



INTERNATIONAL COTTON ADVISORY COMMITTEE

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Statement of the 61st Plenary Meeting

“The 21st Century Cotton Industry: Growth Through Private Investment”

Cotton and cotton textile industries are central to the economic growth of both developed and developing countries and contribute to development that is sustainable and socially responsible. Cotton is the raw material of wealth, industrialization and development. It is a vital cash crop providing income for everything from education, health and housing to transportation and often serves as a catalyst for industrialization and rising social welfare.

The International Cotton Advisory Committee met in Cairo, Egypt, during October 20-25, 2002 for its 61st Plenary Meeting since 1939. Representatives from 38 governments and 8 international organizations participated in the meeting.

1. World production reached a record of 21.5 million tons in 2001/02, exceeding world consumption by 1.3 million tons and pushing ending stocks outside China (Mainland) to their highest level since 1985/86 (Annex I). International cotton prices fell to the lowest average level in 30 years of 41.8 cents per pound in 2001/02. World cotton exports increased by 10% to a record of 6.5 million tons in 2001/02. World cotton consumption surpassed the 20-million ton mark for the first time in 2001/02, and cotton's share of the world textile fiber market increased for the first time since 1990 to an estimated 40.7% in 2001. Nevertheless, and despite the increase in the quantity of cotton produced, the value of world production declined by \$5 billion from the previous season, affecting the incomes of millions of growers, input suppliers and service providers in most countries.

2. According to projections by the Secretariat, world production is declining by 10% to 19.3 million tons in 2002/03, while consumption is expected to increase by 2.5% to 20.7 million tons. The average international cotton price is projected to increase eleven cents to 53 cents per pound in 2002/03. However, because of large stocks, cotton prices are expected to remain well below the average of the last 30 years.

3. Many countries are facilitating increased transparency and enhanced competition within their cotton sectors in order to promote increased efficiency and faster economic growth. The Committee heard of successful efforts at privatization and of continued challenges facing private sector investors in many countries. Member governments agreed that policies and programs that provide disincentives to increased investment in cotton production and processing industries should be reviewed. In particular, it was noted that barriers to imports of equipment, and taxes on the purchase of equipment, used in cotton production and processing provide a disincentive to expansion in the cotton industry.

4. The world textile economy is consumer-driven, and competition within the textile industry requires that spinners meet consumer's demands for products of improved quality. The Committee noted that continued efforts are needed to encourage improved cotton quality so as to facilitate increased cotton use. The Committee heard from growers, spinners and merchants about quality evaluation systems based on instrument measurement of intrinsic fiber characteristics valued by the spinning industry. These systems are of benefit to all segments of the cotton industry. The implementation of instrument based quality evaluation systems can

result in price incentives that encourage producers to provide cotton to spinners with the characteristics that better meet the demands of quality conscious consumers. It was also noted that instrument based quality evaluation systems can be expensive to introduce and operate. Improvements in instrument reliability and test repeatability would be beneficial.

5. The subject of government measures that distort production and trade in cotton is of concern to member governments and has been a subject of discussion within the ICAC since 1985. According to the Secretariat, in 2001/02 fourteen countries provided direct income and price support protection to their cotton producers. The impact of these measures was to raise world cotton production, lower international cotton prices and distort trade in cotton. The Committee strongly supports a successful outcome to the talks on agriculture and other topics being conducted under the auspices of the WTO and expects that the talks will result in meaningful reductions in levels of government measures, predominantly domestic support, that distort cotton production and trade.

The Committee received proposals on the subject of Government Measures and the World Cotton Industry. Annex II was approved by the majority of member countries, and the United States of America also presented a proposal, which was accepted completely by the Greek delegation. Common to the proposals is the suggestion that member governments agree within the talks on agriculture and other topics being conducted under the auspices of the WTO to a specific schedule of reductions in government measures that distort cotton production and trade, and that governments look for ways to reduce tariffs on cotton textiles and apparel in order to expand trade in cotton products. It was also acknowledged that the problems of all cotton growers deserve understanding and immediate attention.

6. The Committee on Cotton Production Research organized a technical seminar on the topic of technology, management and processing for quality cotton. Pest attacks on cotton not only result in reduced production but also lower fiber quality. Transgenic cotton use is expanding and already accounts for one-third of world production. The cotton industry has accepted the technology as science-based and there are no apparent impacts on international trade in cotton. Cotton producers are responding to low cotton prices by changing their production practices, and some of the changes have negative impacts on fiber quality. There is a consensus that instrument testing of fiber quality is superior to manual classing of cotton, but there is a need for harmonization among instrument testing systems, resulting in increased speed and precision that produce credible results trusted by the industry. There is a need to incorporate measurements of fiber characteristics that reflect the spinning performance of cotton into national quality evaluation systems in order to encourage the increased production of cotton with the characteristics desired by spinners thereby enhancing the utilization of cotton.

The Committee will hold the 2003 Technical Seminar on the topic "Effect on Advances in Processing Techniques on Demand for Quality Cotton."

7. The Committee confirmed its commitment to continued support of regional networks, international cotton economics conferences and world cotton research conferences. The conference, "Cotton: Engine for Economic Growth, Uzbekistan 2002," will be held in Tashkent during November 14-16, 2002 in conjunction with a meeting of the Asian Cotton Research and Development Network. An international seminar on cotton price risk management will be conducted by the Secretariat in Burkina Faso during February 17-18, 2003. The World Cotton Research Conference-3 will be held in Cape Town, South Africa from March 9-13, 2003; approximately 250 research papers will be presented.

8. The Committee received a report from its Private Sector Advisory Panel. The PSAP urged that the Committee emphasize the importance of good trading practices in the cotton and cotton textile industries and suggested that the Secretariat investigate how best to encourage adherence to the concept of contract sanctity involving trade in textiles and apparel. The PSAP endorsed efforts to enhance world cotton demand through the activities of the International Forum for Cotton Promotion. The PSAP encouraged governments to develop consumer-oriented cotton quality standards based on instrument based quality evaluation methods. The PSAP recommended that the Secretariat continue to provide education on the subject of cotton price risk management. Member governments observed that the ICAC has benefited in concrete and specific ways from the input provided by the PSAP since its creation in 1999, and the service of individual members is much appreciated.

9. The Committee received a report on the activities of the International Forum for Cotton Promotion and agreed that the work of the IFCP is important and should continue. The IFCP is a non-governmental body composed of national and international cotton industry organizations. The purpose of the IFCP is to facilitate the establishment, and to encourage the expansion, of national programs to increase retail level cotton consumption. The Forum serves as a clearinghouse for information about, proven techniques of cotton promotion, best practices in retail level communication, and cost-effective measures of boosting consumer demand.

The Advisory Committee instructed the Standing Committee to consider a proposal to include a cotton promotion specialist on the Secretariat. In considering the proposal, the Standing Committee will carefully evaluate the purpose and objectives of the new position, the budget implications of the proposal, how the addition of a promotion specialist would affect the relationship between the ICAC and the IFCP and other cotton industry bodies, and how the addition of a promotion specialist would affect other work of the Secretariat. The Standing Committee will consult fully with Coordinating Agencies prior to making a final determination on the matter.

10. The ICAC expressed its appreciation to the Common Fund for Commodities for supporting commodity development and acknowledged the benefits to the cotton industry of projects financed by the CFC. Since the Fund became fully operational in 1991, a total of ten cotton projects have been approved involving over US\$20 million in grants and loans from the CFC.

11. The 62nd Plenary Meeting of the Committee will be held in Gdansk, Poland during September 7-12, 2003 at the invitation of the Government of Poland. The Committee has accepted an invitation from the Government of Argentina to host the 63rd Plenary Meeting during 2004.

MEMBER GOVERNMENTS

Argentina, Australia, Belgium, Brazil, Burkina Faso, Cameroon, Chad, China (Taiwan), Colombia, Côte d'Ivoire, Egypt, Finland, France, Germany, Greece, India, Iran, Israel, Italy, Japan, Korea, Rep. of, Mali, Netherlands, Nigeria, Pakistan, Paraguay, Philippines, Poland, Russia, South Africa, Spain, Sudan, Switzerland, Syria, Tanzania, Togo, Turkey, Uganda, United Kingdom, United States of America, Uzbekistan, Zimbabwe

ANNEX I
SUPPLY AND DISTRIBUTION OF COTTON
October 25, 2002

Years Beginning August 1

	1998	1999	2000	2001 Est.	2002 Proj.	2003 Proj.
Million Metric Tons						
BEGINNING STOCKS						
WORLD TOTAL	10.238	10.357	9.582	9.219	10.17	8.80
CHINA (MAINLAND)	4.692	4.723	3.412	2.737	2.58	1.88
USA	0.846	0.858	0.852	1.307	1.57	1.46
NET EXPORTERS	2.924	2.814	2.751	3.033	3.68	3.29
NET IMPORTERS 1/	7.314	7.542	6.831	6.186	6.49	5.51
PRODUCTION						
WORLD TOTAL	18.718	19.081	19.444	21.510	19.29	20.16
CHINA (MAINLAND)	4.501	3.829	4.420	5.320	4.65	5.03
USA	3.030	3.694	3.742	4.420	3.93	3.64
INDIA	2.805	2.652	2.380	2.686	2.38	2.67
PAKISTAN	1.494	1.911	1.816	1.802	1.72	1.85
UZBEKISTAN	1.000	1.128	0.975	1.055	1.00	1.04
TURKEY	0.882	0.791	0.880	0.922	0.90	0.91
OTHERS	5.006	5.075	5.231	5.304	4.71	5.02
CONSUMPTION						
WORLD TOTAL	18.672	19.752	19.747	20.167	20.66	20.94
CHINA (MAINLAND)	4.400	4.800	5.050	5.500	5.60	5.68
INDIA	2.781	2.939	2.924	2.907	2.97	3.01
EU, C. EUR. & TURKEY	2.261	2.431	2.367	2.474	2.50	2.51
USA	2.265	2.230	1.929	1.673	1.73	1.70
EAST ASIA & AUSTRALIA	2.003	2.094	2.075	2.055	2.08	2.09
PAKISTAN	1.625	1.700	1.760	1.900	2.00	2.04
BRAZIL	0.797	0.852	0.871	0.860	0.88	0.90
CIS	0.432	0.561	0.661	0.714	0.76	0.82
OTHERS	2.108	2.146	2.110	2.083	2.15	2.20
EXPORTS						
WORLD TOTAL	5.501	6.168	5.922	6.454	6.52	6.47
USA	0.946	1.470	1.472	2.381	2.32	2.34
UZBEKISTAN	0.900	0.893	0.800	0.810	0.74	0.74
CFA ZONE	0.818	0.841	0.718	0.715	1.06	0.93
AUSTRALIA	0.660	0.696	0.849	0.680	0.58	0.56
GREECE	0.285	0.310	0.244	0.290	0.25	0.23
ARGENTINA	0.244	0.079	0.091	0.048	0.02	0.02
CHINA (MAINLAND)	0.148	0.369	0.097	0.075	0.15	0.10
IMPORTS						
WORLD TOTAL	5.414	6.058	5.771	6.193	6.52	6.47
EAST ASIA & AUSTRALIA	1.985	2.053	2.015	2.096	1.98	2.02
EU, C. EUR. & TURKEY	1.367	1.651	1.454	1.595	1.42	1.39
SOUTH AMERICA	0.465	0.527	0.315	0.275	0.43	0.46
CIS	0.243	0.316	0.413	0.413	0.41	0.41
CHINA (MAINLAND)	0.078	0.030	0.052	0.102	0.40	0.60
TRADE IMBALANCE 2/	-0.088	-0.110	-0.151	-0.261	0.00	0.00
STOCKS ADJUSTMENT 3/	0.160	0.007	0.090	-0.130	0.00	0.00
ENDING STOCKS						
WORLD TOTAL	10.357	9.582	9.219	10.172	8.80	8.02
CHINA (MAINLAND)	4.723	3.412	2.737	2.585	1.88	1.73
USA	0.858	0.852	1.307	1.568	1.46	1.07
NET EXPORTERS	2.814	2.751	3.033	3.682	3.29	2.88
NET IMPORTERS 1/	7.542	6.831	6.186	6.489	5.51	5.14
ENDING STOCKS/USE 4/	0.39	0.39	0.44	0.52	0.48	0.44
COTLOOK A INDEX 5/	58.90	52.80	57.20	41.80	53*	57*

1/ Includes Brazil, China (Mainland), Colombia, India, Mexico, Pakistan, 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 projections for 2002/03 and 2003/04 are based on net China (Mainland) trade and world-less-China (Mainland) ending stocks-to-use ratio.

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

Government Measures and the World Cotton Industry

INTERNATIONAL COTTON ADVISORY COMMITTEE

Cairo, Egypt

October 2002

Member governments of the ICAC have observed the critical situation that the world cotton industry is going through and wish to provide possible solutions. Our approach to solving the present situation could be a blue print for other commodities currently experiencing similar circumstances. Short-term solutions are not envisaged due to the fact that voluntary measures to restrain production do not seem to be possible. Representatives of the World Bank at the Conference on Cotton and Global Trade Negotiations held in Washington, DC during July 8 and 9, 2002 agreed that it might be possible to work with countries for remedial actions.

Cotton prices averaged US 42 cents per pound in 2001/02, the lowest level in 30 years. The Secretariat estimates that the elimination of subsidies could have a positive impact of US 31 cents per pound on average prices. Low prices are mainly a consequence of political factors that need political actions. For decades, countries have envisioned a free market and the reduction and elimination of subsidies, but these goals can only be achieved by political action.

Countries may wish to consider the following threefold strategy:

- Within the context of the ICAC, it is necessary to develop strategies for the reduction and elimination of subsidies, so that governments can act through their negotiators at the World Trade Organization (WTO).
- Outside the context of the ICAC, governments and the private sector should foster alliances to persuade countries that support farmers through income or price subsidies to reduce and eliminate such measures. It is necessary to show policy makers and the general public the harm that these measures inflict on farmers of other cotton producing countries.
- Countries with short-run difficulties due to low cotton prices may look for solutions within The World Bank and the International Monetary Fund. This could include seeking grants and common funds to help industries survive until negotiations at the WTO are finished, and agreements implemented.

It is necessary for countries to compromise in looking for effective strategies so all parties involved in the solution can agree on the terms. It is suggested that interested countries take a leading role in seeking actions within the WTO. A partnership between governments and the private sector could lead to actions outside the ICAC and the WTO. These actions could be informally planned in forums that countries deem proper.

1. Within the ICAC

1.1 The WTO Timetable

Conclusions from the discussion of government measures at the 61st ICAC Plenary Meeting might be used by governments to table final proposals for the last session on modalities for domestic support scheduled for March 25-31, 2003.

The Working Group on Government Measures of the ICAC (WGGM) may provide additional recommendations before the last WTO meeting in March 2003 and for the WTO Ministerial in Mexico.

1.2 Informal Multilateral Dialogues among Countries

Some participants at the Conference on Cotton and Global Trade Negotiations expressed their intention to have a dialogue among private industries so as to look for amicable solutions to world overproduction triggered by subsidies, and other factors.

In this respect, the ICAC could facilitate informal meetings among domestic cotton industries that wish to look for solutions. It is foreseen that some countries will have the opportunity to review their own paradigms after listening to foreign perspectives, thus having the opportunity to assess the validity of their premises.

This dialogue could be bilateral or multilateral. The Secretariat may be asked to facilitate these dialogues.

2. WTO Actions

The core of the work carried out by the ICAC and its WGGM aims to supply governments with strong economic analysis and data regarding low prices in international markets and the impacts of subsidies. Governments must report on injuries caused by low prices.

There are two approaches: governments may wish to negotiate cotton along with other commodities or propose a single-track treatment segregating cotton from other commodities.

2.1 WTO Negotiations – General Approach

Governments individually or collectively may work within the regular framework of agricultural commodity negotiations, protecting the special role that cotton has in trade and in developing economies. Groups of countries with cotton interests may table proposals specific to cotton and equate cotton with other commodities.

2.2 WTO Disaggregated Negotiation for Cotton

Governments could propose a negotiation for export subsidies and domestic support on a disaggregated basis, which would result in limits on, and cuts to, export subsidies and domestic supports for each commodity, including cotton.

2.3 Schedules on Reductions of Subsidies

It is suggested that schedules be proposed by each government at the WTO on the reduction of government measures that distort cotton markets and production. It is necessary to start agreeing to commitments.

2.3.1. Basic Commitment – Countries that export cotton must commit to a schedule for reduction and elimination of subsidies, in order to export or participate in international markets. Countries that do not eliminate subsidies or try to circumvent schedules could face retaliation from injured countries on related trade issues, for example, after WTO arbitration awards injured countries may retaliate delaying commitments on schedules for Intellectual Property Rights (TRIPs) for software, pharmaceuticals, phonographs and other sensitive products.

2.3.2. Early harvest (prior to January 2005): 50% reductions on all export subsidies.

2.3.3. 2005: (i) Elimination of all export subsidies, (ii) elimination of price and income support measures; and (iii) elimination of all measures that distort cotton trade and production.

2.4 Dispute Complaints Under WTO Proceedings

Disputes are important tools to achieve recognition of WTO violations and help negotiations where the legal framework falls short. Effective alliances of countries injured by the present situation could help clarify distortions caused by low prices and weaknesses in the WTO legal framework.

Complaints can be presented at the WTO regarding violations of standards on subsidies under the Peace Clause of the Agreement on Agriculture, or after January 1, 2003, under the Agreement on Subsidies and Countervailing Measures.

2.5 Aggregating Cotton and Cotton Textiles and Apparel

It is important to look for ways to accommodate agricultural negotiations on cotton with reductions of tariffs for cotton textiles and apparel, in order to open the market for value-added products.

2.6 Disclosure of Government Subsidies to the WTO

Subsidies that distort production and trade must be disclosed by governments before implementation, and other subsidies must be disclosed every year, so that affected countries have the opportunity to act in a timely manner under WTO proceedings. It has been discouraging for many countries injured by subsidies to learn that government measures are sometimes disclosed to the WTO Secretariat two or three years after implementation.

3. Education on the Source of Subsidies

In general, there is a consensus that subsidies are not a problem that can be solved at the economic level. Subsidies are at the heart of domestic politics. Therefore, countries and injured industries need to implement political actions in order to attack subsidies at the source. Policy makers and the general public in developed countries that subsidize cotton need to be informed of injuries caused by market distortions.

Private industry, non-government organizations (NGOs), and injured countries may organize alliances to educate policy makers and the public in developed countries. Alliances may use media and other means to target audiences with educational programs on injuries and low prices due to subsidies.

4. Special and Differential Treatment for Developing Countries

Many developing countries have expressed their need to enhance the Special and Differential treatment at the WTO. Since the 1980s, developed countries have invested thousands of billions of US dollars in their rural sectors, supporting about 35% of their producer's income, thus acquiring a competitive advantage that developing countries cannot match. Elimination of subsidies and trade barriers that developed countries have for cotton is just the first step in achieving a level playing field for all countries. Therefore, negotiations cannot be matched with symmetric reciprocity from developing countries with few competitive advantages, such as labor, and climate.

Basic Commitment – Cotton dependent countries will have a grace period of five 5 years to start gradual reductions on tariffs and subsidies within a period of ten years.