72nd Plenary Meeting of the
INTERNATIONAL COTTON ADVISORY COMMITTEE

MINUTES

FIRST PLENARY SESSION (continued)

Statements

16:15 hr. Monday, September 30, 2013
Chaired by Andres Felipe Garcia, Vice Minister of Agricultural and Rural Development, Colombia

1) After warm opening remarks, the Chair invited Mr. Alois Schönberger, Chair of the Private Sector Advisory Panel (PSAP) to deliver the report of the PSAP to the Plenary Meeting. Mr. Schönberger noted that the reserve policy of the Government of China has many impacts on the world cotton market: prices remain above average even though stocks are record high; prices of cotton are above those of competing fibers and cotton’s share of world fiber use is being negatively affected; market participants are not sure how long the current reserve policy will continue, thus adding uncertainty to the world market. The PSAP observes that disruptions to cotton marketing exacerbate problems of contract defaults and distort markets by causing imbalances between supply and demand, and defaults on contracts remain a significant problem in the world cotton industry. Such policies are rarely, if ever, imposed on chemical fiber trade. The PSAP urged governments to (1) ensure transparency in policies by informing all market participants of changes in policies and programs in a timely fashion; (2) avoid policies that disrupt markets as such policies often have unintended consequences which result in a weakening of the cotton value chain; (3) jointly with the cotton industry, strengthen efforts to enhance demand for natural fibers, including cotton; (4) ensure that valid international arbitral awards are automatically enforceable, as provided by the provisions of the New York Convention of 1958; (5) take heed of an annual report by The World Bank, “Doing Business,” and in particular to improve the procedures for enforcement of contracts in countries where contract enforcement is difficult, time consuming and expensive; (6) be aware of the list of firms reported to have failed to fulfill awards resulting from arbitrations conducted by CICCA Member Associations when determining eligibility for programs funded by governments; (7) avoid abrupt and retroactive application of trade distorting measures. The PSAP expressed concerns that membership of the EU in the ICAC on the basis of one country, paying one assessment, and exercising one voice or one vote with in the ICAC would restrict the participation of cotton industry bodies in the work of ICAC working groups.

2) The delegate of Taiwan reported that the Taiwanese textile industry is utilizing novel technology to produce high value-added and best-quality products. Taiwan's textile industry is now comprised of 4,375 textile manufacturers; and when combined with related companies, the industry now employs a total of 144,977 people. In each of the past 12 years, more than 70% of Taiwan's total textile production value was exported. At the same time, the textile industry has been shrinking. Between 2001 and 2012, the sector lost 1,132 manufacturers and employment in the sector fell by 67,620 people. Taiwan depends on imports for all of its raw cotton needs. Taiwan imported 210,000 tons of raw cotton in 2011 at a value of US$568 million. In 2012, cotton imports increased to 226,000 tons, while the value fell to US$417 million. The United States was the largest supplier of raw cotton to Taiwan in 2012, accounting for 40% of total imports by value, followed by Brazil (16%) and India (10%). Cotton yarn exports totaled 138,000 tons in 2012, up 33.6% from the 103,000 tons shipped in 2011. During the same period, the value of exports increased 5.0%, to US$388 million. Taiwan's textile industry is undergoing developments to innovate various high value-added materials as a means of creating product differentiation, focusing on functional applications, and promoting the use of eco-fibers. Taiwan and China formally signed the Economic Cooperation Framework Agreement (ECFA) on June 29, 2010, which took effect on September 12, 2010. The agreement enables Taiwan's textile industry to compete on equal terms with ASEAN countries in the China market and puts Taiwan's industry in a more favorable position when compared to other major international competitors. In addition, with the ECFA’s duty-free concessions, Taiwan textile producers should be able to remain highly competitive, making it possible for manufacturers to continue to use Taiwan as their base of operation as they seek to expand their exports.

3) The delegate of India explained that cotton is one of the most important commercial crops cultivated
in India. An estimated 5.8 million cotton farmers and 40-50 million people engaged in related activities such as cotton processing & trade earn a living out of the cotton industry. Cotton continues to be the dominant fiber in the Indian textile industry. In the raw material consumption basket of the industry, the ratio of the use of cotton to man-made fibers and filament yarns is 59:41. The textile industry contributes significantly to the Indian economy in terms of industrial output, employment generation and the export earnings of the country. It contributes about 4% to GDP, 14% to industrial production and 11% to the country's export earnings. The textile sector is the second largest provider of employment after agriculture. India is the second largest producer of cotton after China, and is also the second largest consumer of cotton after China. Approximately 62% of India’s cotton is produced on rainfed areas and 38% on irrigated lands. The acreage under Bt cotton accounted for around 88% of the total area of 11.76 million hectares in 2012/13. Cotton production amounted to 5.78 million metric tons and mill use (both organized and small scale spinning units) reached 4.54 million in 2012/13. With the weakening of the Indian Rupee vis-à-vis the US Dollar and the stockpiling policy of China, cotton exports reached a record level of 2.19 million tons in 2011/12, which is unlikely to be observed in 2012/13. Indian imports of cotton are estimated at 0.25 million tons in 2012/13. Imports are mainly comprised of Extra Long Staple (ELS) cotton. Substantial efforts are being made to implement an instrument-based quality evaluation system in India. The Cotton Corporation of India is selling cotton based on quality parameters. The ginning and pressing factories as well as private traders have also started quoting the selling prices indicating the staple length and other parameters of varieties/grade as against the earlier practice of mentioning only the variety. The Government of India has promoted Integrated Cotton Cultivation (Contract Farming), to improve extension services and the availability of quality inputs to farmers. The Cotton Corporation of India undertook contract-farming in 2012/13 on 48,147 hectares in all the cotton growing States involving 15,285 cotton farmers. The Corporation has continued contract farming into 2013/14.

4) The delegate of Tanzania reported that cotton supports the livelihood of 40% of the Tanzanian population by direct involvement in its cultivation activities, transportation, processing and the allied sectors in oil extraction and textile manufacturing. On average, 400,000 hectares are sown to cotton by small scale farmers ranging from 350,000 – 600,000, depending on the season. Farm sizes range between 0.5 to 5 hectares, and productivity is constrained by a number of factors such as low utilization of inputs due to lack of credit, inadequate extension services, low adoption of new technologies and low level of mechanization. The average yield is 750 kilograms of seed cotton per hectare. Cotton area amounted to 420,000 hectares in 2012/13, 26% lower than in 2011/12. The decline in cotton area was due to a fall in a farm gate prices in the preceding season and to a postponement of Contract Farming which was rolled out in the Western Cotton Growing Area (WCGA). During 2013/14, output is expected to drop from 357,000 to 250,000 tons of seed cotton, due to farmer’s reaction to lower farm gate prices and attacks of unchecked insect pests (farmers failed to spray cotton in the aftermath of the suspension of Contract Farming). Contract farming is expected to be re-instated in 2014/15. The major export destinations of Tanzanian cotton are Indonesia, Vietnam, Bangladesh, China, and India.

5) The delegate of Mozambique explained that a new program focusing on the cotton value chain is being implemented in Mozambique to boost production, productivity, quality, trade and processing of cotton. The goal of the program is to put cotton production in Mozambique on a sustainable path, which only produced 100,000 tons of cotton in 2012/13. Boosting yields in small scale farms and promoting investments to expand big scale cotton farming are among the top priorities of the program. Mozambique recognized the need for further research in cotton to develop appropriate seeds and technologies, and welcomed the creation of the International Cotton Researchers Association (ICRA). The delegate highlighted the support of Mozambique to the task forces on challenges from competing fibers and cotton identity programs. The government of Mozambique strongly supports MOZAZIMA and ICAC, and expressed an intention to host a Plenary Meeting in or after 2016.

6) The delegate of Germany highlighted that within the last decade, the volume of raw cotton imports shrank by two-thirds because of decreasing demand for cotton and declining production volumes of cotton yarn and clothing. While cotton lost market share to synthetic fibers in yarn production, its share in the production of woven fabrics rose. The German fashion industry retains the design, logistics, manufacturing of samples and quality assurance in Germany, but it has shipped production abroad. On the contrary, production of technical textiles for modern applications in the fields of construction, communications, medicine, protection and transport, is growing in Germany, and currently accounts for almost half of all textile production in Germany. Fifty-six percent of technical textiles are exported. The delegate reflected on the more than 60
The delegate of Brazil noted that the high volatility of cotton prices and the increasing cost of production incentivized the planting of alternative crops such as soya and corn in Brazil. This resulted in a sharp reduction in the area planted last season. Assuming prices will remain high and stable, Brazilian cotton production would return to more traditional levels. The delegate said that the stockpiling policy in China places a ceiling on prices, but this does not guarantee stability. Brazil looks forward to a successful outcome of the Doha Round, as it refers to cotton, as well as a speedy resolution of government policies in some countries, which create uncertainty and stress in the cotton fraternity. Brazil plans to continue playing a major role in the world cotton market, not only for its domestic textile industry but also satisfying the needs of international customers. Brazil supports the creation of cotton consumption promotion programs, which benefit all cotton producing countries.

The delegate of Paraguay expressed the interest of Paraguay in reactivating its cotton sector and re-entering the international cotton market after experiencing a collapse in its cotton sector during the 2000s. The major drivers of the collapse were (1) bad domestic policies; (2) substitution of successful national seed varieties with low quality and low yielding imported planting seeds; (3) generalized infestation with boll weevil; (4) low profitability; (5) fiber contamination from polypropylene bags used in the collection of seed cotton. The Ministry of Agriculture in collaboration with the private sector is implementing a plan to reactivate the cotton sector. Ninety percent of the cotton crop is harvested manually in small scale farms, and since farmers currently use 100% cotton bags to collect cotton bolls, contamination is minimal. In 2012/13, the first season when officially approved biotech cotton seeds were available, cotton area in Paraguay amounted to 45,000 hectares and production amounted to 10,500 tons of cotton lint. Paraguay is interested in training scientific researchers, celebrating bilateral cooperative agreements, and implementing public-private partnerships to select suitable planting seeds for its soil and climate.

The delegate of Uganda indicated that a public-private sector partnership between the Government of Uganda, represented by Cotton Development Organization (CDO), and the umbrella body of the Uganda Ginners and Cotton Exporters' Association (UGCEA) continued to support cotton production through provision of affordable services to farmers: provision of cotton planting seed; provision of other production inputs (fertilizers, pesticides and spray pumps); provision of cotton targeted extension services; farmer mobilization, sensitization and training on improved agronomic practices for increasing production; productivity and quality using demonstration fields; mechanization of land preparation through provision of ox-drawn ploughs and tractor hire services for facilitating timely operations and increases in cultivated acreages. During 2012/13, Uganda produced 18,751 tons of lint compared to 47,577 tons of lint produced in 2011/12. This drastic fall in production was attributed mainly to: (1) drop in cotton prices in the 2011/12 season compared to 2010/11; (2) negative publicity resulting from drop in prices; (3) adverse weather conditions, drought during the early part of the growing season (May – July 2012) and heavy rainfall at harvesting time (December 2012 – January 2013). The CDO acquired a new HVI machine for its Classing Laboratory. About 10% of the lint samples received from ginners were classed using the new HVI machine. CDO continues to participate in the Commercial Standardization of Instrument Testing of Cotton (CSITC) and ICA-Bremen Round Trials. The Government of Uganda and the CDO acknowledges with thanks the support to the cotton sub-sector by the Government of India in the cotton Technical Assistance Program (TAP) which is being implemented under the 2nd India Africa Forum Summit. The TAP is a three year Program funded under a grant by the Government of India. The TAP activities are aimed at strengthening the cotton value chains in seven countries in Africa (Benin, Burkina Faso, Chad, Mali, Nigeria, Malawi and Uganda). The TAP is implemented on behalf of the Government of India by the Agency “IL&FS Cluster Development Initiative” based in New Delhi. The CDO is the National Nodal Coordinating Agency of the TAP activities in Uganda. Uganda also appreciates the support, guidance and information extended to the cotton sub-sector by the ICAC and the International Trade Center (ITC) for the strengthening of its cotton value chain.

The delegate of the United States presented an outlook for the U.S. cotton sector, according to which U.S. upland cotton production for the 2013 crop (2013/14 August/July marketing year) is forecast at 2.8 million tons, 22 percent less than in 2012/13, and below the 5-year average of 3.2 million tons. Planted area in 2013/14 totaled 4.05 million hectares, 17 percent below the previous year. Harvested area is forecast at 2.8
million hectares, which suggests an abandonment rate of 30 percent. Yield per harvested hectare is forecast at 913 kilograms, above the 5-year average of 900 kilograms. Relatively lower prices, especially relative to competing crops, induced farmers to plant less acreage, but yields are projected to be better because last year’s crop was more severely affected by drought conditions. In 2013/14, mill use of upland cotton is projected at 756,000 tons, slightly higher than mill use in 2012/13. U.S. mill use has declined almost every year from the record high of 2.4 million tons in 1997/98. Upland raw cotton exports were 2.7 million tons for 2012/13, a 12 percent increase from the previous year. The top export destination was again China, to which the U.S. exported 1.0 million tons, representing 39 percent of all upland exports. The other top ten upland markets, were Turkey, Mexico, Vietnam, Pakistan, Indonesia, Thailand, Taiwan, South Korea, and Peru. The top ten destinations represented 83 percent of upland cotton exports. In 2013/14, upland cotton exports are projected at 2.3 million tons, a 17 percent decrease from the previous year. The U.S. share of world exports of all cotton is expected to remain at 29 percent. The 810,000 tons of beginning stocks in 2013/14 are down 62 percent from the 40 year high seen in 2008/09. Ending stocks for 2013/14 are forecast at 610,000 tons, 220,000 tons less than in 2012/13, despite declining import demand in China and lower U.S. production. The overall retail-level market share of cotton in the United States was about 36 percent, below the previous 3-year average of nearly 40 percent. U.S. per capita consumption of cotton decreased to an estimated 11.8 kilograms per person in calendar 2012, 0.45 kilograms below 2011 and the lowest since the early 1990s.

11) The delegate of Zimbabwe reported that seed cotton production decreased from 350,703 tons in 2011/12 to 140,702 in 2012/13. This reduction in production can be attributed to: (1) lower producer prices paid in the past season: average prices moved downwards from 85c/kg in 2011 to 35c/kg in 2012 hence the shift from cotton to other crops such as tobacco and soybeans; (2) unfavorable weather conditions, i.e. erratic rainfall distribution on mostly rainfed production; (3) poor yields due to inadequate and late distribution of inputs to farmers. Zimbabwe has allowed non-commercial testing of Bt varieties under the supervision of the Biotechnology Authority of Zimbabwe, but it has yet to legalize the commercial production of Bt Cotton. At the beginning of each marketing season, the Cotton Gainers Association (CGA) and the Farmers Unions meet to discuss and negotiate seed cotton producer prices. The prices are determined by taking into consideration the farmers’ cost of production, the ginners cost of production as well as the current world market price of cotton lint. Over the past years, lint consumption by local spinning mills has been on a downward trajectory since most spinners have closed or are highly distressed due to foreign competition and high operating costs. Zimbabwe’s textile industry is currently composed of eight spinners. About 98% of the lint produced in the country is exported to foreign mills.

12) The delegate of Kenya noted that cotton is considered as one of the most important industries to implement long term development initiatives and industrialization strategy in Kenya. Hence the government is implementing revival strategies of the sector that started in 2005. The Kenyan government is not providing subsidies to cotton growing or price support for producers or for ginning or marketing. Instead, the government is providing targeted support to smallholder farmers in the form of provision of planting seeds as a food security measure, advisory service through public irrigation schemes to reinstate irrigated cotton production (as a rotational crop) and other food crops production. Alongside provision of irrigation water, the government aims to increase the efficiency of water use by embracing modern production techniques of conservation and management. The government has embarked on development of an infrastructure to support reliable testing of cottons through an instrument based classing system to promote transparency in cotton marketing and prices. This will form a foundation for a conducive structure for a transparent price formation process for both seed cotton and lint that is effective for producers, ginners and spinners in the country. The system will pave the way for branding of Kenyan cottons. The delegate of Kenya expressed concerns about the lack of progress on global trade initiatives under the WTO negotiations.

13) The delegate of Peru highlighted the economic and social relevance of cotton in Peru. A strong export-oriented textile industry developed in Peru based on high quality Peruvian-grown cotton. Exports of Peruvian apparel amount to US$2 billion yearly. The textile industry currently employs 450,000 people directly and 1.35 million people indirectly. However, the textile industry has disassociated from domestic cotton production recently and has come to rely on imported cotton mainly. Cotton area in Peru declined from 275,000 hectares in 1962 to 28,800 hectares in 2013. Peruvian cotton represents, at most, 22% of the blend of cottons used in the domestic textile industry. The historical factors behind the reduction in competitiveness of Peruvian cotton are: (1) trade distortions through subsidies in major cotton producing and consuming countries that distort price signals in the international market; (2) the Free Trade Agreement subscribed with
the United States that eliminated tariffs for imported US cotton; (3) the reduction of import tariffs for cotton from other countries; (4) the lack of development programs for the Peruvian cotton sector; (5) the weak participation of farmers in producers associations/cooperatives; (6) the lack of negotiation power from cotton producers against other links of the textile value chain. Demand for extra-fine cotton follows an increasing trend, but is satisfied with imported cotton. The government of Peru declared the Value Chain of Cotton Produced in Peru of national interest in 2012, in an attempt to strengthen and foster the development of each of the links of the value chain, from cotton growing through marketing the final textile good.

14) The delegate of Pakistan reported that cotton is cultivated on over 3 million hectares, accounting for 14 percent of the cropped area in the country. It accounts for more than 55 percent of export earnings and about 60 percent of domestic food oil production. Cotton farming is the principal source of raw material for the textile industry which is the largest industry employing 40% of the industrial labor. Pakistan is the fourth largest cotton producer in the world after China, India and the USA. Despite an improvement in the size of the cotton crop, yield per hectare has not improved during the second half of the 2010s, mainly due to: (1) the ravages of cotton leaf curl virus (CLCV) disease; (2) poor management practices due to lower crop prices; (3) climate change; (4) irrigation water shortage; and (5) small and uneconomic land holdings. Commercial varieties of CLCV resistant varieties developed by the Central Cotton Research Institute (CCRI), Multan, fell prey to a new mutated form of CLCV, commonly known as Burewala strain of cotton virus (BSCV) during 2012. Efforts are under way to breed varieties resistant to BSCV through classical breeding, mutation breeding, inter-specific hybridization and genetic engineering technologies. Pakistan is the 3rd largest consumer of cotton in the world, the 3rd largest yarn producer, the 2nd largest yarn exporter and the 3rd largest cloth exporter with 14 percent share in the world cloth exports. The government of Pakistan is taking steps to upgrade the ginning sector of the industry. Establishment of cotton standards through the Pakistan Cotton Standard Institute (PCSI), and setting up of a Ginning Institute are positive steps towards the right direction. The Engineering Development Board in collaboration with the Field Wing of the Punjab Agriculture Department is developing an improved version of gin stands.

15) The delegate of Uzbekistan highlighted the significance of the Researcher of the Year award given to a recognized Uzbek scientist, and commented on the planned activities by the government of Uzbekistan to provide for steady growth of the domestic cotton economy. The pillars of the plan rely on the dynamism of the general economy of Uzbekistan, enhancing the competitiveness of the cotton sector, developing new seed varieties, fostering research efforts, investing in new infrastructure (a network of zonal terminals in conformity with the highest international standards), and development of the cotton business through applied science. The delegate invited all members to the International Cotton Textile Fair to be held in Tashkent on October 16-17, 2013.

16) The delegate of Colombia reported that cotton area fell by 28% to 31,600 hectares in 2012/13, a record low for Colombia, due mainly to a lack of industrial demand. Other factors that contributed to the reduction of the cotton area since 2009 are adverse climatic conditions, poor adaptability of biotech seeds to local conditions in several regions, the stagnation or decline in yields across regions, and the increasing difficulties to finance production and marketing operations. Adoption of biotech cotton increased by 8% in 2013/14 mainly due to insufficient availability of conventional planting seed. Average national yields remained unchanged at 748 kilograms per hectare, but yields in the coastal region declined for a sixth consecutive year. The appreciation of the Colombian peso over the last few years resulted in higher costs of production in US dollars, hurting the competitiveness of Colombian cotton in the international market. For 2014/15, the domestic textile industry projects a need for 45,000 tons of Colombian cotton, and producers should be able to supply that volume, especially after having negotiated more favorable contract clauses with the textile industry. Starting in May 2012, the Free Trade Agreement between Colombia and the United States eliminated all tariffs for the import of US cotton into Colombia and also an old clause that required that the textile industry purchase the entire domestic cotton crop before importing cotton. The result was a substantial increase in cotton imports from the United States and a surplus of Colombian cotton, which is currently shipped to Central America and Peru. The main challenges for the Colombian cotton sector are to improve and homogenize yields across regions, and to reduce the costs of production. The Colombian government is calling upon all sectors to convene for a national pact on agriculture and rural development that would settle the medium- and long-term goals for the cotton sector (among other sectors).

17) The delegate of Mexico presented a brief description of the Product Cotton National System, which is a vision to increase cotton production two-fold between 2012/13 and 2014/15 by reactivating cotton
production in many states of Mexico and maintaining high yields. The delegate reported that the use of biotech cotton resulted in the number of pesticide applications falling from 12-13 to 1-2 per season.

18) The delegate of Bangladesh presented a historical overview of the evolution of the cotton sector and the textile industry in the country. At present there are 416 spinning mills in Bangladesh (22 units in the public sector and 394 units in the private sector) with a production capacity of 2 million tons. Additionally, 777 weaving mills and 1,065 specialized textiles and power looms are in operation with a production capacity of 2,100 and 400 million meters, respectively. Moreover, there are 148,342 units of handlooms with a fabric production capacity of 837 million meters. The spinning sector uses 800,000 tons of cotton annually, imported mostly from India, Uzbekistan, Turkmenistan, Tajikistan, Australia, Pakistan, and the United States. The delegate highlighted the damage that price volatility brought upon the textile industry in Bangladesh since 2010/11.

The session was adjourned at 5:45 pm