

**REPORT
of the
EXECUTIVE DIRECTOR**

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to the 62nd Plenary Meeting of the
**INTERNATIONAL COTTON
ADVISORY COMMITTEE**

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Mr. Chairman, distinguished delegates to the 62nd Plenary Meeting, observers and guests, thank you for this opportunity to address this plenary meeting of the ICAC.

Structural Change Ongoing

The world cotton industry faces many challenges, including a downward shift in average prices, declining per capita consumption outside the United States, refinements in textile machinery that require higher quality cotton, environmental concerns, resource constraints and distortions to production and trade caused by government measures. It is the role of the ICAC to facilitate constructive change to industry challenges. The mission of the ICAC is to assist governments in fostering a profitable and healthy world cotton economy. The ICAC achieves this mission by raising awareness of critical issues, by providing statistical and scientific information and by facilitating cooperation in solving common problems. The ICAC was formed in 1939 at an international cotton meeting, and for more than 60 years, the Committee has served governments and the world cotton industry as a source of timely, market-relevant statistics and scientific information and as a catalyst for international cooperation.

The world cotton industry is in the midst of a prolonged downward shift in average prices. Year-to-year changes in cotton production are determined by marginal production costs, and marginal costs are falling to 50 cents per pound of lint or less because of the expansion of new producing areas and advances in technology that are resulting in rising yields and lower costs. The consequence is higher world production at each price level, resulting in lower average prices compared with the 1970s, 1980s and 1990s. Average prices are likely to be between 50 and 60 U.S. cents per pound most years this decade, 10 to 20 cents per pound lower than the average of the last thirty years.

Another challenge for the cotton industry is declining per capita consumption. Retail level demand for cotton is rising, but mainly because cotton prices are below average, thus slowing the rate of substitution of polyester for cotton; unfortunately, the fundamental or underlying demand for cotton linked to rising incomes and shifts in consumer preferences in favor of cotton is not strengthening worldwide.

The cotton industry is changing to meet the challenges posed by falling average prices and declining per capita consumption. The agenda of this 62nd Plenary Meeting is designed to assist national cotton industries in responding to current developments with constructive remedies.

Government Measures Distort

While all challenges are important, perhaps none is timelier than the challenge of developing a constructive approach to the problem of distortions to cotton production and trade caused by government measures. Government measures that insulate producers from variations in market prices lead to increased levels of production and lower prices for all producers. Direct income and price support provided to the cotton industry in 2001/02 was \$5.8 billion worldwide, equivalent to more than one-fourth of the value of world cotton production. Government support for cotton production is estimated at \$3.8 billion in

2002/03, equivalent to about one-sixth of the value of world production.

The venue for the negotiation of reductions in government measures that distort cotton production and trade is the World Trade Organization (WTO). An agreement to reduce subsidies that distort production and trade in agriculture will not be easy. Many countries provide support to an estimated 160 agricultural commodities besides cotton. The issue of agricultural support is complicated by the existence of state trading organizations, the use of export credits and credit guarantees, tariffs and tariff rate quotas on agricultural products, food aid and other agricultural issues. Further, many countries impose tariffs on textile and apparel products, and the quotas under the Multi Fiber Arrangement (MFA) are still being phased out. Therefore, the negotiations to reduce government measures in cotton involve complex tradeoffs, and the mechanism to achieve reductions in trade distorting subsidies and tariffs is the talks on agriculture in the WTO.

The ICAC has a role in the WTO process. Reports from the Secretariat inform governments about the nature and scope of distortions in cotton caused by government measures, and discussions in the ICAC help to raise the profile of cotton and emphasize the need to reduce government measures that distort production and trade. The ICAC has a long history of articulate statements on the need for substantial progress toward agricultural trade liberalization. Country statements provided during the Second Plenary Sessions and discussions during the Third Plenary Session will provide additional opportunities to share information and encourage a successful outcome to the talks on agriculture in the WTO.

Demand Enhancement

Issues associated with demand enhancement will receive substantial emphasis during this plenary meeting. Demand enhancement is crucial to the long term strategic success of the cotton industry, and the experience of the USA demonstrates empirically that it is possible to raise consumer awareness of fiber content, strengthen consumer impressions of the positive attributes of natural fibers and encourage technical change and fashion trends favorable to increased cotton use.

The role of the Secretariat in demand enhancement is to provide objective information on cotton consumption at the mill and retail levels and to facilitate the work of national cotton industry bodies in providing positive information about cotton to consumers. The Secretariat will report on the outlook for cotton mill use during the First Plenary Session, and there will be a report during the First Open Session on cotton's share of world fiber mill use based on a study completed in cooperation with the Food and Agriculture Organization of the UN during the past year. The fiber demand study at the retail level using data on net trade in cotton textiles and apparel is very important to the understanding of changes in the structure of cotton demand, and I want to thank the Commodities and Trade Division of FAO for their assistance with this project.

I am also highly encouraged by the growth of the International Forum for Cotton Promotion and the hiring of a consultant to further the work of the IFCP. The IFCP represents a new approach to demand enhancement work based on national programs, funded from

domestic sources, led by the private sector and focused on providing positive information to domestic consumers about the value of cotton. The creation of the IFCP was facilitated by the ICAC, consistent with our role in furthering cooperation in the cotton industry. I have great hope that by serving as a clearinghouse for proven techniques of cotton demand enhancement and by providing concrete examples of programs that can be easily replicated on a cost-effective basis, the IFCP can be instrumental in the development of additional national demand enhancement programs. I want to thank the organizations that have voted to join the IFCP for their vision and commitment to the cotton industry in supporting demand enhancement.

The First Open Session on using cotton blends to enhance product performance is of specific interest to spinners and will provide information about new developments in fiber technology to enhance the performance of cotton in blends, and information on appropriate end-use categories for cotton blends. The session will also feature a presentation from a representative of the IFCP on the need for fiber content labeling. There is ample empirical evidence that when consumers are aware of fiber content, they consistently choose cotton products. Thus, requiring fiber content labeling of products sold at retail is a foundational step in any cotton demand enhancement program.

Improvements in cotton quality and quality measurement are components of an overall strategy of improved industry competitiveness. The Second Open Session will focus on new possibilities in cotton quality evaluation. There will be presentations on measurements of short fiber content, stickiness and neps, and concrete information about the costs and logistics of establishing national instrument testing programs. As noted at the plenary meeting last year, instrument-based quality evaluation programs are superior to the traditional hand-classing methods, and producers need to establish instrument-based quality evaluation systems based on objective measurements of intrinsic spinning qualities of cotton because spinners demand such information. The objective of the Second Open Session is to assist countries in moving toward instrument-based quality evaluation programs as a means of improving cotton's competitiveness.

Good Trade Practices

A central function of governments is to provide for the rule of law, and the ICAC has endorsed the concepts of contract fulfillment and compliance with valid arbitral awards. Contract defaults are an important problem in the cotton industry. Evidence compiled from reports filed with members of the Committee for International Co-operation between Cotton Associations (CICCA) indicate that more than half of all valid international arbitral awards issued in relation to trade in cotton are not fulfilled. The Secretariat has been working for more than a year with the United Nations Commission on International Trade Law (UNCITRAL) and the Global Center for Dispute Resolution Research to measure the extent of the problem in cotton, to determine causes and to identify situations in which valid international arbitral awards are not enforceable under the laws of certain countries. Mr. Neal Gillen serves as the representative of the ICAC to UNCITRAL, and his services are much appreciated.

The Third Open Session this year will look at the problem of contract defaults in a new

perspective by focusing, not on dispute resolution through arbitration, but instead on dispute avoidance through minimizing quality controversies. Perspectives will be provided from member associations of CICCAs, and from representatives of textile mills and shippers. Together with the Second Open Session on quality measurement, the Third Open Session can provide information on improved ways of measuring and specifying cotton quality parameters in contracts to lead to increased efficiencies in cotton trading.

Technical Seminar

The meeting of the Committee on Cotton Production Research during the Fourth Open Session will be held on the topic of "The Effects of Advances in Processing Techniques on Demand for Quality Cotton." Ten speakers will describe efforts in their countries to improve cotton quality through breeding, new classing techniques, methods of handling sticky cotton, blending in lay downs to optimize quality, methods of providing incentives for reduced contamination, the link between cotton quality and yarn neps, and reports on new technologies used in cotton spinning.

Increased Secretariat Focus on Seminars

The Secretariat is engaged in a long list of projects. The Secretariat provides weekly, monthly and annual statistical reports on the world cotton situation, monthly reports on supply and demand of extra-fine cotton, and annual reports on government measures, changes in cotton supply, the demand for cotton, the structure of trade and developments with e-commerce. There are also quarterly technical reports on cotton research, and annual reports on cost of production, production practices and current research in cotton. During the past year, the Secretariat provided technical information about biotechnology in cotton. The Secretariat is editing a cotton-trading manual that will be published this year.

The Private Sector Advisory Panel (PSAP) met in Washington with the Secretariat and the Standing Committee in May. Part of the work of the PSAP was devoted to a review of all Secretariat publications for timeliness, impact, and relevance to the private sector. Recommendations from the PSAP are enabling the Secretariat to improve certain publications and discontinue those of little relevance. Savings in time spent on publications will be channeled toward additional seminars and workshops organized by the Secretariat in cooperation with coordinating agencies and Standing Committee delegates. I wish to thank Mr. Andrew Macdonald who serves as Chair of the PSAP, and all PSAP members for their support and assistance. As noted by the Chair of the Standing Committee, members of the PSAP serve at own expense to ensure that the work of the ICAC is relevant to the private sector, and their contributions are much appreciated.

As examples of a new emphasis on seminars and workshops, the Secretariat worked with the coordinating agency in Burkina Faso to conduct a workshop on price risk management in February and with the Standing Committee delegate from Russia to host a seminar on expanding opportunities for trade in cotton textiles in June in Washington. The Secretariat also joined with the coordinating agency in Uzbekistan to help organize an international cotton conference in Tashkent in November.

The Secretariat helped to organize regional technical network meetings, and assisted with the organization and conduct of the very successful World Cotton Research Conference – 3 (WCRC-3) held in Cape Town, South Africa in March 2003. Approximately 300 researchers from 40 countries participated in the conference. The meeting was highly successful in raising awareness of latest research results and encouraging higher standards in cotton technology transfer. Papers related to IPM, genetic engineering in cotton, improved classing standards and better methods of extension, were exceptional. Organizers in South Africa worked very hard to ensure that the WCRC-3 was a success.

The Secretariat worked on a project funded by the Common Fund for Commodities (CFC) to produce a compilation of Cotton Facts, and served as the Supervisory Body for CFC projects involving control of bollworm in Asia and Africa, a price risk management project in East and Southern Africa, and a warehouse receipts project in East and Southern Africa. The Common Fund has approved a total of ten cotton projects involving over \$20 million in grants and loans. The work of the CFC under Managing Director Rolf Boehnke is much appreciated.

Plenary Meetings

The purpose of a plenary meeting is to meet and move forward through agreements to cooperate and improve. Meetings are also for the exchange of information regarding the outlook for cotton supply, use and prices, changes in government measures affecting the cotton industry and reports from countries and organizations. The Organizing Committee has worked with the Secretariat and the Standing Committee to orient the agenda of this 62nd Meeting to focus on matters of broad concern to all segments of the world industry. It is a pleasure to be able to thank the members of the Gdynia Cotton Association (GCA) and the Government of Poland for their efforts in preparing for this meeting and for their hospitality.

New Members

I want to welcome delegates from non-member countries who are participating as observers. All participants in ICAC plenary meetings are fully welcome, and I hope you will consider joining the Committee. Membership in the ICAC is of value to all countries that produce, consume or trade cotton. Membership provides tangible benefits in the form of increased access to statistics and technical information provided by the Secretariat. Membership in the ICAC can lead to increased funding for cotton research through the Common Fund for Commodities. And, most importantly, membership in the ICAC provides the avenue for each cotton industry, including cotton textile industries, to join fully into the fraternity of cotton countries in discussions of cotton issues of international scope and significance.

Standing Committee

The Standing Committee functioned very efficiently during this past year. The Standing Committee took seriously the matter of the Secretariat budget and the need for all members to remain current in the payment of assessments. The decision by the Standing

Committee to support the work of the IFCP by allocating funds from the business plan to hire a consultant to promote cotton promotion is of significant strategic importance to the cotton industry. The Standing Committee and its officers this past year, Mr. Ajai Malhotra, Ms. Chigozie Obi-Nnadozie, Mr. Luc Devolder, and Mr. James Johnson deserve much credit for their work.

I thank member countries for the privilege of serving as executive director, and I look forward to a successful 62nd Plenary Meeting.