



INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee
Washington, DC

SC-M-456 Final
November 5, 2001

MINUTES

456th Meeting of the Standing Committee
Wednesday, October 24, 2001
Embassy of India, 2107 Massachusetts Ave., NW
Washington D.C.

PRESENT:

- Mr. Alfonso Liévano, Colombia (in the Chair)
- Mr. José D. Molina, Argentina
- Ms. Andrea Preiss, Australia
- Mr. Aluisio de Lima-Campos, Brazil
- Mr. Philippe Ondo Ondo, Cameroon
- Mr. Abdoulaye Beri, Chad
- Mr. Alfred Wang, China (Taiwan)
- Mr. Hazem Hassanein, Egypt
- Ms. Louisette Viannez-Tetreault, France
- Mr. Peter Schreiner, Germany
- Mr. Christos Prapopoulos, Greece
- Mr. Ajai Malhotra, India
- Mr. G. Dharmendra, India
- Dr. Mordehai Cohen, Israel
- Mr. Satoru Takahashi, Japan
- Ms. Chigozie F. Obi-Nnadozie, Nigeria
- Mr. Enrique Ramírez, Paraguay
- Mr. Victoriano Leviste, Philippines
- Ms. Teresa Orczykowska, Poland
- Dr. Siphwe F. Mkhize, South Africa
- Mr. Ronald Rietmann, Switzerland
- Mr. Cumhuri Isbirakmaz, Turkey
- Mr. James Hughes, United Kingdom
- Mr. Lawrence Blum, USA
- Mr. Bakhtiyor Ibragimov, Uzbekistan
- Mr. Tatenda Makono, Zimbabwe
- Mr. Kubanychbek K. Omuraliev, Kyrgyz Republic
- Dr. Terry P. Townsend, Executive Director
- Mr. Gerald Estur, Statistician
- Dr. Rafiq M. Chaudhry, TIS
- Mr. Andrei Guitchounts, Economist
- Mr. Federico Arriola, Administrative Officer
- Ms. Carmen Leon, Bilingual Assistant
- Ms. Rosa M. Soper, Administrative Assistant

1. Adoption of the Agenda

The CHAIR called the meeting to order at 10:05 AM. He thanked the delegate of India for his hospitality in arranging for the meeting to be held at the Embassy of India. He welcomed delegates who were attending a Standing Committee Meeting for the first time, including Mr. Hazem Hassanein of Egypt, Ms. Louisette Viannez-Tetreault of France, Mr. Peter Schreiner of Germany, Dr. Siphwe F. Mkhize of South Africa, and Mr. Bakhtiyor Ibragimov of Uzbekistan.

The CHAIR congratulated the former Chair, Mr. Larry Blum, delegate of the United States, for his leadership of the Standing Committee during the last year. While Mr. Blum was Chair the Standing Committee served as a catalyst for cooperative endeavors by governments and the private sector, supported the Private Sector Advisory Panel, facilitated the establishment of the International Forum for

Cotton Promotion and fulfilled its traditional functions of administrative and financial oversight of the Secretariat. He also welcomed Mr. Ajai Malhotra of India as the First Vice Chair, and Ms. Chigozie Obinadozie as Second Vice Chair of the Standing Committee for 2001-2002.

The theme of the 60th Plenary Meeting was, "Cotton: An African Renaissance." The CHAIR said that in his view, this meeting of the Standing Committee was the start of a period of "Cotton: An African Renaissance in Times of Crisis." He remarked that the ICAC is always looking for ways to enhance country's economies, but this year especially the Committee will work to improve economies centered on cotton production without discriminating against other member countries. He noted that the statement of the 60th Plenary Meeting contains a broad mandate to pursue the following fundamental goals:

- Trade without distortions
- Contract sanctity
- Technology for all
- Investment strategies for developing countries

He summarized his thinking on these goals. Regarding the Working Group on Government Measures, the CHAIR said that this group must be composed of all member countries willing to search for solutions to trade distortions. This task requires that all the means at the disposition of the ICAC be used in order to be effective in achieving consensus. He said that governments would have the opportunity to appoint representatives with knowledge and negotiation experience so as to bring recommendations on effective strategies to eliminate subsidies.

On the formation of an advisory panel on contract sanctity, the CHAIR said that the panel would look for strategies to make valid arbitral awards enforceable under member countries' laws.

Regarding technology for all, the CHAIR indicated that this advisory panel will search for ways to support innovation and technology transfer and to encourage sound regulation of genetically engineered (GE) cotton varieties.

On the formation of a task force on sound industrial policies, the CHAIR said that the mission of the task force will be to assist member countries in the development and implementation of sound industrial strategies that will increase domestic investment in cotton and cotton related industries and thereby promote cotton consumption.

The CHAIR completed his introductory remarks by congratulating the Organizing Committee in Zimbabwe and the Secretariat for the excellent plenary meeting.

The CHAIR asked if there were comments or additions to the Revised Provisional Agenda, and seeing none found that the Agenda was approved.

2. World Cotton Situation

The CHAIR introduced Mr. Gérald Estur, statistician of the Secretariat, to present the world cotton situation. Mr. Estur reported that international cotton prices as measured by the Cotlook A index, declined by 45% since the beginning of the year, from 66 cents per pound to 36 cents per pound, collapsing to their lowest level since November 10, 1972. The drop in prices is resulting from the excess of supply over demand this season.

World cotton production is expected to increase more than 1.5 million tons in 2001/02, to 20.8 million tons, the highest ever. Production in the Northern Hemisphere is expected to increase by 10%, with the three largest producing countries, China (Mainland), the USA and India, accounting for most of the increase. In contrast, low cotton prices will likely reduce Southern Hemisphere production by an estimated 12% this season.

With slowing world economic growth in 2001, cotton consumption weakened significantly. Nonetheless, assuming better world economic performance in early 2002, as the IMF suggests, world cotton

consumption is expected to increase by less than 100,000 tons, to 19.7 millions tons in 2001/02 and to 20 million tons in 2002/03.

A stock-reduction policy remains in effect this season in China (Mainland), and China (Mainland) is not expected to import a large volume of cotton this season. However, U.S. exports are expected to increase by 600,000 tons to reach a record of 2.1 million tons in 2001/02, 34% of world exports.

After declining for three consecutive seasons, world stocks are expected to increase by 1.1 million tons to 9.75 million tons by July 31 2002. The burden of ending stocks will continue to shift from China (Mainland) to other countries, mainly to the USA. The stocks-to-use ratio outside China (Mainland) is forecast to rise to 52%, up from 44% last season.

Supply and demand estimates suggest that the Cotlook A Index will average 46 cents per pound in 2001/02 and 47 cents in 2002/03. The projected average for this season is the lowest since 1972/73. In real terms, the deflated average Cotlook A Index is about 69% lower than in 1972/73. The collapse of cotton prices has catastrophic consequences for producers and exporters, especially in the developing countries. The 30-cent drop in cotton prices over the last ten months translates into a \$14 billion reduction in the aggregate value of world production in 2001/02.

The CHAIR thanked Mr. Estur for his presentation.

The delegate of BRAZIL asked why production is rising in China (Mainland), the USA and India despite the low prices. Mr. Estur explained that increased use of GE cotton in China (Mainland) is encouraging production while the government's stock-reduction policy is maintaining domestic prices above the international level. In the United States, production is boosted by genetic engineering, the government cotton program and by the crop insurance program. Cotton farmers in India are reacting to high domestic prices last season resulting from a poor crop, and a better yield is expected this season.

In response to a question by the delegate of GREECE, Mr. Estur explained that the Secretariat estimate of \$14 billion as the reduction in the value of cotton production due to the decline in prices during 2001 was calculated simply by multiplying world production by 30 cents per pound, equal to the change in average prices since last December.

The delegate of ISRAEL asked about the evolution of prices of cotton by type. Mr. Estur answered that the Cotlook A Index reflected the international prices for medium cotton, about one-third of the total supply. The premiums or discounts for the other types of cotton, extra-fine, fine, high medium and coarse, vary according to the supply and demand situation in each category. He agreed to provide the delegate of Israel with a separate table on supply and use of extra-fine cotton.

The delegate of INDIA emphasized domestic causes for rising production in India, a normal market reaction. He commented that there was no reason to expect that world cotton prices will go up in the near future. Mr. Estur said that the decline in prices will ultimately benefit consumers and should contribute to increased cotton use in 2002, since the profitability of the spinning industry and the competitiveness of cotton have improved. However, the confidence of spinners and consumers must be restored before that happens.

The delegate of ARGENTINA stressed that government measures that distort production and trade prevent low prices from affecting production in some countries. He noted that market distortions are forcing lower production on only some producers. Mr. Estur added that there was a vicious circle whereby low prices were encouraging governments in some countries to support the income of cotton producers. In turn, those measures maintain overproduction of cotton. As a consequence, producers in countries not benefiting from any protection are at risk of bankruptcy.

The delegate of INDIA said that the weak market situation might persist because textile and apparel exports were affected by the slowdown of the U.S. economy.

3. Report of the 60th Plenary Meeting (Attachment III)

The executive director summarized Attachment III. He emphasized that the meeting had been a triumph of organization and hospitality and that the Organizing Committee deserved great credit for their work. He summarized the accomplishments of the plenary meeting and noted that the Advisory Committee had directed the Standing Committee to establish a Working Group on Government Measures under the direction of the Chair of the Standing Committee.

a. Formation of a Working Group on Government Measures.

The executive director read a draft memo prepared by the CHAIR to be sent to coordinating agencies calling on member governments to appoint representatives to the Working Group on Government Measures.

The CHAIR said that in his view, the Working Group should search for strategies to reduce and eliminate direct government measures that distort production and trade. He also said that the Working Group should look into the social evils that the present situation is creating in developing countries, including effects on living standards, employment and in many cases, effects on criminal rates.

The CHAIR asked for comments on the draft memo.

The delegate of ARGENTINA asked how the views of the Chair regarding the Working Group were related to the memo calling on governments to appoint representatives to the Working Group, and he asked who would serve as Chair of the Working Group.

The CHAIR responded that the views he expressed could be used to inform delegates as to the purpose of the Working Group. He verified that at least initially he would lead meetings of the Working Group but that the Working Group itself might elect Vice Chairs with competence in particular areas of specialization to lead other meetings. He emphasized that communications will take place via the Internet, taking advantage of Secretariat expertise, so it was important for governments to appoint representatives with access to the Internet.

The delegate of INDIA offered three comments on the draft memo. He suggested that the memo be changed to say "Membership of the Working Group shall consist of representatives appointed by their governments." He suggested that the memo should specify that the Working Group would utilize procedures specified for meetings in the Rules and Regulations of the ICAC, and he urged that the memo state clearly that expenditures in support of the Working Group should be kept to a minimum and be borne by participants or their governments.

The delegate of GREECE asked whether representatives to the Working Group must be from the government sector, and the CHAIR suggested that governments could nominate any persons with knowledge related to government measures in cotton.

The delegate of PARAGUAY wondered if the Working Group would have relevance if there were no progress on agriculture discussions in the WTO in November. The CHAIR responded that the Working Group will focus on issues specific to the cotton industry and would try to achieve a consensus on strategies to move discussions forward.

Seeing no other comments, the CHAIR found there was a consensus to approve the draft memo with the suggestions of the delegate of India, and he directed the Secretariat to distribute the memo.

- b. Formation of a Task Force on Contract Sanctity
- c. Formation of a Task Force on Biotechnology in Cotton
- d. Formation of a Task Force on Sound Industrial Policies

The executive director noted that it had been suggested by members of the Standing Committee in June that task forces be created on the subjects of contract sanctity and biotechnology in cotton. He noted that in each case the Standing Committee and the Advisory Committee had approved resolutions, and the

mission of each task force would be to look for ways to encourage governments to implement the recommendations contained in the resolutions. Regarding the subject of Sound Industrial Policies, the executive director noted that the Secretariat had been tasked with developing a report on this subject, and he asked that a task force be created to help guide the Secretariat in its work and to assist with implementation of recommendations.

The delegate of the PHILIPPINES asked if membership in the task forces would be limited to members of the Standing Committee, and the executive director confirmed that the task forces would be composed of members of the Standing Committee with an interest in these subjects.

The delegate of INDIA noted that the plenary meeting had not mandated the creation of task forces on these subjects and that it was not clear that task forces were needed on the topics of Contract Sanctity and on Sound Industrial Policies, both of which had been addressed at the last ICAC Plenary. He suggested that advice on each subject might be given to the Secretariat informally.

The delegate of BRAZIL asked for more information about the mission and procedures of each task force. He emphasized that he was not against the formation of the task forces but he felt he did not have enough information to move forward or to even comment knowledgeably on the proposals for their creation.

The CHAIR concluded that not enough information had been provided on the purpose and work plans for each task force and that additional work was needed before the proposals to create the task forces could be considered.

4. Other Matters

a. Review of Cotton Projects funded by the CFC (Attachment II)

The chair invited Dr. Rafiq Chaudhry of the Secretariat to present a report on the ICAC projects funded by the Common Fund for Commodities (CFC). Dr. Chaudhry stated that the CFC is an international intergovernmental organization based in Amsterdam. The Fund works with international commodity bodies representing both producing and consuming countries, and the ICAC was recognized as the ICB for cotton in October 1990. As an ICB, the ICAC is able to sponsor projects for funding from the CFC.

During the last ten years, nine cotton projects have been approved involving 26 countries. Twenty member countries of the ICAC have directly benefited from these projects. One of the constraints to the approval of projects is that some ICAC member countries are not members of the CFC. The nine cotton projects that have been approved are valued at \$51 million, of which 40% has been provided by the CFC in the form of grants and loans. Currently, cotton projects account for 16% of the CFC portfolio.

Dr. Chaudhry explained the procedure for seeking approval of new projects. Any country can submit new projects to the ICAC at any time, but proposals must meet the guidelines set by the CFC. The projects should not be institution building but must be international in scope and the results must be applicable to producers in many countries.

b. Quarterly Statement of Financial Position (Attachment IV)

The executive director presented Attachment IV. He called attention to the large number of countries that are more than one year in arrears in their contributions to the Secretariat, including three countries that are more than two years in arrears. He noted that countries that are more than two years in arrears are technically suspended from membership in the Committee but that efforts were ongoing to try to effect payment before the end of the fiscal year. He asked for delegates' assistance in communicating the need to remain current in the payment of assessments to the ICAC.

Seeing that no other matters required discussion, the CHAIR again thanked the delegate of India for the hospitality of his embassy and he adjourned the meeting at 11:45 AM.



INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee
Washington, DC

Attachment I to SC-N-456
October 24, 2001

World Cotton Situation

World cotton production is expected to increase by 8%, more than 1.5 million tons in 2001/02, to 20.8 million tons, the highest ever. World cotton consumption is expected to increase by only 0.4%, less than 100,000 tons, to 19.7 million tons. As a result, world stocks are expected to increase by 1.1 million tons to 9.75 million tons by July 31 2002. The anticipated excess of supply over demand has placed strong downward pressure on prices since the end of last year. International cotton prices, as measured by the Cotlook A Index, have declined steadily, collapsing from 66 cents per pound in mid-December to 36.1 cents per pound on October 23, a 45% decline. Over the last 28 years, cotton prices had never been as low.

Production in the Northern Hemisphere is expected to increase by 10%, or 1.7 million tons, to an estimated 19 million tons, approximately equal to the peak recorded in 1991/92. The three largest producing countries, China (Mainland), the USA and India are accounting for most of the increase in world production in 2001/02, with a combined increase of 1.4 million tons. No major changes in production are expected in Pakistan, Uzbekistan and Turkey. Francophone Africa and Syria anticipate reaching new records in output. In contrast, low cotton prices combined with more attractive soybean prices will likely reduce Southern Hemisphere production by an estimated 270,000 tons, or 12.5%, to 1.9 million tons in 2001/02. Most of the reduction will occur in Brazil, where production is forecast to decline by 150,000 tons. Altogether, an average world yield of 614 kilograms per hectare is expected on 34 million hectares.

With harvest in the Northern Hemisphere starting, concern has now turned to the decelerating world economy, the global political developments of September 2001 and their impact on the world's textile industry. Economic activity slowed markedly in the first half of 2001, particularly in the United States. With slowing world economic growth, commodity prices weakened significantly. So far, world economic performance in the second half of 2001 has been no weaker than in the first half but cotton consumption does not appear to be as strong as it was a year ago. The fall-2001 projections by the IMF, released on September 26th, suggest that the world economy will likely grow by 2.6% in 2001 and 3.5% in 2002. These projections do not incorporate the impact of the attacks on the USA on September 11. Nonetheless, the IMF noted that it was too late in the year for the attacks to have significant influence on economic growth this year, but that economic growth in 2002 was likely to be somewhat lower than the forecast. Nonetheless, assuming better world economic performance in early 2002, as the IMF suggests, world cotton consumption could increase to 19.7 million tons in 2001/02 and to 20 million tons in 2002/03.

One of the most important factors explaining low prices last season was the fact that China (Mainland) remained a net exporter for a third consecutive season. In spite of official prices for existing stocks, which are above international prices, the stock-reduction policy by China (Mainland)'s government remains in effect this season. China (Mainland) is now expected to import 150,000 tons in 2001/02 and to maintain exports around 100,000 tons. World exports are now forecast to increase by 400,000 tons, to 6.1 million tons in 2001/02, 29% of projected world production. The USA will take the lion's share of the increase, 34% of world exports, up from 26% last season. U.S. exports are expected to increase by 600,000 tons, or 40%, to reach a record of 2.1 million tons in 2001/02, 47% of expected U.S. production. Exports from Francophone Africa are expected to rise by over 100,000 tons to 800,000 tons, whereas Australian and Uzbekistan exports are expected to decline.

World cotton imports as a share of world consumption are estimated at 31% in 2001/02, two percentage points higher than last season. Indonesia is expected to remain the largest importer of raw cotton in 2001/02, with more than half a million tons. Other major importers will be India, Turkey and Mexico with less than 400,000 tons each. Brazil and Pakistan are forecast to remain net importers.

World ending stocks declined in 2000/01 for the third consecutive season to a six-year low of 8.65 million tons. The decline in world ending stocks was reflected in the 4-cent increase in the season-average Cotlook A Index to 57 cents per pound in 2000/01. The world stocks-to-use ratio is forecast to increase from 44% last season to 49% in 2001/02. The burden of ending stocks will continue to shift from China (Mainland) to other

countries, mainly to the USA. Stocks in China (Mainland) are expected to decline by 200,000 tons, to 2 million tons, compared with 4.3 million tons at the end of 1997/98. In contrast, ending stocks outside China (Mainland) will increase by 1.2 million tons, to 7.6 million tons, bringing the stocks-to-use ratio to 52%, up from 44% last season and 39% in 1999/00. This would be the highest ratio since 1985/86. In spite of exports forecast to exceed domestic consumption, the U.S. carryover is expected to rise by 500,000 tons to 1.8 million tons at the end of 2001/02, pushing the stocks-to-use ratio from 38% to 47%, a sixteen-year high. As a result, New York nearby futures fell from 67 cents per pound in December 2000 to below 30 cents per pound in October 2001, exacerbating the downward pressure on international prices.

International cotton prices will remain mired well below the long-term average for the fourth consecutive season in 2001/02. Supply and demand estimates suggest that the Cotlook A Index will average 46 cents per pound in 2001/02 and 47 cents in 2002/03. The projected average for this season is 11 cents, or 20%, lower than in 2000/01, and the lowest since 1972/73. The Cotlook A Index averaged 42 cents per pound in 1972/73 and 49 cents per pound in 1985/86. Prices remained below 40 cents per pound from 1952/53 to 1972/73. In real terms, the deflated Cotlook A Index is about 69% lower than in 1972/73. The deflated average revenue per hectare, estimated at \$615 per hectare this season, will be about 53% lower than in 1972/73, despite an improvement in yield of more than 50% over the period. The collapse of cotton prices has catastrophic consequences for producers and exporters, especially in the developing countries. The 30-cent drop in cotton prices over the last ten months translates into a \$13.7 billion reduction in the aggregate value of world production in 2001/02. However, the decline will benefit consumers and will contribute to increased cotton use in 2002.

The downward pressure on prices is unlikely to ease in the coming weeks, barring a dramatic revision in the current production estimates for 2001/02. Producers who were reluctant to sell at a loss before harvest have no other choice now. Cotton consumption will eventually be stimulated by the historically low prices. According to research on textile demand by the Secretariat, a decline in cotton prices of 20% translates, on average, into a 1%-increase in world cotton use. Low cotton prices have already improved significantly the profitability of the spinning sector and the competitiveness of cotton fiber. Yarn export prices and polyester fiber prices are at about the same level in October as last December, while cotton prices dropped by 45% during the same period. However, if the economic slump affecting the world's biggest economies at the same time were to worsen into a recession, cotton consumption would suffer. The attacks in the U.S. are likely to have an adverse impact on business and consumer confidence, deepening the economic downturn and postponing recovery.

SUPPLY AND DISTRIBUTION OF COTTON

October 23, 2001

Years Beginning August 1

	1997	1998	1999	2000 Est.	2001 Proj.	2002 Proj.
Million Metric Tons						
BEGINNING STOCKS						
WORLD TOTAL	9.456	9.915	9.874	9.014	8.65	9.75
CHINA (MAINLAND)	4.002	4.299	4.130	2.820	2.20	2.15
USA	0.865	0.846	0.858	0.854	1.31	1.87
NET EXPORTERS	3.920	4.022	4.143	4.388	4.57	5.63
NET IMPORTERS 1/	5.536	5.893	5.731	4.626	4.08	4.12
PRODUCTION						
WORLD TOTAL	20.037	18.685	19.070	19.264	20.84	20.03
CHINA (MAINLAND)	4.602	4.501	3.829	4.420	4.95	4.58
USA	4.092	3.030	3.694	3.742	4.37	3.83
INDIA	2.686	2.805	2.652	2.297	2.58	2.67
PAKISTAN	1.561	1.494	1.911	1.802	1.79	1.68
UZBEKISTAN	1.139	1.000	1.128	0.963	1.00	1.02
TURKEY	0.838	0.871	0.791	0.880	0.90	0.92
OTHERS	5.120	4.984	5.064	5.160	5.25	5.32
CONSUMPTION						
WORLD TOTAL	19.338	18.872	19.780	19.653	19.74	19.99
CHINA (MAINLAND)	4.700	4.600	4.800	5.000	5.05	5.13
INDIA	2.760	2.781	2.939	2.873	2.95	2.99
EU, C. EUR. & TURKEY	2.579	2.269	2.449	2.415	2.45	2.48
USA	2.471	2.265	2.230	1.934	1.81	1.77
EAST ASIA & AUSTRALIA	1.922	1.997	2.127	2.100	2.07	2.05
PAKISTAN	1.543	1.625	1.700	1.750	1.80	1.85
BRAZIL	0.783	0.822	0.885	0.900	0.90	0.92
CIS	0.438	0.442	0.542	0.632	0.68	0.72
OTHERS	2.142	2.071	2.109	2.049	2.04	2.09
EXPORTS						
WORLD TOTAL	5.959	5.465	6.157	5.729	6.12	6.23
USA	1.633	0.946	1.470	1.472	2.07	1.96
UZBEKISTAN	1.050	0.900	0.900	0.800	0.69	0.69
FRANCOPHONE AFRICA	0.836	0.839	0.854	0.679	0.79	0.88
AUSTRALIA	0.575	0.660	0.696	0.834	0.60	0.69
GREECE	0.187	0.249	0.300	0.234	0.26	0.26
ARGENTINA	0.217	0.244	0.079	0.091	0.07	0.06
CHINA (MAINLAND)	0.006	0.148	0.368	0.096	0.10	0.10
IMPORTS						
WORLD TOTAL	5.746	5.421	6.070	5.638	6.12	6.24
EAST ASIA & AUSTRALIA	1.793	1.977	2.051	1.992	2.10	2.00
EU, C. EUR. & TURKEY	1.698	1.396	1.666	1.425	1.49	1.46
SOUTH AMERICA	0.575	0.465	0.533	0.314	0.41	0.40
CIS	0.263	0.253	0.316	0.368	0.37	0.37
CHINA (MAINLAND)	0.402	0.078	0.030	0.053	0.15	0.40
TRADE IMBALANCE 2/	-0.213	-0.044	-0.088	-0.091	0.00	0.00
STOCKS ADJUSTMENT 3/	-0.027	0.190	-0.062	0.114	0.00	0.00
ENDING STOCKS						
WORLD TOTAL	9.915	9.874	9.014	8.648	9.75	9.78
CHINA (MAINLAND)	4.299	4.130	2.820	2.197	2.15	1.90
USA	0.846	0.858	0.854	1.307	1.80	1.91
NET EXPORTERS	4.022	4.143	4.388	4.568	5.58	5.85
NET IMPORTERS 1/	5.893	5.731	4.626	4.080	4.17	3.94
ENDING STOCKS/USE 4/	0.41	0.40	0.39	0.44	0.52	0.55
COTLOOK A INDEX 5/	72.20	58.90	52.80	57.20	46*	47*

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

2/ 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.

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

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

5/ U.S. Cents per pound. The estimates for 2001/02 and 2002/03 are based on net China (Mainland) trade and world-less-China (Mainland) ending stock-to-use ratio.

*/ 95% confidence interval extends 12 cents above and below the point estimate.



INTERNATIONAL COTTON ADVISORY COMMITTEE

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Washington, DC

Attachment II to SC-N-456
October 2, 2001

ICAC- CFC Relationship and Cotton Projects

The Common Fund for Commodities (CFC) is an international intergovernmental organization based in Amsterdam, Netherlands. The CFC started functioning in 1989, and the 48th and 49th Plenary Meetings of the ICAC discussed the association between the ICAC and the CFC and adopted resolutions governing the relationship. On October 19, 1990, the ICAC was designated as the international commodity body for cotton with the CFC. As an International Commodity Body, the ICAC is eligible to submit projects to the CFC for funding.

The Standing Committee of the ICAC adopted criteria and procedures for the appraisal of projects to be submitted to the Common Fund in May 1991. The criteria were revised in December 1992. The CFC has prepared a manual for the preparation of projects. The current edition was published in May 2000 and includes revisions based on experiences from early projects.

ICAC-CFC Projects

Nine cotton projects have been approved since the ICAC was recognized as the international commodity body for cotton:

1. Cotton Production Prospects for the Next Decade
(Brazil, China (Mainland), Egypt, India, Mali, Mexico, Pakistan, Tanzania and Uzbekistan)
Project Executing Agency: The World Bank
2. Integrated Pest Management for Cotton
(Egypt, Ethiopia, Israel and Zimbabwe)
Project Executing Agency: The Israeli Cotton Production and Marketing Board Ltd.
3. Integrated Pest Management of the Cotton Boll Weevil in Argentina, Brazil and Paraguay
(Argentina, Brazil and Paraguay)
Project Executing Agency: National Service for Phytosanitary and Agro Food Quality, Argentina
4. Genome Characterization of Whitefly-Transmitted Geminivirus of Cotton and Development of Virus-Resistant Plants Through Genetic Engineering and Conventional Breeding
(Pakistan, UK and USA)
Project Executing Agency: National Institute for Biotechnology and Genetic Engineering, Pakistan
5. Improvement of the Marketability of Cotton Produced in the Zones Affected by Stickiness
(CIRAD-CA, France and Sudan)
Project Executing Agency: The Sudan Cotton Company Ltd.
6. Sustainable Control of the Cotton Bollworm *Helicoverpa armigera* in Small-Scale Cotton Production Systems
(China (Mainland), India, Pakistan and UK)
Project Executing Agency: Natural Resources International Ltd. UK
7. Improvement of Cotton Marketing and Trade Systems in Eastern and Southern Africa (Uganda and Tanzania)
Project Executing Agency: United Nations Office of Project Services
8. Resistance Management of *Helicoverpa armigera* to Pyrethroids in West Africa (Approved as a Fast Track project)
(Benin, Burkina Faso, Côte d'Ivoire, Guinea, Mali, Nigeria, Senegal and Togo)
Project Executing Agency: Institut de l'Environnement et de Recherches Agricoles, Burkina Faso

9. Pilot Project on Price Risk Management for Cotton Farmers
(Tanzania, Uganda and Zimbabwe)
Project Executing Agency: The Cotton Company of Zimbabwe Ltd.

The total cost of the nine projects is US\$51.8 million out of which the CFC has contributed US\$21.3 million as grants (US\$15.6) and loans (US\$5.6). CFC/ICAC projects not only bring new funding to cotton research but also encourage many countries to contribute additional resources in the form of co-funding and counterpart contributions. The CFC-ICAC collaboration has brought many countries together to work on problems which otherwise may have been addressed separately, and thus less effectively, in individual countries. Through CFC-ICAC projects, some institutions and countries have developed partnerships that continue after projects have expired.

Need for New Projects

26 countries have benefited directly from the nine cotton projects to date. Out of the 26, 20 countries are members of the ICAC. As of May 2001, the CFC had approved 96 full projects and 20 fast track projects in all commodities. Out of nine cotton projects from the CFC, four projects have already been completed thus reducing the on-going CFC/ICAC cotton projects to only five. As of January 2001, cotton projects comprised 16% of the CFC overall portfolio. About four years ago, cotton projects comprised about 23% of the overall portfolio of CFC projects. Countries are encouraged to develop new projects and to send proposals to the ICAC secretariat.

Project Approval Process

Under the procedures formulated by the CFC, project proposals should be submitted to the ICAC Secretariat using a standard format that is presented in the Common Fund's manual edition no. 3. The manual is available from the CFC and well as from the ICAC Secretariat.

Projects are reviewed by the ICAC Secretariat to ensure proper format for submission to the Common Fund. The Standing Committee of the ICAC approves projects before they are submitted to the Fund. The Fund secretariat also reviews projects before taking them to their Consultative Committee. The Consultative Committee of the CFC considers in detail all technical aspects of project proposals and makes recommendations for final approval by the Executive Board.

The project can be submitted to the ICAC as a full project or as a pre-proposal. The ICAC Secretariat has devised guidelines for preparation of pre-proposals. The ICAC Secretariat is also ready to work with countries to revise projects and to help put projects in a format acceptable to the CFC. Projects can be prepared on any aspect of cotton production research, processing and marketing and can be submitted to the ICAC Secretariat at any time.

Once a project has been recommended by the Consultative Committee of the CFC and approved by the Executive Board of the CFC, collaborators start activities after initial paper work has been completed. The project executing agency (PEA) located in one of the collaborating countries is responsible for the work to be undertaken in the project. The ICAC Secretariat serves as the supervisory body for all CFC-ICAC projects.



INTERNATIONAL COTTON ADVISORY COMMITTEE

1629 K Street NW, Suite 702, Washington, DC 20006 USA

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Guidelines for Preparation of Preproposals for Submission to the Common Fund for Commodities

Please provide information under all headings. If required, add additional sections at appropriate places. Research data, charts and references are welcome if required to support the project theme. The preferred length of a preproposal is 6,000 to 7,000 words excluding tables and charts.

Title:

Countries:

Project Executing Agency:

(Include name of the person responsible for execution of the project and complete address of the institution along with phone, fax and email address)

Main Theme of the Project:

(Define briefly the issue/problem and its possible solution)

Current Status of Work on the Issue:

Project Duration:

Expected Starting Date:

Collaborators:

(List all national and foreign collaborating institutions)

Country A

1. Name of Head of the institute/organization
2. Name of the key researcher who will work on the project
3. Complete address of the institution with phone, fax and email address
4. Briefly describe the expertise available in the relevant field

Country B

- 1.
- 2.
- 3.
- 4.

Project Design:

(Describe the mode of project implementation and coordination among various collaborators)

Role of Individual Collaborators:

(Who will be doing what?)

Total Cost of the Project:

(Provide estimated cost in the following form, it is understood that these estimates are not commitments from any agency)

Total Cost = US\$

Grant requested from the CFC = US\$

Country A = US\$

Country B = US\$

Loan from CFC = US\$

Country A = US\$

Country B = US\$

Co Financing = US\$

Country A = US\$

Country B = US\$

Counter part contribution = US\$

Country A = US\$

Country B = US\$

Note: Mention if something has already been secured

Objectives and Rationale:

(List the objectives clearly followed by their solution)

Objective No. 1

Work to be done:

Expected Output:

Objective No. 2

Work to be done:

Expected Output:

Objective No. 3

Work to be done:

Expected Output:

Application of Project Results and Beneficiaries:
(Potential benefits of the project findings)

Limitations to Undertaking Such a Project/Research at National Level:

Economic Impact of Project Findings:



INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee
Washington, DC

Attachment III to SC-N-456
October 18, 2001

Report on the 60th Plenary Meeting

The 60th Plenary Meeting was held in Victoria Falls, Zimbabwe, during 16-21 September 2001. The theme of the meeting was "Cotton – An African Renaissance." Representatives from 27 member countries, five international organizations and 12 non-member countries attended the meeting.

There were a total of 225 registered participants, including 77 who paid the observer registration fee and 29 who were given complimentary registration (speakers, members of the Private Sector Advisory Panel, heads of delegations of non-member countries and international organizations, and members of the Zimbabwe host committee). In addition, there were 8 members of the Secretariat, 5 interpreters and approximately 39 unregistered accompanying persons, for a total participation in the meeting of about 280. Participation in 2000 totaled about 100 persons more, with most of the difference being attributable to the travel disruptions resulting from the attacks in the USA on September 11. Approximately 25 people from the USA were registered in advance to attend the meeting, including nine members of the Standing Committee, but out of the 25 only one member of the Standing Committee was able to attend. In addition, delegates from nine member countries who had registered did not attend. The fact that participation in the 60th Plenary Meeting was as high as it was despite the difficulties is because of strong efforts by the host committee to encourage participation from African countries and a constructive agenda with topics of specific interest to segments of the cotton industry.

Election of Officers: the Advisory Committee ratified the election of Mr. Alfonso Liévano of Colombia as Chair of the Standing Committee, Mr. Ajai Malhotra of India as First Vice Chair, and Ms. Chigozie Obi-Nnadozie of Nigeria as Second Vice Chair.

Good Trade Practices: the Committee approved the recommendation from the Standing Committee that the ICAC urge member governments to: encourage good trade practices and support the principle of the sanctity of contracts, and to encourage their industries to abide by both the spirit and the letter of arbitration arrangements, and make valid arbitral awards enforceable under member countries' laws.

Government Measures: the Advisory Committee also approved a resolution based on recommendations from the Standing Committee that the ICAC urge member countries to: adopt policies to reduce and eventually eliminate the negative effects on trade caused by direct government assistance to cotton production and trade implemented by some countries, and to encourage the WTO to urgently consider trade distortions on the world market caused by measures taken by some governments, and to advise their WTO negotiators to move forward with constructive proposals to reduce the trade and production distortions caused by policies implemented by some governments. The Committee agreed to the establishment of a Working Group under the direction of the Chair of the Standing Committee with the mission of identifying effective strategies to reduce and eventually eliminate the negative effects on trade caused by direct government assistance to cotton production and trade. The Working Group will report on progress made by countries on the reduction and eventual elimination of such trade distorting practices prior to the 61st Plenary Meeting in 2002.

Genetically Engineered Cotton: the Committee acknowledged that a preponderance of available evidence suggests that the use of genetically engineered (GE) cotton varieties is safe, and that governments have an interest in promoting regulation of biotechnology in cotton based on sound science. It was noted in the technical session that small farmers with low yields due to poor pest control stand to benefit the most from the adoption of GE varieties, though the cost of GE technology may be prohibitive to smallholders.

Investment Policies: the Committee received reports on how best to encourage improvements in cotton quality through improvements in cotton ginning and how to expand mill use of cotton in developing countries. The primary recommendation in each report was to encourage member countries to eliminate barriers to imports of machinery and replacement parts used in ginning and cotton spinning. The Committee instructed the Secretariat to consider the implications of this recommendation and to report the results to the Standing Committee. The Committee directed that a project or study be completed to advise and assist member countries, in particular developing member states, in the development and implementation of sound industrial policies that result in and promote increased domestic consumption of cotton through value added processes or programs.

Ginning Methods: the Committee received a report from its Expert Panel on Ginning Methods. The Expert Panel recommended that governments work to revise cotton standards to reflect spinning qualities valued by the textile industry, and the Expert Panel urged governments to ensure that training opportunities are available to managers and employees of gins to ensure that best practices are widely known and followed. The Committee instructed the Secretariat to provide guidance on how these recommendations could best be implemented.

Cotton Contamination: the Committee also heard of successful programs to reduce contamination of cotton in regions where labor-intensive harvesting methods are used. These programs include the distribution of educational material to farmers and ginners, efforts to discourage the use of polypropylene bags in the harvesting process by providing farmers with alternative bags, coupled with the enforcement of price penalties for the delivery of contaminated cotton, and the use of internal checks at gins. The Committee recommended that cotton industries in all countries consider the implementation of similar programs.

Integrated Crop Management: the Committee discussed methods to improve productivity and quality and reduce costs through integrated crop management practices. The seminar proposed ways in which the latest technological developments could be applied economically by smallholders, including group farming and cluster/cooperative farming. The Committee will hold the 2002 Technical Seminar on the topic "Technology, Management and Processing for Quality Fiber."

Future Meetings: it was agreed that the 61st Plenary Meeting of the Committee will be held in Cairo, Egypt, during October 20-25, 2002 and the 62nd Plenary Meeting will be held in Poland during September 7-12, 2003.

Implementation of Recommendations and Instructions

The Standing Committee has been tasked by the Advisory Committee with establishing a Working Group on Government Measures under the direction of the Chair of the Standing Committee.

[It should also be remembered that following the Round Table discussion with the Private Sector Advisory Panel in June 2001 in Washington, members of the Standing Committee suggested the formation of task forces on Contract Sanctity and Biotechnology in Cotton. The task forces will develop appropriate policies and strategies for ICAC involvement in these matters.]

The Secretariat has been charged by the Advisory Committee with working with coordinating agencies to:

- Promote good trade practices,
- Encourage regulation of biotechnology in cotton based on sound science,
- Consider the implications of the recommendation to encourage member countries to eliminate barriers to imports of machinery and replacement parts used in ginning and cotton spinning, and

- Conduct a study of sound industrial policies that will result in increased mill use of cotton in developing countries,
- Provide guidance on how cotton standards can be revised to reflect spinning qualities valued by the textile industry,
- Provide guidance on how governments can best implement the recommendation that training opportunities be made available to managers and employees of gins, and
- Encourage countries to consider the implementation of programs to reduce cotton contamination

Procedures for Conduct of the Meeting

The 60th Plenary Meeting of the ICAC was extremely productive. Much of the success of the meeting was built upon the progress made in streamlining discussions and developing focused agendas at previous meetings in recent years. The adoption of resolutions on policy matters by the Standing Committee for discussion and adoption by the Advisory Committee contributed to the productivity of the meeting. Breakout sessions broadened the subject matter content of the plenary meeting, and several delegates expressed appreciation for the conduct of the breakout sessions.

No delegates voiced objection to the requirement that copies of statements of more than five minutes in length, for delivery during plenary or open sessions, should be provided to the Secretary General in advance to facilitate the scheduling of discussions and interpretation services. Likewise, there seems to be general acceptance of the rule that oral country statements are limited to five minutes, with the provision that full statements are distributed to all delegates and are published in the proceedings.

Regarding country statements, only three countries provided statements to the Secretariat prior to September 1, 2001 for inclusion on a CD that was to be given to all delegates. The Secretariat will again prepare a CD in 2002 with all Secretariat documents, and as many country statements and presentations as possible prior to the meeting in Cairo. A CD with all documents will substantially reduce printing costs and the volume of paper to be hauled home from Cairo. The Secretariat will establish a due-date for the inclusion of country statements and papers on the CD in 2002, and coordinating agencies will be encouraged to submit country statements in advance of that date.

Several delegates noted that too much time was allocated for lunch each day (two hours) and that tighter scheduling would provide more time for discussions. Some delegates noted that the sessions on Friday morning are essentially ceremonial and expressed an interest in trying to conclude the meeting on Thursday night. However, such a change would be difficult to implement because of the logistics of approving the final statement of the meeting and the report of the technical committee. The Secretariat will propose instead to make fuller use of time on Friday morning.

Summary

The 60th Plenary Meeting was highly successful, and the Zimbabwe Organizing Committee deserves much credit for their resiliency in hosting the meeting under difficult circumstances. The Standing Committee and the Secretariat have a full work program based on instructions from the 60th Plenary Meeting, indicating that the Committee is fulfilling its mission to assist governments in fostering improvements in the world cotton economy.



INTERNATIONAL COTTON ADVISORY COMMITTEE

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September 28, 2001

Mr. Mike Moore
Director-General
World Trade Organization
154 rue de Lausanne
1211 Geneva 21
Switzerland

Dear Mr. Moore:

I have the honor to inform you of recent deliberations by Member Governments of the International Cotton Advisory Committee (ICAC) during its 60th Plenary Meeting in Victoria Falls Zimbabwe during 16-21 September. In its Statement, the ICAC said,

“The subject of government measures that distort production and trade in cotton is of concern to many governments. A number of member governments noted that trade barriers and subsidies in some countries contribute to price volatility and impact adversely the level of cotton production in other countries. Member governments noted that barriers to trade in cotton and cotton textiles hinder economic development, and a number of governments expressed the view that subsidies lower world cotton prices and cause the burden of adjustment to lower cotton prices to fall heavily on producers in countries with limited or no government support. The Committee expressed appreciation for the ongoing efforts made by the EU to reduce subsidies that distort cotton production, and noted that cotton area in the EU is being affected accordingly. Nevertheless, it was noted that distortions appear to have the effect of increasing the area planted to cotton in countries enjoying forms of support while the area planted to cotton is falling in countries where there is no such support. Therefore, the ICAC urges member countries to:

Adopt policies to reduce and eventually eliminate the negative effects on trade caused by direct government assistance to cotton production and trade implemented by some countries, and to

Encourage the WTO to urgently consider trade distortions on the world market caused by measures taken by some governments, and to

Advise their WTO negotiators to move forward with constructive proposals to reduce the trade and production distortions caused by policies implemented by some governments.”

A copy of the full Statement of the 60th Plenary Meeting and a current list of members of the ICAC are included for your convenience.

Accept, Mr. Moore, the assurances of my highest consideration.

Sincerely,

Terry P. Townsend
Executive Director



INTERNATIONAL COTTON ADVISORY COMMITTEE

Standing Committee
Washington, DC

Attachment IV to SC-N-456
October 24, 2001

QUARTERLY STATEMENT OF FINANCIAL POSITION Beginning Balance, Receipts and Disbursements of ICAC as of Sept 30, 2001

	July 01-Sept-01	Budget 2001/02
Beginning Balance	\$605,488	
Receipts:		
Assessments:		
Current year	314,400	1,301,100
Prior years	78,550	
Year in Advance		
Revenue linked to Business Plan	40,671	73,100
Interest Income	2,695	20,228
Total Receipts	436,316	1,394,428
Disbursements:		
Salaries and Benefits	279,361	927,300
Salaries	159,730	639,000
Benefits	119,631	288,300
Pension Contributions	36,178	147,000
Other Benefits	83,453	141,300
Search Committee		0
Travel and Subsistence	29,518	73,000
Occupancy	13,393	81,000
Other Expenses	158,795	313,080
Training and Support	35,119	40,000
Communications	7,491	52,530
Office Expense	27,522	73,988
Printing	18,367	33,802
Language Services	70,296	112,760
Disbursements linked to Business Plan	1,992	
Total Disbursements	483,059	1,394,428
Excess (Deficiency) of Receipts over Disbursements	(46,743)	
Ending Balance	558,745	
Working Fund	179,745	
Reserve Fund	379,000	

ICAC Business Plan Revenue

Year	2000-01	2001-02
1. Pay-per-View		
2. Subscription Sales	73,987	11,746
3. Partnerships on the Web		5,000
4. Plenary - Registration Fees	40,950	23,925
. Advance Plenary Registration Fees	3,150	
5. Travel Cost Recovery	15,407	
6. CFC Travel Cost Recovery	1,514	
7. Trade Booths	9,449	
8. Research Assoc. Prog. Tuition	3,500	
9. Research Services	3,600	
 Revenue linked to Business Plan	 151,557	 40,671
Less base publication sales	(53,605)	
Less base Plenary Registration Fees	(19,500)	
Less disbursements linked to Business Plan:		
Travel cost Recovery (self-allocation)	16,921	
Pay-per-View Expenses	7,000	
Marketing Expenses	6,000	(29,921)
 Amount Available for Allocation	 48,531	

Expenditures Linked to Business Plan Initiatives

	2001-02
Fiber Consumption Survey	
Regional Technical Conferences	
Membership Development – SCM Travel	1,992
Training Scholarships	
Quality Research Awards	
 Total Expenditures	 1,992
 Amount after expenditures	 46,539

Uncollected Assessments of Member Governments of ICAC
as of Sept 30,2001

Country	Current Year 2001/02	Prior Years 2000/2001	Prior Years 1999/00	Prior Years 1998/99
Argentina	31,000			
Belgium	18,000			
Bolivia	13,400	12,700	12,800	9,630
Brazil	50,200	48,000	572	
Cameroon	18,800			
Chad	19,900			
Colombia	16,000			
Cote d'Ivoire	23,200	20,200	20,100	
Egypt	20,900			
France	22,400			
Greece	34,700	31,800	32,100	
Iran	13,500	12,600		
Israel	16,400			
Italy	43,500			
Mali	31,100	27,800		
Netherlands	12,600			
Nigeria	15,000	13,000		
Pakistan	24,100	25,200	966	
Paraguay	18,500			
Philippines	17,300	16,300	600	
Poland	18,800			
Russia	33,400	28,700		
Spain	22,900			
Sudan	18,700			
Tanzania	9,200			
USA	151,300			
Uzbekistan	106,400	44,400		
Total	821,200	280,700	67,138	9,630