chair)
- Mr. Mariano Ripari, Argentina
- Mr. Paul Morris, Australia
- Ms. Marie-Ange Katzeff, Belgium
- Mr. Aluisio Lima-Campos, Brazil
- Mr. Frank H. Wu, China (Taiwan)
- Mr. Alan Yanovich, Colombia
- Mr. Mohamed Ahmed Dawood, Egypt
- Mr. Bert Brueckner, Germany
- Ms. Anna Constantinidou, Greece
- Ms. Maria-Claudia Marini, Italy
- Mr. Seiji Baba, Japan
- Mr. Gunn Kim, Republic of Korea
- Mr. Andrzej Dziekonski, Poland
- Mr. Antonio Novas, Spain
- Dr. Ali Muhra, Syria
- Mr. Anastase R. Rwegayura, Tanzania
- Ms. Patricia Phillips, UK
- Ms. Lana Bennett, USA
- Ms. Amy Winton, USA
- Mr. Andrew Levin, USA
- Dr. Lawrence H. Shaw, Executive Director
- Mr. Carlos Valderrama, Economist
- Mr. Andrei Guitchounts, Economist
- Dr. Rafiq Chaudhry, TIS
- Mr. Federico Arriola, Administrative Officer
- Ms. Rosa-Marina Soper, Secretariat

The CHAIR welcomed Mr. Andrew Levin of the USA, who was attending a meeting of the Standing Committee for the first time.

1. Adoption of the Agenda

The Agenda was adopted as presented.

2. World Cotton Situation

Mr. Carlos Valderrama presented the report of the Secretariat. Attachment I to SC-N-427 was distributed at the Meeting. Mr. Valderrama noted the Secretariat's forecasts that cotton prices would remain in a relatively narrow range in the next two seasons, with the Cotlook A Index estimated to average US82 cents per pound in 1997/98 and 81 cents in 1998/99, compared with an expected average of 79 cents this season. Mr. Valderrama said expected prices were higher than the long-term average, due largely to tighter stocks as a result of little growth in production in recent years. He pinpointed lack of growth in yields as the primary cause. World cotton consumption, he added, was expected to be 500,000 tons higher this season and continue above 19 million tons in the next two seasons, with most of the growth occurring in cotton producing countries.

While upland prices were expected to be higher on average in the next two seasons, Mr. Valderrama noted that the outlook was for lower prices in the extra-fine sector. He said Egyptian production of extra-fine cotton rose in 1996/97 in response to agricultural policies; at the same time, Egyptian mill use fell in response to market liberalization policies, and exports, while up three times from last season, did not rise enough to prevent stocks from rising. He said Egyptian stocks were also likely to rise in 1997/98, leading to lower prices.

Following Mr. Valderrama's presentation, the CHAIR asked delegates for comments or questions. There were none. The CHAIR then asked delegates if they had any statements to make regarding the cotton situation in their countries or matters of importance to their cotton industries to bring before the Committee. No statements were made or matters raised.

3. Decision-making in the Committee

The CHAIR commented that the Executive Director had been asked to review the background for the determination of a quorum for Standing Committee meetings and the process of decision-making in the Standing Committee. He said he was also asked to provide a formal definition of the term "consensus."

The Executive Director presented Attachment IV to SC-N-427.

In response to a request from the CHAIR for comments, the delegate of GERMANY said it was his government's view that consensus cannot exist if one or more governments are officially opposed.

The delegate of the USA expressed the view that in cases where the existence of a consensus was questionable, delegates had the prerogative to ask the CHAIR for a vote on any matter being decided in the Standing Committee. She also noted the importance of having ample opportunity for discussion of issues such as the budget of the Committee before votes are taken on these matters. At the request of the CHAIR, the Executive Director commented that, in matters in which the Standing Committee had been instructed to make a decision, the Chair had a responsibility, if consensus was not obvious, to call for a vote whether or not an individual delegate requested voting.

4. Proposal for Arresting the Decline in Cotton's Share of Market

The Chair asked the Executive Director to present Attachment II, which summarized the findings of the discussions which had been held in the Standing Committee in 1996 and 1997 on the reasons for the decline in cotton's share of the world fiber market and presented a proposal to support a private sector initiative for the development of a business plan to arrest the decline.

The CHAIR asked delegates for their comments. The delegate of GERMANY referred to his remarks at the 426th Meeting and said his country could not approve the appropriation of \$100,000 to develop such a plan because it was their view that it was not the task of ICAC to provide startup financing for such research. He said Germany did not interpret the decision of the 55th Plenary Meeting to develop and suggest measures for a worldwide effort to protect cotton's place in the world economy to mean that the ICAC is to finance such measures.

UNITED KINGDOM, BELGIUM, ITALY and JAPAN agreed with the position of Germany.

The Executive Director presented the following position of FRANCE, whose delegate was not able to present at the Meeting: "France does not oppose in principle the possibility of a limited co-financing by the organization of the proposed study. However, in light of the ...budgetary context, the government of France estimates that the proposed amount can not be envisaged. Therefore, all the opportunities of private sector funding of the study must be fully explored, prior to any commitment involving, directly or indirectly, the organization budget."

CHINA (TAIWAN) also shared the views expressed by other delegates, noting that due to the limited budget of ICAC such studies should be funded by the private sector.

The delegate of the USA referred to her remarks at the 426th Meeting and suggested that a presentation be made at the Plenary Meeting. The delegates of ITALY and BRAZIL concurred with this position and also suggested that a presentation be made to the Standing Committee. The US delegate said funding priorities at the ICAC could be restructured without increasing the budget if the Committee placed a high priority on addressing cotton's loss of market share. The delegate of ITALY also said her government did not oppose cooperation with the private sector but felt that there was a need for further elaboration of the issue.

The delegate of BRAZIL said his government had not yet decided on its position regarding ICAC's participation in the development of a business plan by the private sector to arrest the decline in cotton's share of market. Given the views expressed by other delegates that the Committee should not participate in the funding of this work, he asked delegates what the Standing Committee should propose to the 56th Plenary Meeting, given its mandate to prepare specific proposals. He noted the limited amount of time to make a decision, as such proposals are to be circulated to member governments by the end of August.

The delegate of the USA referred to the substantial amount of work of the Secretariat and the Standing Committee in discussing the problem of preserving cotton's market share and said that it was not her view that the Committee had taken no action in this regard. She postulated that it may be premature to recommend specific actions to the Advisory Committee.

AUSTRALIA shared the concern of BRAZIL that there is relatively little time to make proposals. He agreed that the Secretariat had done a good job in preparing background papers and arranging discussions with invited experts. He

offered his views for two other areas which might be investigated: First, trade barriers. If efforts are made to reduce trade barriers against cotton textiles, he said cotton could benefit. Second, the ICAC could encourage national promotion efforts in member countries.

The delegate of BELGIUM referred to her proposal at the 426th Meeting that a questionnaire be sent to member governments asking their advice on what to do. She said the results of the survey could be presented to the Plenary Meeting.

The CHAIR summarized the discussion. He said that there was no support at this time for contributing to the cost of the private sector's plan to develop a business plan to arrest the decline in cotton's share of market. In order to meet the mandate of the 55th Plenary to develop specific proposals, he asked the Secretariat to consider the additional suggestions of delegates and to present a draft document for consideration at the next meeting of the Standing Committee.

5. Budget and Scale of Assessments for 1997/98

Before asking the Executive Director to comment, the CHAIR inquired if in the determination of salaries there is a step system by which employees receive automatic annual adjustments to their salaries. The Executive Director noted that the salary system did not have any system for automatic annual adjustment of salaries such as exists in national government or the UN systems. He said in the last ten years there have been annual adjustments to individual salaries for merit (based on the increased value of the employee to the Committee over time because of experience) and for changes in the cost of living in Washington DC. In addition, he said, a portion of the salary budget has been reserved for the payment of performance bonuses to reflect contributions of the employee to the Secretariat's work in the previous year.

The Executive Director reviewed Attachment III to SC-N-427 responding to matters raised at the 426th Meeting. He also referred to a letter to the US delegate responding to her June 3 request for still additional information, which had been faxed to her and other delegates on the evening of June 3 and which was available in the papers distributed at the Meeting. The Executive Director said the tables in Attachment III presenting a zero real growth budget were the current proposal of the Executive Director, given discussion earlier in the Meeting. With regard to additional details requested on salary and benefit payments by delegates at the 426th Meeting and by the US delegate on June 3, he noted that it was proposed in the 1997/98 budget to increase the salary budget by 5.9% in 1997/98 in order to make merit adjustments. He said general merit adjustments had not been made since July 1, 1994, due to on-going discussions regarding the adoption of UN salary scales. [Had UN scales been in effect, there would have been annual automatic adjustments of between 2 and 3 percent, for a total increase in the three years of around 7.7%.] With regard to performance bonus payments, he said in the last 10 years between 3 and 5% of the amount budgeted for salary and benefits had been subtracted from the budget and used to make end-of-year payments to employees to reward them for their performance during the year.

The delegate of France provided the following statement: "The government of France regrets the uncertainty affecting the United States contribution to the organization's budget in 1997/98. This uncertainty raises important complications to reach a credible budget proposal for the considered fiscal year. For this reason, the government of France considers that drastic economies have to be envisaged in the budget proposal, in order to reach a maximum of 0% real terms growth of the overall organization spendings. In this framework, the government of France will not accept any additional increase of its contribution in the forthcoming budget."

The delegate of the USA said she found a discrepancy between what she calculated as the salary level of the Secretariat and the figures presented by the Executive Director. She said she had calculated an approved salary level of \$520,000 which included a 5.2% increase for all staff except the Executive Director. She questioned why her calculation of \$537,500 for salaries, including merit bonuses of 4% for all staff salaries excluding the Executive Director's, was exceeded by the estimated actual 1996/97 figure of \$563,500 in Attachment III to SC-N-427. She questioned the Executive Director about whether the estimated 1996/97 actual figures for salaries included bonuses. She also asked whether any additional salary increases had been made since the 5.2% salary increase was effected. In addition, she questioned whether the 5.2% increase of the Executive Director's salary continued to be reflected in the 1996/97 actual figure for salaries and the 1997/98 proposed budget. She also asked how the refund of this increase had been accounted for in the budget. The Executive Director noted that the figure for salaries on page 1 of Attachment III and in the letter to the US delegate included twice-monthly salary payments and performance bonuses. He further noted that the figure for salaries included some adjustments to salaries which had been made after July 1, 1996, and the salary of the Executive Director as of July 1, 1996. He reported that the voluntary refund of the cost of living increase made to the Executive Director's salary (of approximately \$5,000 a year in the period from July 1, 1996 to December 30, 1998) is accounted for in other income. He disagreed with the view of the US delegate that there was an approved salary level of \$520,000. He said there was a salary and benefits budget of \$851,500 to which he controlled expenditures. He repeated the information in the written material that actual spending in 1996/97 would total \$806,000. The USA delegate questioned why the Executive Director continued to refund 5.2% of his salary, rather than reduce his salary to the level prior to this increase. She said it was her view that, reflecting the

Standing Committee's decision, the Executive Director should not receive the 5.2% increase he granted himself in 1996/97. She further expressed the view that the method used by the Executive Director to calculate bonuses, which she said included the Executive Director's salary and his, in her view, unauthorized 5.2% raise, plus employee health benefits, pension, retirement and unexpended tax reimbursements, results in an inflated available bonus fund of double the indicated level of 4%. She recommended that only actual payments of staff salaries, excluding that of the Executive Director, be used as a basis for calculating bonus amounts and in determining the 1997/98 budget.

The delegates of USA, ITALY, GERMANY, GREECE and BELGIUM expressed the view that the salary budget should include the voluntary refund of the cost of living increase.

The delegate of ITALY expressed disappointment that the Committee was still talking about salaries. She said the Government of Italy was not in a position to approve an increase in the real expenditures of the Committee. She inquired if further details were available regarding actual expenditures in 1996/97, especially with regard to salaries. The Executive Director noted that the tabulation on page 1 of Attachment III included actual expenditures in 1996/97 on salaries. He referred the delegate to the letter to the US delegate regarding actual expenditures in other budget categories and the difficulties in making comparisons due to uncertainty regarding the payment of the USA's obligation to the Committee for income tax reimbursements. The delegate of the USA said the US State Department had paid the tax reimbursement request in full on May 27. The Executive Director noted that the Committee had received no funds from the US government.

The US delegate stated that she did not propose a reduction of 5% in salaries, and stated the views that in fact a cost of living increase higher than what was called for in the 1997 budget was prematurely made in 1996 and the 5.2% cost of living increase made in 1996 more than compensated for inflation for the next fiscal year.

The delegate of the USA asked for the Executive Director to provide delegates an update of the listing of salary and benefit payments to individual staff members provided to the Chairman and Standing Committee members in August 1996. The Executive Director declined to provide the information but invited the US delegate or any delegate to come to the office of the Secretariat to examine the financial records of the Committee if there were any concerns. The delegate repeated her request to the Chair of the Committee.

The delegate of BELGIUM said she found the various percentages being reported confusing and contradictory. The Executive Director regretted the confusion, noting that delegates had asked for additional detail with additional comparisons of budgeted spending to actual spending which had led to the proliferation of different percentages.

The delegate of the UNITED KINGDOM said her government was well acquainted with budgetary constraints. However, she said, when you have an organization whose main asset is its staff, it was extremely important that the staff be treated fairly. She added that the UK government was happy to have information on salaries and performance bonuses in the aggregate but did not think it appropriate to circulate the information on individual staff members, noting it was the responsibility of the Executive Director to allocate the salaries and bonuses within the agreed budget. The delegate said there was some urgency regarding the approval of the budget and that the UNITED KINGDOM was able to accept the budget proposed in Table 1 of Attachment III.

The delegate of GERMANY agreed with comments made by Italy and Belgium and to a great extent with those of the USA. While he could not respond to the information presented in the letter to the delegate of the USA, he said Germany cannot approve the salary adjustments contained in the Executive Director's proposal for the 1997/98 budget. He said the upper limit on overall salary increases, if any, has to be 0.4%, in accordance with UN rates. He said UN employees have not received any salary increases since 1994. He added that German government policy made it impossible to arrive at any other decision.

The CHAIR, noting the lateness of the hour, said that another meeting would have to be scheduled on June 19 to consider the budget. He asked delegates to submit any requests for additional information relevant to the budget as soon as possible to the Secretariat. He asked delegates to be prepared to come to a decision, either by consensus or voting, at that meeting.

The CHAIR also noted that the Standing Committee would continue its discussion of specific proposals to arrest the decline in cotton's share of market at the June 19th meeting.

The Executive Director's report of Secretariat activities, Attachment V to SC-N-427, was made available to delegates at the Meeting for information.

The 427th Meeting of the Standing Committee was adjourned at 12:15 pm.