

Statements to Plenary and Open Sessions

Inauguration

Inaugural Remarks

Youssef Boutros Ghali
Minister of Foreign Trade
Government of Egypt

I am honored to present a statement from the Arab Republic of Egypt on the occasion of the 61st Plenary Meeting of the International Cotton Advisory Committee. I would like to start by thanking participants, the executive director Dr. Terry Townsend, official delegates, observers, representatives of international organizations and also the Committee's Secretariat, the interpretation team and organizers for all the work they have put into make this meeting a success.

Cotton production in Egypt was liberalized before 1990. Since 1994, production and marketing have both enjoyed the benefits of liberalization, operating under the laws of supply and demand alone. The results of this policy have been extremely fruitful.

First, yield and quality have improved and remain on an upward curve. Environmentally friendly techniques are gaining ground, and proving effective against contamination.

Second, the number of actors on the domestic market has increased, with 140 traders currently operating. Of these, only twenty represent the public sector, while the others are from private companies and cooperatives.

Third, commitments to foreign markets are greater than before. In the 2001/02 season, 26 public and private sector members of Alcotexa have exported more than 108,000 tons. The private sector accounts for over 65 percent of this activity. The increase in exports despite sluggish market conditions must be attributed to the reasonable price of Egyptian cotton in comparison with foreign competitors.

In addition to the great marketing efforts achieved by Alcotexa, a logo has been created with the cooperation of the Ministry of Foreign Trade to be used on products produced from Egyptian cotton.

Area planted to cotton in 2002/03 was approximately the same as in 2001/02 (about 750,000 fed.), thus, production is estimated at around 300,000 tons (6 million cantar/lint) to cover domestic and international consumers' requirements.

On behalf of Egypt's people and government, I would like to express our profound apprecia-

tion at seeing you all here. I sincerely hope that you will enjoy your stay and follow Egypt's continued development.

First Plenary Session

Statement of Argentina

The delegation of Argentina wishes to express to the highest authorities of the government of Egypt that the remarks of the Egyptian Minister of Foreign Trade were a clear and accurate description of the current world cotton trade. With the current level of subsidies and the interventionism that have so largely determined the drop in international prices over the past few years, countries that extend no subsidies produce no cotton. In the opinion of Argentina, the Minister's statement should constitute the very backbone of this plenary.

On behalf of the Republic of Argentina, let me greet the people and government of Egypt in a spirit of brotherhood and friendship. We meet today at the cradle of human civilization, beside age-old monuments which were erected—according to Dr. Zahi Hawass, Director of the Pyramids of Giza—not by slave labor but through social systems that protected and supported the builders.

Egyptian cotton has been known to us since the mid-19th century as one of the finest exemplars of its type. However, cotton has deeper historical roots in Egypt.

The cotton of Levant (*Gossypium herbaceum linnaeus*) is a native African plant domesticated in the land of Kush, now known as Nubia, south of Egypt and north of Sudan and Ethiopia.

Nubian civilization enjoyed considerable resources. It flourished between 2500 and 350 B.C. along the banks of the River Nile and was renowned for its iron works and fine woven cotton. It is believed that fabrics such as kemmi and shamma still in use today in Ethiopia were actually produced by the mills of Meroe, the ancient capital of Nubia.

In the 4th Century B.C., Nubian woven goods were displaced by imported cloths. Levant cotton was woven only for those unable to afford imports and eventually disappeared.

The 61st Plenary Meeting continues our debate on how to ensure market operations free from interventionism, so that all countries—poor and rich; southern and northern—can engage in the production and trade of fiber and textile com-

modities with dignity and without the fear that unfair competition will eclipse them as surely as the Nubians of yore.

Let me again express the appreciation of the government and people of Argentina to our hosts, the people and government of Egypt. We thank them for their gracious hospitality at this plenary meeting and note that they have become the greatest importer of cotton sub-products from our country in recent years.

Market Access Liberalization Through the World Trade Organization

Richard M. Hughes
WTO, Geneva

1. I am pleased to have this opportunity to participate in the 61st Plenary Meeting as we look forward to the shape and direction of cotton production and trade in the 21st century. Following this theme, I would like to provide you with some information on two of the current activities of the WTO that have a bearing on trade in cotton and in textile products. Specifically, I would like to bring you up to date on the developments in the implementation of the Agreement on Textiles and Clothing and then review the progress in the negotiations being held under the Agreement on Agriculture.

Agreement on Textiles and Clothing

2. As you will be aware, a large share of the textile and clothing exports from the developing to the developed countries has been subject to quota restrictions for many years. The Agreement on Textiles and Clothing is the vehicle through which these quotas are being removed, over a ten-year transitional period. By the end of this transition, that is 31 December 2004, all of the bilateral quotas will be eliminated and textiles and clothing trade will be governed by normal market forces and supported by the WTO rules.

3. Many participants in this trade have been asking the questions: Will the full elimination of quotas be achieved and, if so, will this cause disruption in textiles and clothing trade flows? On the first question, there is a natural concern, after more than 40 years of quota protection, if the countries maintaining these quotas, that is, the United States, the European Union and Canada will, indeed, eliminate them. In my view, there is every reason to believe that the goal will be achieved. First of all, just over 50 percent of

all textile and clothing products are now fully integrated into WTO rules and about 20 percent of the quotas have already been removed. Also, the remaining quotas have been growing at an accelerated rate through the application of the progressive increases in the quota growth rates, which is required by the Textiles Agreement. Many quotas are now larger than the actual trade levels of the products involved. These quotas, therefore, do not perform their intended function of restricting trade and can be removed without negative impact on trade levels. In addition to this, the countries that maintain the quotas have clearly reconfirmed their undertaking to fully meet their obligations under the Textiles Agreement. Taken together, these factors point to a successful end to the quota regime in just over two years time.

4. As to the impact on trading patterns of the removal of the quota system, there is concern in some countries that the established trade flows could be affected, leading to loss of export markets and disruption in their production activity. From my experience, the one thing that is constant in textiles and clothing trade is the ongoing change and adjustment. The evolution that has been taking place for many years has accelerated during the transitional period of the Textiles Agreement and could accelerate further with the final removal of quotas. Nevertheless, it is most likely that the changes will continue to be evolutionary in nature. The key factor here is how the exporting countries are now adapting and adjusting to the changes being brought about by the impact of open competition and market forces. Not only are manufacturers being required to increase their efficiency in every aspect of production and marketing, but also governments must put in place policies which are "user friendly," to assist their manufactures to compete globally.

5. When looking at developments in trading patterns over the past few years which are having an impact in the present and the future, these shifts and changes are readily apparent. At the top of any list of key recent developments would be the rapid growth of China (Mainland), whose textile exports have grown 42.4 percent between 1994 to 2001, while clothing exports are up 54.4 percent, to reach a combined level of \$53.5 billion. There can be no doubt that China will continue to expand in the coming years in view of its strong competitive position. At the same time, however, recognition must be given to the fact that clothing exports from three of the original Asian giants in this trade, Hong Kong/China, Korea and China (Taiwan) have been falling. Clothing exports from Korea and China (Taiwan) are off by about 25 percent between 1990 and 2001, while the domestic exports from Hong Kong/China have declined by 2 per cent. This is largely attributable to the industrialization and diversification of these exporters, which has left their clothing industries less competitive. This

decline in the older suppliers has created opportunities for others, which has largely been taken up by China (Mainland). Changes are also clearly visible in the Caribbean and Central American region where Mexico's exports are up by over 370 percent between 1994 and 2001, as a result of its NAFTA benefits. Several other countries in this region are also sharply expanding their clothing exports, largely through outward processing operation, assembling clothing from materials supplied by the U.S. Currently, the Dominican Republic and Honduras have risen to become among the top ten suppliers of clothing to the U.S.

6. The main importing countries, the European Union, the United States and Canada have recently adopted programs which should assist and encourage greater participation in clothing exports, in particular by the least-developed countries. The EU has dropped all quotas and tariffs for these countries under its "Everything But Arms" initiative. In the U.S., the first impact of the Africa Growth and Opportunities Act or AGOA is now being seen. Also, at the recent meeting of the G-8 industrialized countries, a plan entitled the "Africa Action Plan" was adopted, under which Canada will drop all tariffs and quotas on exports from the least-developed countries. These are all positive signs of market opening, at least for the poorest exporting countries.

7. What does all of this mean to cotton producers and traders? I would say that the outlook for the downstream activities, that is, for textiles and clothing production and trade, is basically positive. First, the long-term record of growth in textiles and clothing trade should continue. In fact, with the removal of the quotas, there is every reason to believe that there will be an acceleration of world trade, particularly in clothing, and with the greatest benefits going to the developing countries. Certainly with the reliance on market forces and competition, in the absence of quotas, there will be changes in trading patterns, to the advantage of those countries, both the manufacturers and the governments, that have taken steps to adapt to the new conditions. Also, it can be expected that the evolution in production and trade, which we have seen in the past, will continue. In sum, there is every reason to believe that textiles and clothing production and trade will experience a positive future in overall terms, though with continued and likely accelerated shifts among the trading countries.

Agreement on Agriculture

8. With these comments on the progress in the implementation of the Textiles Agreement, I would like to turn now to the second area of WTO activity which is of relevance to cotton producing countries, namely, the progress in the agriculture negotiations. Over the past year or

so, the ICAC has put a great deal of effort into assisting its members in both identifying and responding to the distortions in global cotton production and trade as a result of measures taken by some governments to assist their domestic agricultural sectors. Certainly, the Conference on Cotton and Global Trade Negotiations, which was held last July, was a big step forward in increasing awareness of the problems and distortions which exist in cotton trade as a result of export subsidies, domestic supports and other measures which limit market access, including high tariffs. That meeting was also a useful vehicle for providing member countries with practical suggestions on how to formulate a response to this situation, particularly in the context of the agriculture negotiations now underway in the WTO.

9. I would like, today, to take a close look at these negotiations and at the future schedule of work. First, however, it might be useful to set the scene by briefly reviewing the process that brought us to this point. Negotiations to liberalize agriculture markets are a fairly recent development. It was only through the Uruguay Round, which ended in 1994, that agriculture was first brought within the multilateral trading system. Through the implementation of the Agreement on Agriculture, WTO member countries first began their programs to reduce agricultural export subsidies, trade-distorting domestic support payments as well as import duties. The specific obligations that have been implemented since 1995 are as follows:

(1) developed countries agreed to reduce their agricultural tariffs by 36 percent over six years and developing countries accepted to reduce theirs by 24 percent over ten years;

(2) it was agreed that domestic support programmes of the developed countries would be reduced by 20 percent in six equal instalments and by 13 percent over ten years by developing countries; and

(3) export subsidies had to be reduced by 21 percent in volume and 36 percent in value over six years by developed countries and by 14 percent in volume and 24 percent in value by the developing countries over ten years.

10. These first undertakings were, in fact, a major leap forward, even though from the outset, they were clearly seen as only a beginning, a first step in a longer process of reform. The negotiators of the Agriculture Agreement were well aware of this as they wrote into the Agreement a provision (Article 20) which committed WTO member countries to begin new efforts at further reform at the beginning of 2000. In addition to this, the Declaration made by ministers in launching the Doha Development Round in 2001 went even further, making the objectives more explicit and setting deadlines for

achieving the further reductions in tariffs, in domestic support and in export subsidies.

11. This is what has happened so far. The first phase of the current negotiations, from March 2000 to March 2001, required member countries to submit proposals with what they wished to see in the further market reform. In the second phase, from March 2001 to March 2002, each of the topics raised in the proposals was individually examined in great detail. As you might expect, these proposals and their examination went well beyond the strict confines of the three principal areas of tariffs, domestic support and export subsidies. They brought up for examination members' concerns with such matters as food security, food safety, rural development, geographical indications, environment concerns, food aid, and special treatment for developing countries. These negotiations have been remarkable for the extent of participation. In the first phase alone (2000-2001), there were proposals from 121 countries (counting the EU as 16, i.e. the 15 countries plus the EU as a group) or 85% of the WTO's membership. That means an unprecedented number of developing countries is actively negotiating. This is the case in other subjects as well, but developing countries have identified agriculture as a priority concern. At the same time, the wide range of interests shown in these proposals means reaching agreement by consensus could be more difficult.

12. This brings us to the third stage of negotiations which runs from March 2002 to March 2003, leading up to the Fifth Ministerial Conference in Cancun, Mexico in September 2003. This will definitely be the most critical period in the agriculture negotiations because it will determine the shape of the final outcome. In the third phase, which has a revised mandate through the beefed up objectives spelt out in the November 2001 Doha Declaration, the concepts and proposals of the first two phases have to be translated into precise technical detail. If domestic subsidies are to be reduced (quote) "substantially," exactly how much does that mean, and precisely which domestic supports are to be reduced or removed? And so on. By the end of this year, countries' positions are supposed to be clear enough to be written into a draft overview document. That document will then be the basis for intensive negotiations in early 2003, in order to arrive at a set of "modalities" or formulas for achieving further liberalization by 31 March 2003. These modalities include numerical targets for achieving the mandate given by the ministers, which are:

(1) substantial improvements in market access as well as reductions in all forms of export subsidies with a view to phasing them out and

(2) substantial reductions in trade-distorting domestic support programs.

These modalities will then be used by the member countries to produce their own offers of comprehensive draft commitments, which they must present by the time of the Fifth Ministerial Conference in September 2003. The full process of negotiations must reach a conclusion by 1 January 2005 and form part of the final outcome of the Doha Development Round. This is, indeed, a long and detailed process which only reflects the extreme importance and sensitivity of agriculture trade.

13. How well are the agriculture negotiations going at the moment? The Chairperson gave a mixed report to negotiators on 6 September. On the plus side, a lot of work has been done. He said: "Many specific proposals were made and we had a very useful debate on the pros and cons." But, as he contemplated drafting the overview paper at the end of the year, he warned that he was "concerned about the lack of specificity in some areas." In other words, while some countries have said clearly what percentage reductions they would like to see, others have not, leaving the figures to be negotiated later. It is clear, then, that in the coming weeks and months countries will need to intensify their efforts both through the work in capitals and also between delegations in Geneva. To put it simply, the agriculture negotiations are rapidly approaching crunch time. The delegations from member countries and the WTO Agriculture Division are not likely to get much rest between the New Year and the end of March.

14. For cotton producing and trading countries, concerned with the distortions to trade resulting from the high tariffs, domestic support programs and export subsidies, these negotiations are critical. This is the time and the WTO negotiation process is the occasion when you must make your case for greater market liberalization in this sector. All of these negotiations are carried out by WTO member governments, working both individually and in regional groupings to advance their interests. It is, therefore essential that you, as representatives of your governments, responsible for or concerned with the well-being of the cotton sector, take the required steps to ensure that your national negotiating policies and positions fully reflect the concerns and objectives of the cotton sector. Your governments must also ensure that the regional groupings carry forward the concerns and interests of the cotton sector in the overall negotiating process. It is clear that this is a long-term process, but it has begun and is now moving forward in its second major effort. The ICAC has laid the groundwork through its studies and the July conference. Now, in my view, best results will be obtained by continuing and intensifying the joint effort of the ICAC and its members to advance your objectives in your capitals and in your regions.

FAO Activities in the World Cotton Market

David Hallam
Commodities and Trade
Division, FAO

There are more than 200 million farmers and workers worldwide who are directly or indirectly employed in cotton production, marketing and processing and nearly one billion people who rely on cotton for their living. The food security of these people is based on earnings from the production and export of cotton. FAO has been involved in various efforts to improve cotton farmers' food security through both technical and economic programs. For instance, projects in operation in Asian countries include technology transfer for integrated pest management, and monitoring, containment and control of the cotton boll weevil. These technical programs are fully or partially financed by the FAO Technical Co-operation Programme (TCP) at the request of the countries concerned. FAO also plays an active role in the world Cotton Biotechnology Group and the SCORENA Cotton Network, which focuses on the development of new technology.

Our economic programs undertaken mainly by the Commodities and Trade Division include monitoring agricultural commodity markets and conducting economic analyses on commodity issues including trade policy and market outlook. We undertake studies of current markets and short and longer term market prospects for many agricultural commodities, including cotton, and some of this work has been undertaken in conjunction with ICAC. We have also devoted considerable effort to the analysis of evolving trade policy developments, and have published various assessments of the impact of the Uruguay Round on agricultural markets and food security, including developing countries' experiences in implementing the WTO Agreement on Agriculture.

We also provide considerable assistance to developing countries preparing for multilateral trade negotiations including in agriculture, fisheries and forestry *inter alia* through studies, analysis and training. Over the past few years, FAO has held various regional and country workshops to assist member nations to access the impacts of implementing the Agriculture Agreement and formulating strategies to face challenges and capture opportunities raised from the trade liberalization. FAO has made and will continue to make efforts to assist member nations, especially developing countries, to build their capacity to implement existing agreements and to participate in the new negotiations.

FAO also provides technical assistance to events such as international conferences in member

countries, including the two very successful international cotton conferences held in China (Mainland) in 1999 and 2001. Since current developments in the Chinese textile and cotton industries and trade policy issues were the focus of the conferences, government and private sectors from major cotton exporting and importing countries showed strong interest in these conferences. FAO support for a possible third international cotton conference in China, tentatively planned for around the middle of 2003, is currently under consideration.

In recent years, the world cotton economy has been facing considerable challenges. The financial crisis in Asia in 1998 and the recent slowdown in economic growth in developed countries, among other factors, have had significant effects on the world cotton market. Indeed, prices of almost all agricultural commodity prices have dropped to historically low levels over the past few years. In response to these depressed agricultural commodity markets, FAO held a high level expert consultation on the developments of agricultural commodity prices early this year. Representatives of international commodity organizations (including ICAC), international organizations, and academics and other experts participated. The Consultation addressed three important aspects of the depressed levels of most agricultural commodity prices:

- the nature of the price decline, and the factors underlying it;
- the implications of low commodity prices for developing countries; and
- the case for and possible forms of actions to redress low commodity prices.

The Consultation noted that although agricultural commodity price was essentially determined by the market fundamentals, demand and supply, many other factors have significant effects on prices in the short term. The Consultation recognized that attempts to resist market forces were fraught with difficulty and had enjoyed little success in the past. However, measures which could be employed to combat the low commodity prices include adoption of new technologies to reduce production costs, vertical diversification to obtain income from value-added processing, and the reform of policies at the national and international levels which distort markets and inhibit trade. Another consultation to review the state of global commodity markets is expected to be held at FAO in Rome in March next year.

Some delegates may recall the FAO World Apparel Fibre Consumption Survey that was published over a long period of time until 1995. This work was terminated due to constraints on our budget. The data had been useful in providing a base for cotton market promotion and as a base for the medium term projections of the cotton market which have been undertaken jointly by

FAO and ICAC. We are now exploring more cost-effective ways to produce this data and I hope that it may be possible to produce a new set of data on the consumption of various apparel fibers in the next year or so.

Given the importance of cotton production for food security, income, employment and national economy and FAO's mandate, we will continue to work with our member nations and with international agencies, particularly ICAC, to improve the profitability of cotton production and exports to ensure food security of millions of cotton farmers and workers.

Second Plenary Session

Report of the International Forum for Cotton Promotion

**Brooke Lewis
Cotton Australia**

Cotton is a fabric that for centuries has been the world's favorite. It still has about 40% of the world's market share, despite there being little effort in the area of cotton promotion throughout history. Cotton is a fiber and a fabric that has always sold itself. But will it continue to do so?

Not without promotion.

A quick look at the increasing market share of synthetic fibers would tell us that the world cotton industry cannot afford to sit back and hope cotton will continue to sell itself.

The United States is really the only country that has made any demonstrable difference to levels of cotton consumption. The Cotton USA program reaches over one billion people in more than fifty countries—an achievement that has required substantial financial investment over a long period of time.

Another success story is South Africa's Cotton Mark program that allows consumers to easily identify good quality cotton products backed up by strong trade and consumer marketing campaigns.

- ✓ But what have we done as a united global industry to outwit, out-sell and out-promote our competitors?
- ✓ How well do we know our consumers and their needs and how well are we responding to them?

- ✓ How easy is it for consumers in our countries to identify cotton products at time of purchase?
- ✓ Do we have adequate labeling laws?
- ✓ Do we have organizations whose role is to influence fashion designers, governments, the media and developers of new textiles?

Two years ago at the ICAO meeting in Cairns Australia, there was discussion about a new group being formed to tackle the serious issue of demand enhancement. Both producing and manufacturing nations expressed their concern that something needed to be done urgently to regain market share from the synthetic fiber market. At this meeting, one thing was very clear: There needed to be a coordinated effort and a collaborative approach to the world promotion of cotton.

What started in Cairns as a small group of like-minded countries developed into a formalized arrangement at the 60th Plenary Meeting in Zimbabwe last year. The group, made up of thirteen member countries, decided to call itself the International Forum for Cotton Promotion. Participating countries include:

Australia
Brazil
Egypt
Germany
India
Italy
Poland
South Africa
Spain
Turkey
United Kingdom
United States of America
Zimbabwe

All of these countries made a financial commitment to the group and are committed to the objective of the Forum, which is:

“To encourage national marketing development programs through the exchange of ideas and experiences, for the purpose of increasing international cotton consumption and market share.”

At this same meeting it was recognized that each country had its own approach to cotton promotion. Some countries were only just beginning to explore strategies in this area and others had established successful cotton promotion campaigns. Therefore, it was decided that the Forum should act as a clearing house for ideas, market research, resources and information that could allow each member country to better equip itself for the job of promoting cotton within its own country.

The first task of the Forum was to produce a booklet that documented the current promotional

activities of its members. The booklet is a practical tool that can be used to generate promotional ideas, plans and strategies within member countries with the ultimate aim of increasing world demand for cotton and cotton products. In developing the booklet, a key strength of the Forum was revealed. And that is that member countries are using different approaches and have different strengths in cotton promotion. It is these differences that will allow us to learn a lot from each other's successes and mistakes, and that will allow the Forum to be an effective working group.

Although there is still a lot of work to be done, there are some very effective promotional activities being carried out around the world; for example,

- The Brazilian Textile Association hosts an awards ceremony to acknowledge the contributions of the textile industry that for the first time this year included an award for excellence in cotton growing.
- The Gdynia Cotton Association in Poland has a registered cotton emblem that is licensed to its domestic members for product promotion on the Polish market.
- Cotton Australia is directly reaching over 40,000 students each year with its cotton education programs, delivered at the Cotton Discovery Center classrooms and cotton fields throughout Australia.
- The Istanbul Textile and Apparel Exporter's Association has a long-term plan to promote the country's textile and apparel capabilities throughout the world. It has launched a "Turkey Brand" concept to support Turkey's talented designers and sponsors fashion shows in New York, London and Paris.

We hope these and the many other activities underway by members of the Forum will inspire other countries to do more in the area of cotton promotion.

The Forum's plans for the year ahead include an analysis of labeling laws throughout the world, a collection of market research, a second and more comprehensive edition of the booklet, a series of instructional manuals for promotion, and training workshops for members.

With demand enhancement such a crucial issue to the future of the world cotton industry, I will finish by asking that all members of the International Cotton Advisory Committee consider joining the Forum and consider supporting the proposal that ICAC employ a marketing specialist. A cohesive and concerted approach to world cotton promotion is the only way ahead and we look forward to welcoming a participant from each delegation at our workshop in Breakout Session 4 on Thursday at 8.30am.

Statement of the European Union

The European Community welcomes the opportunity that it is given to clarify its position within the ICAC with regard to cotton policy and, more particularly, the support granted to this sector.

The European Community takes note of the concerns expressed by members of the ICAC regarding the influence of certain national policies on the international market of cotton and the unfavorable consequences that these policies can entail on the producers in developing countries.

In this respect, the European Community also takes note of the proposal of the ICAC to examine these problems within the current negotiations of the WTO, in particular the "Doha Development Round (DDA)" since this was launched, with a view to inserting concerns and the interests of the developing countries into the negotiations on the multilateral trading system. It is therefore logical to seek an appropriate response to these questions within this organization.

The European Community also wishes to reassure its ACP partners that it is ready to collaborate fully under the Cotonou Partnership Agreement, in particular its Article 39, and to identify appropriate solutions to the problems of the sector.

Considering the importance of the cotton sector for the economic and social development of a significant number of countries in West Africa and the state of crisis of this sector, the Commission, in collaboration with other donors, will examine the possibility of adopting compensatory measures in the short and medium term in order to avoid the collapse of the sector. Indeed, the WTO process appears far too long to bring a remedy in time.

Within this framework, the Community wishes to underline the support that it brings—in cooperating with developing countries for the improvement of the competitiveness of this sector—to the diversification of rural agricultural production as well as to regional integration and to the improvement of trade among developing countries and between those and the European Community. In particular, the measures adopted through the initiative "Everything but Arms" enables the least developed countries to export all their cotton products to the Community duty-free.

This said, on the occasion of the debate of this session, it appears also essential to clarify the following points:

- Cotton production in the European Community is primarily concentrated in two regions that are the south of Spain and the north-center of Greece. Resulting production accounts

for only 2.5% of world production and does not produce, as a result, any considerable impact on world prices. In addition, the Community support system includes no intervention measure in the trade exchanges (be it customs duties, import quota, or export refunds). EU imports account for 15% of world imports and the EU is the country of destination for 25-50% of the cotton exports of Mali, Benin, Burkina Faso and many other ACP countries.

- With regard to the fundamental problem of the support granted to the cotton sector, a reform of the system of Community aid is currently under study. In line with the general reform of the Common Agricultural Policy (CAP), it is possible that aid to the cotton sector be progressively uncoupled taking due account of the impact of such a reform on the regions of production.
- In this context, the European Community wishes to underline, nevertheless, that these measures will not reach the results expected by the developing countries if similar efforts are not undertaken by other countries in the same situation.

What precedes illustrates, in short, the point of view of the European Community where the development of rules favorable to the developing countries features as a primary objective of international trade forums.

We hope, therefore, that the above remarks will help clarify our position and dissipate possible misunderstandings. It goes without saying that during the debates of this plenary meeting we reserve the possibility of our having additional interventions to defend our views in this matter.

Statement of the Common Fund for Commodities (CFC)

Sietse van der Werff

Let me start this brief presentation by sending you the best regards of Dr Rolf Boehnke, the Managing Director of the Common Fund for Commodities, who, due to other commitments, could not participate in person in this meeting. I can assure you however that he is keenly interested in the work undertaken at this meeting, which has a direct bearing on the many fields of common interest between the ICAC and the Common Fund.

I will not reiterate all the projects that the ICAC has presented thus far for financing by the Common Fund; it may be sufficient to say that the current project portfolio (covering some twelve

projects) has reached more than US\$20 million in Common Fund contributions, thus making cotton, portfolio wise, one of the most important commodities covered by the Common Fund. The details of the projects can be found on the Web sites of both organizations as well as in the Common Fund's Annual Report for 2001, which can be made available upon request.

Areas covered by the various projects, be they completed or ongoing, include fields like crop protection against major cotton pests, improving marketability of cotton by securing cotton cleanliness, improved access to credits through development of warehouse receipts serving as collateral, etc. Access for smaller cotton producers to price risk management instruments is a key area where the Common Fund will be more and more active, based upon a detailed country *cum* instrument analysis which is currently being undertaken. These activities will be carefully synthesized with activities undertaken, e.g. in the framework of the World Bank-led Integrated Task Force on price risk management.

Challenging project proposals have been submitted to the Common Fund, ranging from a relatively straightforward applied research project (like in the case of a pilot project in India for making viable use of cotton stalks for productive purposes), to a more research-oriented project on cotton plant diseases particularly prevalent in Southern and Eastern Africa. Although both projects do contain research activities, due care will be taken to link with farmers and to bring in operational linkages with the actual production levels, to ensure adequate uptake of activities and results initiated by the projects.

A more complex project will focus on a geographical area of specific importance to both the Common Fund and the ICAC, namely West Africa. Cotton production in that region can be seen as exemplary for the important role that cotton plays in so many countries, where (shortly speaking) it provides employment and income for a large part of the population and is a major (if not the main) source of foreign exchange earnings for the country. While we have received several proposals to initiate project activities in that region, it was considered more prudent to first have a careful analysis made of the main pressing problems that are being faced by the majority of small holder cotton producers in that region. The Common Fund will work with the ICAC and UNCTAD to organize such a regional consultation on the basis of analysis of policies, practices and prospects as assessed by national and international expertise in the field of cotton production, processing and marketing. While the importance of the income generating aspects of cotton production for the farmers will be the key starting point, due attention will also need to be given to the broad issue of sustainability of cotton production. This is based on the need to ef-

fectively combine economic and production aspects with environmental concerns, given the not always environmentally-friendly nature of cotton production (having not only an impact on the natural environment but also posing hazards for human health).

It may go without saying that inherent to the key principles of the work of the Common Fund, the projects financed by the Fund focus on general, generic problems of commodities, in our case on cotton as a commodity. The results of the completed and ongoing projects are therefore accessible to all member countries of the ICAC and the Common Fund.

Let me conclude by coming back to the important issue of setting priorities for cotton development in the African region and the possible support that can be given by the Common Fund to ICAC-proposed projects. This stakeholder exchange/consultation, to identify priority intervention areas to the benefit of small scale cotton producers, will also be in the center of discussions at a Regional Round Table Meeting on Commodity Development, which will take place in Ouagadougou, Burkina Faso, from next 18–21 November.

The Fund's portfolio of cotton projects addresses important questions and concerns of cotton producers, and the growth of the portfolio is reflective of the determination of the ICAC and the Fund to work together for the continued development of cotton, in particular for the benefit of the millions of smallholder producers who depend on cotton production for their livelihood.

Statement of Australia

The focus of the plenary meeting this afternoon on government measures affecting cotton is extremely relevant and timely.

The WTO Round must be used constructively to remove or at least substantially reduce all forms of government measures that distort the world's trade in cotton.

The declaration signed in Doha reconfirms the long-term objective already agreed to establish a fair and market oriented trading system through a program of fundamental reform. The purpose is to correct and prevent restrictions and distortions in world agricultural markets.

Member governments have committed themselves, to comprehensive negotiations aimed at achieving

- Substantial reductions in market access impediments.
- Reductions of, with a view to phasing out, all forms of export subsidies.
- Substantial reductions in domestic support programs.

We are constantly reminded that the world has changed forever as a result of September 11. The manner in which agricultural trade is managed must also change if we are genuine about making trade in cotton more equitable for both producing and consuming countries. Yesterday, we heard from other members about the negative impact that subsidies are having on the price of cotton and the social consequences on industry participants and broader agricultural communities. We fully support these observations.

Australia urges all member countries of the ICAC to use their best endeavors provided by the Doha Round to ensure an outcome that minimizes distortions and maximizes opportunities for cotton in fiber markets.

Clearly, without the impact of distortions, Australia believes programs to build increased market share for cotton will be far more effective. Being optimistic about the outcome of the Doha round, Australia strongly supports the proposal before the ICAC Standing Committee that a new position at the Secretariat be entirely devoted to the issue of cotton promotion and demand enhancement.

Statement of Chad

Cotton is Chad's leading export. It is grown on some 360,000 hectares. In three years output has declined from 110,000 tons of lint to just 70,000 tons, due to falling prices on the world market.

When we consider that 2.5 million people in Chad derive the bulk of their income from cotton growing and the cotton trade, we can easily understand the devastating effects of the current cotton crisis on my country.

The crisis has had a number of effects: declining output; lower seed cotton prices; a sharp decline in farmers' income, seriously impacting the standard of living in rural areas; and a drop in government revenues, leading to a reduction in government commitments to social programs.

The current crisis of the world cotton industry has profound and lasting effects. All countries should coordinate their efforts to objectively analyze the multiple causes of this crisis and propose ways to resolve it.

Clearly there are several causes. Cotton has lost some of its market share to synthetic fibers, and countries of the North have agricultural production and export subsidies that guarantee stable prices for their farmers while leading to overproduction of cotton worldwide and ultimately a decline in prices.

My country believes that the world cotton community must make an effort to promote cotton consumption. ICAC's decision to recruit a person at the Secretariat level to deal with this is-

sue is excellent. Cotton needs to regain the market share lost to synthetic fibers.

The second remark that we wish to make concerns the problem of subsidies. It would be impossible to overstate the fact that subsidies distort the rules of the game in the marketplace and amount to unfair competition which penalizes countries that do not subsidize growers. We need a world cotton economy that operates on the basis of fair and healthy competition.

Statement of the African Cotton Association (A.C.A.)

Bachir Ahmed Diop

Can there be any need to restate the importance of the cotton crop in Africa? Suffice it to say that more than twenty million Africans derive the bulk of their income from this crop. Furthermore, cotton plays a very significant role in the modernization of farming systems and industrialization of the continent.

Origins of the A.C.A.

From the very beginning, senior officials of African cotton companies who have had only sporadic contact with each other have expressed the aspiration of developing close and formal ties. To give concrete form to this aspiration, a number of cotton company officials decided two years ago to establish a committee to take the initiative in creating the A.C.A.

On September 19, 2002, this process culminated in the establishment of A.C.A. headquarters in Cotonou, Benin.

The founding members are 29 companies and national associations from eleven countries, accounting for 58% of total African lint production.

Objectives

- Bring all African cotton professionals together to create a framework of consultation for dealing with issues of common interest.
- Collect, process and disseminate widely any and all information related to the cotton trade from and for members, governments and African political and economic organizations.
- Promote adherence to, and the inviolability of, commercial contracts freely entered into by two or more parties.
- Defend the African cotton industry in the face of a world economic environment that is difficult and unbalanced as a result of unjustifi-

able subsidies and barriers erected by some producing countries.

- Participate in the implementation of strategies to build alliances with other producing countries harmed by unfair trade practices.
- Organize consultation, exchanges of experience and the pooling of resources and expertise among cotton companies, particularly in the areas of agronomy, ginning, logistics and trade policy.
- Ensure implementation of, and adherence to, sound trade practices, as well as development of, and adherence to, a standard sales contract for African cotton.
- Take all necessary measures to further improve the quality and reliability of African cotton.

Composition

The A.C.A. is composed of active members, associate members and corresponding members.

- The active members are cotton companies and associations of cotton companies whose members are regularly involved in the production, and support for the production, of seedcotton in Africa, as well as ginning and lint marketing.
- The associate members are organizations of cotton growers, associations of textile manufacturers and associations of seed crushers.
- The corresponding members are transport and transit companies, banks, insurance companies, foreign cotton associations, international trading companies and, in general, all natural or legal persons involved in developing the cotton industry.

The association's resources come from:

- ✓ Membership fees
- ✓ Dues
- ✓ Subsidies
- ✓ Miscellaneous revenues
- ✓ Contributions and bequests

The association is very broadly open to the entire African and international cotton community. I would like to take this opportunity offered by ICAC to invite all the cotton companies of Africa, from North to South and from East to West, to join the African Cotton Association. This invitation is also extended to all world cotton associations, merchants, shippers, inspectors, banks, insurance companies, suppliers, consultants, researchers and other natural or legal persons involved in the cotton industry.

Statement of Centre de coopération internationale en recherche agronomique pour le développement (CIRAD)

Jacques Pages

For many years already CIRAD has regularly followed the ICAC plenary meetings and within CIRAD it is considered an honor and a privilege to participate in such events.

I will not present at length my institution, which is already probably very well known to many of the participants.

I will just remind you in a few words our status, mandate and activities related to cotton. Gathering 1,800 people, CIRAD is an international research organism, funded by the French government, dealing with any topics related to agriculture, forestry, veterinary sciences and environmental resources in the tropic and sub-tropic areas. We intervene mainly by means of close collaboration with research and training institutes, as well as development agencies or the private sector. CIRAD scientists are frequently posted in our partners' institutions and nowadays this is the case in more than 52 countries around the world. The cotton research program is a team of sixty agents whose activities range from genetics to fiber technology, going through cultivation practices and pests and diseases management, without forgetting economics and chain-related issues.

Nowadays, our major fields of interest are the elaboration and implementation of cropping systems adapted to diverse agro-ecological situations, the control of quality, and the follow-up of biotechnology progress. I would like today to address rapidly these two last topics.

One of the words most commonly heard at international conferences in the last few years is "globalization" or "world-wide market." This reflects a general trend of internationalization exchanges, fast communications and networking. There is an imperious need for a common ground of references, as a base of understanding, discussions and ultimately, decisions.

Agricultural activities, as the pillar of many countries' economy, are a particular field of concern and the theatre of crossed exchanges, balances, and negotiations, all of them depending on market regulations and commonly acknowledged rules.

Biotechnological products such as genetically modified cotton (GMC), and cotton quality are two issues deeply concerned by the acknowledgement of common rules, common references.

As an international public body, independent from private enterprises and deeply anchored in numerous collaborations worldwide, CIRAC has been engaged for many years already in the elaboration of standards and norms, guidelines for policy makers as well as participants in the agricultural product chains.

GMCs, whatever the purpose, be it pest protection or weed killer tolerance, are rapidly gaining importance in terms of acreage devoted to their cultivation and more generally speaking, in the number of countries agreeing to their use. Between countries such as the United States, India, China and others, which have deliberately decided in favor of GMC, and countries such as Thailand or Paraguay, which have banned their cultivation and use, a third group including Brazil and Zambia, either initiated trials or postponed their decision, deciding to acquire increased knowledge before going further.

This decision is to be supported by information provided by independent scientific sources, and CIRAD is eventually one of those. In this matter, CIRAD has developed and is implementing at this very moment a research program devoted to assess quantitatively and characterize as precisely as possible, the impact of introducing GMC in different environments. The program deals with topics such as socio-economic impacts (i.e. incidence on farmers' production systems, community, cotton chain, country's costs and incomes and organizational implications), agro-environmental impacts (i.e. incidence on farmers' practices, on environmental changes through gene fluxes, biological balances and biodiversity), GMC's sustainability (i.e. transgenic material efficiency and resistance build-up). As the basic principle of CIRAD's way of operation, as well as to benefit from the widest expertise, this program is implemented in close collaboration with other research and academic institutes—French INRA and South African Pretoria University. This collaboration aims at being developed with other institutions and already contacts are being established with Brazilian EMBRAPA, or Thai universities and West African Burkina Faso's INFRA.

Cotton quality is another key issue and there is a wide discrepancy between the level of knowledge and assessment of cotton quality characteristics. Even though gins, milling factories and traders have long-established standards and classification references, there is still a gap with the producers' own appreciation and a need for a common ground of understanding. Quality assessment devices checkup systems need to be recalibrated, complementary quality criteria such as the stickiness degree or percentage of contaminants must be more precisely defined in order to meet consumers' demand.

CIRAD has then initiated an in-depth study so as to understand the origins of quality at genome level and, all along in the production and pro-

cessing chain, how quality can be affected by environment and practices. Agro-physiological simulation tools are being developed to provide key information to producers on their performance regarding quality results. Ultimately, this information will be used to assist producers in their decision-making process, offering alternatives to their practices, to achieve their own strategies. Activities are being run in Central and Western Africa (Cameroon, Mali, Benin) and in Brazil, in close partnership with local research and academic institutions as well as with other European organisms (the Netherlands universities, Belgium universities).

Knowledge gained in these two specific examples will benefit producers together with consumers and policy makers. It should contribute to narrow the gap between developing countries and industrialized ones. It will also contribute positively to the image of the cotton world by the concern towards the environment, sustainability and quality control that it expresses.

I would be too pleased to explain further the activities projected and hope that this meeting will give me an opportunity to do so and eventually establish complementary-related collaboration.

Statement of the World Bank

Although the World Bank does not directly lend to commodity production, there are many ways in which our institution is involved in the cotton sectors of developing countries, including policy reforms. In what follows, I will briefly outline the nature of World Bank's involvement in the policy debate of West Africa and subsequently I will touch on the implications of international cotton policies on the region's cotton strategies.

Cotton production is a success story in West and Central Africa (WCA)¹. Cotton proved to be an economically efficient crop that made major contributions to the development of rural areas, to exports and to economic growth. Cotton growing was readily adopted by farmers, expanding rapidly. Production in the late 1990s rocketed to five-fold of what it was three decades earlier (less than 400,000 tons in the early 1970s to a current 1 million tons), which substantially raised the incomes of over 2 million farmers. In 2001/02, the region produced more than one million tons of cotton lint, equivalent to nearly 5 percent of the world's production. With nearly all the lint being exported, Francophone Africa became the third largest cotton exporter behind the U.S. and Uzbekistan, accounting for about 12% of world cotton trade.

Several factors contributed to making cotton production a success:

- Extension of adequate technical packages, supported by well-targeted research and broad access to credit.
- Adequate supporting services (extension, credit, roads, etc.) provided by the cotton companies.
- Guaranteed output market at stable prices.
- High input credit access and recovery rates.

The Strategic Issues and Reform Options Ahead

In spite of its success in promoting cotton cultivation, the current system of integrated national cotton monopsonies has exhibited weaknesses. In particular, the system relies on (a) the ability of the monopsonies to tax producers and accumulate profits in times of high export prices, and (b) the availability of budgetary support from national governments in times of low international prices.

The highly monopolistic and monopsonistic nature of the cotton sector is impeding broader economic development in several ways:

- The historically low prices that are paid to farmers reduce their income levels and hence their ability to invest in productivity-increasing technologies.
- The lost income leads to forgone multiplier effects that would generate additional income and employment in other parts of the rural economy and the countries as a whole.
- The potential of cotton production to support investment in other rural economic activities is underutilized, since seed cotton can only be used as collateral to borrow for cotton inputs.
- Entrepreneurial opportunities are denied to potential investors who could build on the momentum generated by a strong tradable sector to provide a wide range of agricultural services.

In the debate about reform options, two alternative approaches have emerged. Countries could retain, but reform, the current system, or they could establish free entry and increased competition in the sector.

Retaining but Reforming the Seed-cotton Monopolies/Monopsonies

The key components of reform would include:

- Setting the purchase price for seedcotton at levels closer to world market prices.
- Giving cotton farmers more influence over key decisions, especially the pricing of seedcotton, the organization of credit input supply, and the design and implementation of price-stabilization schemes.
- Increasing the extent to which activities such as input supply and transport are subcontracted to private firms.

- Eliminating subsidies on the sale of cotton lint and cotton seed to domestic textile firms and oil mills.

One of the main advantages of limited reform is that it reduces the risk that more far-reaching reforms might lead to the deterioration or breakdown of some of the strengths of the present system. Those strengths include the compulsory contract farming that ensures research and extension cost recovery, and the high recovery rates of input credit. Another advantage of this approach is that seedcotton prices would be aligned more closely with world cotton-lint prices. But this is precisely why there is some resistance to reform, since such large shares of national income are at stake. The base purchase price would remain inherently political and a subject of negotiations among the various interest groups.

With limited reform, the parastatals would continue to have greater access to political power and patronage as compared to farmers. This would, in turn, assure them a higher share of the profits. Governments would be likely to continue holding guaranteed prices low, to avoid having to subsidize cotton marketing.

Free Entry and Competitive Markets

The key components of reforms under this system would include:

- Competitive free entry at all levels of the cotton sector.
- Higher producer prices in the long run, more closely aligned with world prices.
- More efficient pricing of inputs and agricultural support services.
- Strengthening of related public activities, especially research, extension, and phytosanitary controls.
- Strengthening farmer groups and facilitating their participation in voluntary contract farming arrangements.
- A reduction in the implicit taxation by government of the cotton industry.

With greater competition, seedcotton prices in the WCA region would rapidly approach equivalent world prices. Higher seedcotton prices would generate extra government revenue indirectly through the resulting increase in cotton production and exports. In some countries, free entry may be sufficient to generate a competitive system, but in most others, restructuring and privatization of existing public companies would be required in order to signal the government's commitment to free entry.

The competitive model would eliminate the negative aspects of a monopoly system (low prices and incomes, barriers to entry, constraints to growth in marketing, transport, processing, and the export sector, and the negative fiscal effects of world market downturns). Measures would have to be taken, however, to ensure that

input distribution and credit provision systems function adequately and equitably. This is why the transition to more competitive systems has to be done in a pragmatic and gradual process and should be accompanied by sufficient strengthening of the capacities of farmer organizations.

The World Bank Position

Both the competitive and reformed-monopoly models can work, and both would require specific conditions and safeguards. From the point of view of the World Bank, the best option would be a model of competitive contract farming. Such a model would allow competition among several firms based on an inter-professional agreement, or a "code of conduct," that would ensure that contracts are enforceable, and that would link credit repayment to seedcotton marketing. The Bank does not believe that it would be productive to privatize the cotton parastatals unless the minimum conditions for competition exist.

The World Bank's view is that the discipline and responsibility that a free-entry competitive system imposes on market participants would lead to a more resilient, flexible, self-reliant, and innovative national cotton sector in the long run. More importantly, greater competition would improve the sector's performance and would contribute to alleviating poverty by raising farmers' cotton revenues.

Consequently, the World Bank has, for several years now, advocated reforms along the following lines:

- Allowing free entry and competition at all levels of the cotton sector, including cross-border trade in seed cotton.
- Developing private-sector-based mechanisms to ensure effective input credit recovery linked to the marketing of cotton.
- Adopting pricing mechanisms that allow producer prices to reflect changes in world prices.
- Developing effective market-based mechanisms to reduce price risks.
- Building the technical and commercial capacities of producer associations to facilitate their participation in voluntary contract farming arrangements, input supply, and technical services.
- Establishing agribusiness trade associations to allow the private sector to participate effectively in the coordination and financing of sector-wide technical support services.
- And improving the provision of services, especially research, extension, and phytosanitary controls, where governments have an essential role in financing the public goods component.

Experience suggests that the implementation of this reform agenda will take several years to

complete. Individual WCA countries are at different stages of progress toward establishing competitive sectors. Where governments cannot be convinced to move quickly to a competitive model, a reformed and regulated monopoly would be a realistic and acceptable option. In such cases, the Bank would seek to help ensure that (a) the regulated monopoly is functioning properly, (b) the parastatal is under strong pressure to perform adequately, (c) the cotton company generates fiscal resources and transfers them to the treasury, and (d) the producer price is set by a formula which is less taxing and much more favorable to producers than in the past. Moreover, producer organizations would need to be strengthened significantly to upgrade their commercial and negotiating capacities.

The responsibility for cotton policy reform and implementation rests with the national governments and the other stakeholders in the sector. The Bank stands ready to assist all interested parties in ensuring that the policies chosen contribute to the welfare of the rural populations in the region, and in maximizing the economic development potential of the WCA region's cotton sector.

The Implications of International Cotton Policies for Regional Cotton Strategies

Most major producers outside of the WCA region have programs aimed at supporting cotton production. In 1998-99 and 1999-2000, such programs were in place in the following eight countries, accounting for an estimated 53 percent of world output: Brazil, China (Mainland), Egypt, Greece, Mexico, Spain, Turkey and the United States. For the 1998/99 crop, the level of assistance offered by governments to the cotton sector in those eight countries amounted to \$5.4 billion. In the following year, Egypt reduced its price support, but the seven other countries maintained theirs. Over 40 percent of the support was provided by the United States. The high levels of subsidy have been a main source of the downward pressure on world prices².

The European Union (EU) provides the most generous assistance to cotton growers—more than 100 percent of world prices. Moreover, EU subsidies for cotton are exceptionally generous when compared to other crops: three to four times larger per hectare than for maize and oilseeds, and seven to eight times larger than for cereals. However, cotton production (limited to Greece and Spain) is much lower than that in China or the United States. The Common Agricultural Policy's cotton subsidy system was reformed in 1999 to increase penalties for excess production.

China provides substantial assistance to cotton farmers through a reference price system for cotton. Currently, the procurement and marketing of cotton are monopolized by the government and the procurement and sale prices are

determined largely to subsidize the farmers. This has resulted in domestic prices that are about 20 percent higher than world prices. After China's entry to the WTO, the state-trading monopoly will be phased out, and domestic prices should move closer to international prices.

In the United States, the program of agricultural support is notable because it has been based on the assumption that agricultural prices would remain stable or increase slightly; the program was designed in 1996 to enhance the role played by market forces in production decisions. As production expanded and prices started to fall, the level of subsidies increased significantly. Instead of facilitating the adjustment of production to the excess supply and declining prices, the U.S. price supports have led to increasing production in the United States by making cotton more profitable than competing crops like soybeans, corn, or sorghum³. For instance, U.S. cotton farmers are expected to receive more support in the current crop year than in 1999, when cotton prices were also at very low levels⁴.

The U.S. agricultural support programs were renewed in 2002. The farm bill (a) locks in place levels of spending that were inflated in recent years by "emergency" funding measures, (b) introduced a new countercyclical element tied to product prices, and (c) expanded the programs' coverage to other agricultural products. The new farm legislation contributes to continued overproduction and lowers world prices of the agricultural products covered by the programs, in particular cotton, which perpetuates the problems faced by WCA exporters.

The subsidies to cotton farmers in major cotton producing countries that are outlined above increase artificially the supply in international markets and depress export prices for WCA countries. Downward pressures on export prices have been exacerbated by generous (and in the case of the United States, rapidly increasing) subsidies for cotton production in the United States, China, and the European Union. Removal of these subsidies would benefit WCA countries, and allow them to better exploit their comparative advantage in cotton production for growth and poverty reduction.

¹ The Africa Franc Zone is composed of Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Mali, Senegal, and Togo.

² See Badiane, O. et al. Cotton Sector Strategies in West and Central Africa. World Bank Policy Research Paper, July 2002.

³ U.S. farmers receive benefits under a number of government programs: production flexibility contract and commodity loan programs, subsidized crop and revenue insurance, and market loss assistance. U.S. policies have resulted in a decoupling of the U.S. price for cotton that farmers receive from the world price. Despite historically low world

cotton prices, prices received by U.S. farmers have actually increased since early 2001, if the value of the loan programs (as a per-unit subsidy) is included.

⁴ See Leslie Meyer and Stephen MacDonald, "Cotton: Background and Issues for Farm Legislation," U.S. Department of Agriculture, Economic Research Service, July 2001.

Third Plenary Session

Successful Outcomes for Cotton in the WTO Agriculture Negotiations

Michael Tietge
Department of Foreign
Affairs and Trade
Australia

Before I start my presentation, I would like to say that the International Cotton Advisory Committee does a great job of facilitating cooperation and exchange of ideas among member countries to ensure cotton's place in the international market, and I am very happy to be here in Cairo and to be able to contribute to your 61st Plenary Meeting.

And something else, Did you know that until the construction of the Eiffel tower, the Pyramids of Giza were the highest man-made structures in the world? They are certainly impressive, and provide the perfect backdrop to this plenary.

I am pleased to have been given the opportunity to talk to you this afternoon on the topic of successful outcomes for cotton in the WTO Agriculture Negotiations.

I should say from the start that I am not an expert on the WTO.

As the market access facilitator for the Australian TCF industries, including wool and cotton, I have assisted our cotton industry over the years on a number of market access issues, including a few years ago with an examination of the effect of trade-distorting subsidy programs on our cotton exports.

I am also the Australian government representative on the ICAC Working Group on Government Measures and you might say a founding father of the group which developed last year in Zimbabwe. The Working Group has been collecting material on the effects of low cotton prices in member countries and documenting the economic injury. Its other role has been to iden-

tify effective strategies to reduce and eventually eliminate the negative effects on trade caused by direct government assistance to cotton production and trade.

In the context of this role, the Working Group has come up with a proposal on strategies which countries might take up with their governments to ensure successful outcomes for cotton and other commodities in the WTO. We will look at this proposal in more detail later in this session.

As we all know, the issue of government measures is not new and has featured in ICAC plenaries in recent years, mostly due to its link with the downturn in cotton prices. But this year, it has taken on greater significance as the new Doha Round of Multilateral Trade Negotiations is underway and greater focus is being directed to achieving successful negotiations for agriculture in the WTO.

Before I launch into my presentation, I just wanted to say that the Doha Round is vitally important for the global trading system. This is why our trade minister, Mr. Vaile, will host an informal meeting of trade ministers in Sydney on 14-15 November to discuss progress in the Doha Round.

There are four main issues in my presentation today:

- Firstly we'll look at agriculture and the WTO
- Secondly we will talk about some criteria which we might use to measure "success" for cotton in the Doha Round, and I'll mention some of the negotiating proposals already on the table
- Thirdly I will address the strategy proposed by the Working Group on Government Measures and draw some analogies with other negotiating proposals.
- And finally I will suggest some conclusions and actions.

Agriculture and the WTO

Cotton occupies a prominent position in the economies of many countries providing income to around 100 million farming units directly engaged in cotton production. But cotton trade remains the most corrupted of all international markets with some governments continuing to provide subsidies that distort prices, production and trade in cotton and cotton products to the detriment of non-subsidizing countries.

The Agreement on Agriculture negotiated at the end of the Uruguay Round in 1994 was a significant first step towards a fairer, less distorted trading environment by bringing trade in agriculture under world trade disciplines common to other goods such as industrial. But the post Uruguay Round situation still has many distortions and significant trade barriers remain in

agriculture and textiles, which are sectors of particular interest to developing countries.

The International Cotton Advisory Committee estimates that market distortions in the cotton industry are worth US\$5.5 billion per year. These distortions are alarming; for instance, according to the ICAC, fourteen countries representing three quarters of world cotton production administer direct income and price support programs for cotton growers, resulting in higher production and forcing the burden of adjustment to low cotton prices onto non-subsidized producers. The ICAC also estimates that, if there were no production subsidies in place, the average world price for cotton would be around seventy per cent higher.

We now have an opportunity in the Doha Round to make trade disciplines in agriculture more effective and to address these distortions in the cotton market. We should recall that the Doha Mandate identified three main issues for the new round, namely:

- Substantially improved market access.
- The reduction and phasing out of export subsidies.
- Substantial reductions in trade-distorting domestic support.

These are three important pillars in the current negotiations.

At the Conference on Cotton and Global Trade Negotiations held in Washington three months ago, (8-9 July), government officials, representatives of private industry from forty-five countries and seven international organizations agreed that the WTO was the most effective venue to address trade distortion issues and called on countries to make the talks on agriculture and the problems of the cotton industry a priority in their negotiations within the WTO.

The Conference identified five policy instruments in the agenda of agricultural talks in the WTO which are important to cotton with the most important being subsidies.

As distortions in cotton markets occur primarily through production subsidies, it will be important for WTO trade negotiators to ensure that reducing domestic support gets equal consideration in the WTO talks with market access and export subsidies.

Real and substantial cuts to trade and production-distorting support, as well as more effective disciplines will be fundamental issues for negotiators to work towards in this round. In the past, countries have been able to abuse the disciplines by shifting support within domestic support categories—this should no longer be allowed.

In developing their negotiating proposals, countries will need to consider the definitions of

green, blue and amber boxes to ensure they accurately capture and deal with the most trade-distorting forms of support.

Let me now deal with some of the negotiating proposals already on the table in the WTO.

Benchmarks and Negotiating Proposals

Last month in the WTO, the Cairns Group Coalition launched proposals on market access and domestic support. What are the Cairns Group proposals you may ask?

Cairns Group Proposals

Australia is the chair of the Cairns Group, a coalition of seventeen agricultural exporting countries, mostly developing countries, which account for one third of the world's agricultural exports. Australia is thus well placed to work with developing countries to promote their interests, especially in the area of lowering agricultural trade barriers and reducing distorting agricultural support policies.

Just to give you a little more background on the Cairns Group, it was founded on the realization that only a determined collective effort could defeat agriculture's exclusion from many trade rules. Although the basis for Cairns Group cooperation had been evolving for many years in Geneva, it did not develop momentum until 1986 when the group met formally in the city of Cairns, Australia, famous for being the gateway to the Great Barrier Reef, and hence the name Cairns Group. Since that time, the enlargement of membership in South America, and the addition of South Africa in particular, have reinforced the relevance of the Group.

The Cairns Group is an example of a successful, single-issue coalition and its proposals on market access and domestic support are designed to increase substantially global market access for agriculture. The proposals themselves call for significant improvements in market access and substantial reductions in trade-distorting domestic support—all good news for cotton producers. They build on an earlier Cairns Group proposal for the elimination of all forms of export subsidies.

So what is the Cairns Group proposing as a good outcome for agriculture, and hence cotton, in the WTO?

For market access, the Cairns Group proposes that all developed countries cut tariffs to 25 per cent or lower and expand all tariff quotas substantially. The domestic support proposal, which is of greater interest to the cotton community, would eliminate within five years current entitlements to production and trade-distorting support worth around US\$73 billion in the European Union, US\$31 billion in Japan, and US\$19 billion in the United States. Tightening the Green Box criteria so that Green Box support does not

distort production and trade is another feature of the Domestic Support Proposal.

The Cairns Group proposals therefore are designed to lead to more open and efficient markets to the benefit of all WTO members, including developing countries. They will assist farmers in developing countries by creating more open and efficient agricultural markets, with all trade-distorting domestic support in developed countries to be eliminated over a short period. In addition, the proposals offer a range of provisions designed to help developing countries with their adjustment processes, including longer reduction periods of nine years.

I consider that the international cotton community now has a good benchmark on which to measure the criteria for successful outcomes for cotton in the WTO. I have copies of these proposals for anyone who is interested.

The U.S. Negotiating Proposal

The United States also released a strong reform proposal in July, which called for substantial tariff cuts, elimination of export subsidies, and harmonizing reductions in trade-distorting domestic support. In our view, the U.S. proposal is a good start and sends a signal that despite the massive subsidy provisions in the latest Farm Bill, the United States is serious about playing a leading role in agriculture reform.

Let me now talk about the work being carried out by the Working Group on Government Measures

The Working Group on Government Measures

As I mentioned earlier, the Working Group has developed a proposal on strategies for successful negotiations at the WTO. The proposal calls for even greater trade liberalization in the WTO talks.

Our proposal recommends a threefold strategy that asks countries:

1. To develop strategies within the context of the ICAC and the Working Group on Government Measures for the reduction and eventual elimination of subsidies so that governments can act through their negotiators in the WTO.
2. To foster industry and government alliances outside the context of the ICAC to persuade subsidizing countries to reduce and eventually eliminate support measures and document the harm these measures are having on non-subsidizing countries.
3. To seek grants and funds from the World Bank and the International Monetary Fund if countries are suffering from short-run difficulties due to low cotton prices.

The threefold strategy recommended by the chair of the Working Group is supported strongly by both the Australian government and the Australia-

lian cotton industry and we certainly recommend it to other countries.

Australia and the Cairns Group fully agree with the ICAC that it is highly desirable to reduce and eliminate export subsidies, as well as production and trade-distorting domestic subsidies.

In August this year, we were fortunate to have the executive director of the ICAC, Terry Townsend, address the 11th Australian Cotton Conference in Brisbane on the subject of Recent Developments in Global Trade.

We also arranged a roundtable for Terry and our chief negotiator on agriculture who took on board Terry's message to promote the reduction of domestic support for the cotton industry to the WTO. Terry pointed out quite rightly that countries which stand to benefit the most from reductions in domestic support are primarily developing countries, which often do not have the resources to formulate their position in the WTO.

The second strategy calls for government and industry alliances, and I am happy to say that the Australian cotton industry has close links to the Cairns Group and would ensure that cotton industry initiatives are promoted within that group.

The Working Paper also proposes two options on how cotton is to be treated in the WTO.

Let me say that the first is a general approach whereby governments individually or collectively work within the regular framework of agricultural commodity negotiations while protecting the special role that cotton has in trade and in developing economies.

The second is a disaggregated approach, which would result in limits on, and cuts to, export and domestic supports for each commodity, including cotton.

Australia would like to see reduction commitments made on a disaggregated product basis, thus we do not consider at this stage that separate negotiations on cotton would be required.

I think it's important to note that proposals of the Working Group to eliminate all export subsidies and domestic support by 2009 are broadly consistent with those of Australia and the Cairns Group.

The ICAC should consider putting its support behind the Cairns Group proposals. We naturally consider these are the most credible proposals on the table, although some, like the EU, would disagree.

The Working Group's proposal correctly notes that the goals we all share can only be achieved by political action. It has taken a forward-looking and creative approach to this in recommending that governments and the private sector must work together to highlight the damage done by protectionism and to call for change. Australia

welcomes this approach and can only urge the Working Group to continue in its efforts.

We must continue to work together to achieve our common goals of a fairer world trading environment for cotton and agriculture in general.

Conclusion and Actions

I have come to the final part of my presentation drawing some conclusions and suggesting some actions.

The importance of the cotton industry in world agricultural trade cannot be overstated and we now have a real opportunity to negotiate a good outcome for cotton in the current WTO negotiations. My message to you today is that the WTO is the most effective venue for dealing with government measures and negotiation to rid the cotton market of trade distortions. There is so much that the ICAC as a body which on the whole looks after the interests of cotton producers and users can do to feed into the WTO negotiating process.

Now, the proposed strategies of the Working Group on Government Measures, and some of the negotiating positions I outlined to you today may seem ambitious but as the poet T.S. Eliot said, "Only those who will risk going too far can possibly find out how far one can go."

We all know that the WTO negotiations are going to take several years and involve complex tradeoffs but I think that the Working Group proposals put the international cotton community in a unique position to give cotton a strong voice in the WTO. We need to aim high if we are to get maximum results in this process.

The conclusion of discussions on government measures which will emerge from this plenary should help countries to table their final proposals in the WTO. The deadline of 31 March 2003 for agreement on modalities for domestic support in the WTO is critical and failure to meet this deadline would have serious consequences for the negotiations as a whole. It is also essential for everyone to work hard to build political support for a strong reform agenda out of Doha. The Australian trade minister will certainly be aiming for that next month.

I therefore encourage the International Cotton Advisory Committee to continue to act as an intermediary body between governments, industry, education institutions, international organizations and the general public and to continue its ongoing activities to monitor and document the impact of government measures on the world cotton industry and I reiterate that the WTO is the venue for the negotiation of distortions of the cotton market. This is the issue that most affects cotton producers and cotton's position as an important trading commodity.

In the wider context of deliberations on trade under the auspices of the WTO, the working

group on Government Measures can make a major contribution towards furthering the case for trade reform, and more precisely, for removing distortions in the cotton market. I am proud to be a member of this group and I am hopeful that one day we may see a less distorted world, where market prices are determined solely by supply and demand and that trade distortions are a thing of the past.

On that note, I would like to congratulate the government of Egypt and the Organizing Committee for the care taken in organizing what is a very successful and productive plenary.

Statement of Argentina

We have listened to the authorities of the Arab Republic of Egypt, to the representatives of Australia and Turkey, and to reports from the Chairman of the Standing Committee and the Executive Director of the International Cotton Advisory Committee as they have addressed various aspects of the world cotton economy.

One aspect they each highlighted as particularly important was the issue of distortions in the global cotton market brought about by government subsidies to production and trade.

We are heartened by the useful recommendations of the Working Group on Government Measures included in Working Paper I, and by the debate at the Conference on Cotton and Global Trade Negotiations convened by the World Bank and the ICAC.

Surely you are familiar with such concepts as the short, medium, and long run. An outstanding exponent of economic theory and policy, John Maynard Keynes, observed that, "In the long run, we are all dead."

For the people of cotton producing countries, one year constitutes the long run. So it is likely that if some governments persist in applying interventionist policies, future plenaries may well be attended only by representatives of consuming countries and of countries that can afford to subsidize cotton producers and exporters.

Cotton production in Argentina is concentrated in eleven provinces. A World Bank study shows that 56.6% of the population in those provinces live below the poverty line while 18.2% live in extreme poverty. The same study points out that at the national level, 36.1% live below the poverty line and 8.6% in extreme poverty. These figures underscore how poor the cotton-producing regions of Argentina really are.

Following the drop in international prices, acreage planted with cotton in 2001/02 covered the smallest area since 1933/34, despite increased investments, use of new technologies, and heightened levels of efficiency in production and trade. Poverty has worsened as the population

of cotton-producing regions has also risen four-fold even though the rural exodus to other provinces and cities continues.

“...In some countries there are very few viable alternatives to cotton growing. Cotton production in developing countries is needed not only to cover the needs of the local industry but also to obtain foreign exchange to enable these countries to service their external debt... It was also noted by some that efforts for restoration of the cotton equilibrium lie mainly with developed and key producing countries, and that artificial incentives should be eliminated.” (Statement of the 44th Plenary Meeting, Item 9, 1985)

The delegation of Argentina commends the ICAC for never failing to highlight this issue in the final statements of its plenary meetings. Those of us who have spent seventeen years insisting on the importance of fair trade practices have been gratified to see our arguments upheld by such major international organizations as the WTO, the IMF, the World Bank and the FAO.

At the recent IMF-World Bank Annual Meetings, for instance, World Bank President James D. Wolfensohn enjoined developed countries to “act immediately” to dismantle agricultural subsidies as “they are a waste of resources and seriously compromise the ability of poor countries to invest in their own development.” He added that trade barriers erected by the rich countries are overly burdensome and generally cloak protectionism.”

Likewise, the IMF declared that:

“Many of the trade barriers described block the access of agricultural products from poor countries to the markets of the rich. Agricultural subsidies of OECD countries lower global commodity prices and increase price instability, thus harming poor countries and their most vulnerable citizens. Agriculture remains the principal economic activity of rural areas, where 75% of the world’s poor live. It represents approximately 27% of the GDP of developing countries, an equal share of their exports, and 50% of their job market.”

At the WTO, finally, developing countries are requesting that agreed deadlines be met such that international agricultural trade liberalization agreements are concluded by January 1, 2005.

The delegation of Argentina thus considers it paramount that the ICAC, as the world’s principal international forum in this field, send a clear message to all WTO member countries, urging them to conclude ongoing negotiations by 2005 as the Doha mandate requires.

Argentina both wishes and needs to continue producing cotton. We are able to compete if allowed to do so on a level playing field. All we ask is that the basic premises underpinning a

vibrant global cotton economy be allowed to function free from distortions.

Perhaps we should set aside a few hours of introspective thought during this plenary to strengthen our resolve as government representatives to the ICAC, determined to ensure compliance with agreements accorded in Doha last November 2001. Such an achievement should contribute to the mission of the ICAC as it builds on its 63 years of existence.

Agriculture (from Doha)

“13. We recognize the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 members. We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. We reconfirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.”

Statement of the United States

The delegation of the United States wishes to express its concerns about the discussions regarding the working paper of the Working Group on Government Measures. We feel strongly that portions of the Working Group’s report would result in fundamental changes in the ICAC’s mandate and role.

The United States agrees that trade-distorting subsidies should be eliminated and has already

advanced a position in the WTO that reflects this principle. However, we also believe that setting a trade policy agenda within the ICAC is inappropriate. The ICAC’s purpose is to raise awareness, to disseminate information, and to facilitate cooperation about issues relevant to cotton production, consumption, and trade. The ICAC has an important role to play in the upcoming round of WTO negotiations assisting member government in analyzing issues and developing strategies to reduce and/or eliminate subsidies and trade barriers. But committing the ICAC as an organization to a specific trade policy outcome will undermine its effectiveness in serving the needs of all member governments. Perhaps more importantly, it will commit members to policies that have not been properly considered and evaluated by their own governments. Governments must retain the flexibility to determine and adjust their WTO positions to reflect their national interests for cotton, as well as for other commodities. It is not feasible to pre-determine member governments’ WTO negotiating positions within the ICAC.

We recognize that these reservations are likely to generate additional questions and discussion among the members, and that we have a full agenda for this morning’s session. Therefore, we have made copies of our proposed changes to the Working Group’s report for all delegations. We suggest that any discussion be deferred until the drafting committee session. In the interim, members of our delegation are available to answer any questions you may have.

Revisions to Working Paper I

(Government Measures and the World Cotton Industry)

Proposed by the Delegation of the United States

Purpose: These revisions alleviate concerns that the original language would commit the ICAC to advocacy of policy positions that are not acceptable to all member governments. The U.S. delegation is concerned that adoption of the original language would:

- Risk loss of ICAC credibility in trade matters because its neutrality would be compromised; and
- Member countries would be committed to policies that have not been properly considered and evaluated by their governments.

The U.S. delegation strongly believes that ICAC should work with countries at their invitation to help them develop their own positions and avoid taking policy positions itself.

Revisions to text:

1. First bullet point, page 1, should be revised as follows: "The ICAC should support member governments in developing their strategies for the reduction and elimination of subsidies so that governments can act through their negotiators at the WTO."
2. The first paragraph in 1.1 should be revised as follows: "In compliance with its mandate from the 60th Plenary, the WGGM suggests that the ICAC assist countries to identify the effects of subsidies and strategies to work toward their reduction and elimination."
3. In the third paragraph of 1.1, the words "conclusions of the" and "agreed to" should be stricken.
4. Strike second paragraph under 1.1 on the grounds that the date for the informal session has passed.
5. The fourth paragraph of 1.1 should be revised as follows: "The WGGM could hold further discussions aimed at providing additional information to countries for their use in developing their representations before the March ministerial in Mexico."
6. The first paragraph in 2 should be revised as follows: strike "Governments must report on injuries caused by low prices" on the grounds that the ICAC has established no structure to which these reports can be submitted and has no standing in the world's trade negotiating structure to act upon these reports.
7. Paragraph 2.3 should be revised as follows: "Upon request the ICAC should assist governments in developing proposals for WTO schedules for reductions of government measures that distort cotton markets and production."
8. Strike Paragraphs 2.3.1 through 2.3.5. These points commit the ICAC to advocacy of specific policies and take ICAC beyond its proper role.
9. Strike Paragraph 2.6 on the grounds that ICAC would be committed to seek changes in the WTO working rules and procedures. Delegates need to consult their governments before making such a commitment.
10. "Thousands of billions" means trillions. Such vast sums have not been spent for the purposes stated.
11. Strike second paragraph of 5 on the grounds that ICAC has no authority to grant grace periods to governments concerning their policies on subsidies and tariffs.

Statement of Colombia

The delegation of Colombia considers it unnecessary to state one more time its position on the issue of government measures that distort the production and trade of cotton. Colombia's views have been expressed with abundant clarity, precision and conviction at previous plenaries, namely in Cairns, Australia and Victoria Falls, Zimbabwe. We therefore concur with the statements just made by Argentina and South Africa. We also agree that the word "eventually" is inappropriate. Export subsidies must be eliminated immediately inasmuch as they violate present WTO standards; then all remaining domestic support measures that distort cotton production and trade should be eliminated in short order.

No one can dispute the sovereign right of a country to assist its producers through internal measures of support. That principle ends, however, where the right of its neighbors begins. No country, then, can exercise the autonomous right to enact measures whose scope transcends its own borders and gravely jeopardizes thousands, perhaps millions of cotton farmers and other laborers in nations that cannot afford to grant them equal support, subsidies or protection.

What is unacceptable and must be corrected forthwith is the ongoing upheaval brought about by production and trade distortions which have caused millions within the cotton sector to lose their livelihood, plunging them into poverty and even life-threatening hunger.

Statement of the Netherlands

Cotton presents an extreme example of policy incoherence of some rich countries' policies versus developing countries.

Millions of cotton farmers in poor countries are undermined by billions of dollars in subsidies benefiting a relatively small group of stakeholders in the U.S. and EU.

Cotton subsidies in the rich world enhance poverty, create macroeconomic imbalances, lower social sector spending and foster socio-political instability in several cotton dependent developing countries.

The unfair competition in the world cotton market must be tackled because cotton farmers in developing countries deserve to get a better deal.

To that extent, the ICAC working group has drafted a prudent but realistic proposal.

First Open Session**Challenges Facing Investment in the Egyptian Cotton Industry**

**Amal El Tobgy
Mohamed El Masri
AIT Consulting, Egypt**

Abstract

The major challenges facing the textile industry in developing economies in general and Egypt in particular are discussed in this paper.

The technological, management and marketing constraints, which present serious barriers to attracting the necessary investment for private sector development, are analyzed in detail. Typical issues of government policy dealing with legal regulatory systems to support sustainable growth are presented. The potentials and uncertainties posed by trade agreements are also examined.

Introduction

In developing countries where cotton is grown and where there is abundance of labor, the textile industry has been the cornerstone of the country's industrial development. For the majority of these countries the cotton textile industry, which includes spinning, weaving, knitting, finishing and ready-made apparel, is a major employer of labor, provider of local market needs and, increasingly, an important source of foreign currency earnings.

The progressive move of major industrialized economies away from labor-intensive industries, such as textiles, coupled with trade liberalization and international trade agreements have brought the textile industries of the developing countries into a highly competitive environment. An environment in which survival will depend on sustaining competitive advantage and securing both local and export markets in order to ensure economic growth, and development and prosperity of their peoples.

Egypt's cotton industry—like those of other similar developing economies—is now facing significant challenges as a result of this competitive market environment.

The Egyptian Cotton Industry—A Historical Perspective

The Egyptian cotton industry is over 100 years old (although spinning and weaving of flax is over 4000 years old). Development of the industry seriously started after World War II and continued to flourish until 1961, when the industry was nationalized as part of the government's socialist agenda. The state-owned

companies' production was directed to providing low priced goods to low income classes. Export was limited to few markets, mostly in the then communist block. This resulted in inadequate profit margins and, in many cases, losses. Over the years, lack of investment by successive governments, overstaffing and mismanagement rendered the industry out of date, operationally inefficient and financially uneconomic. Output was of low and inconsistent quality, and incapable of competing in world markets.

The late 1970s and early 1980s saw the introduction of liberalization policies which gave rise to the development of a large number of private sector small to medium production units, predominately in ready-made garment manufacture.

Competitiveness and Future Challenges

The analysis of the competitiveness and challenges facing the industry, its strengths and weaknesses may be done by considering the competitive structure of the industry, the characteristics of its factors of production and the nature of government intervention and support.

Competitive Structure

- The structure is heavily biased to spinning and weaving production, which is state-owned. Facilities are almost obsolete, organization over-manned and highly inefficient. Quality and delivery of output erratic and inconsistent.
- Private sector participation—predominately in knitting and ready-made garment manufacture—is increasing. Marked successes in some export markets. The sector has limited impact in world markets due to its small size.
- Local and international competition is intensifying.
- Large local demand for relatively unsophisticated goods. Local market growth is currently very modest.
- Multi-lateral (GATT) and bi-lateral (EU) trade agreements will result in increased competition from imported yarns and fabrics, and ultimately ready-made apparel.
- Companies often lack strategic vision, international marketing experience, market information and competent middle management. The organization structures of the majority of the companies tend to be incompatible with the requirements of export activities.
- Limited R&D and effective product development activities.
- Raw material locally available but at relatively high prices. The negative trend is mainly attributed to lower price of imported

yarns and, to a lesser extent, increased use of regenerated and synthetic fibers; and lower demand for local fabrics and ready made garments.

- Weak access to international markets through effective marketing channels.

Factors of Production

- Abundant land available for growth, with easy access to European, African and ME markets.
- Good quality cotton raw material sufficient to cover local and export markets.
- Availability of skilled and semi skilled labor and technical staff. Competitive wage levels.
- Productivity of labor lower than in other competitor countries such as China, India, Pakistan and Turkey.
- Well-developed road, rail, power and sewage infrastructure.
- Port infrastructure and operation in need of reform.
- Current interest and tax rates are high.
- Access to foreign currency for procurement of inputs is sometimes difficult.
- Government Intervention and Support
- Government investing heavily in industrial and "special economic" zones.
- Privatization plans for public sector companies proceeding slowly. The asking price for companies is often unreasonable for serious investors to consider.
- As in many developing countries, policies and institutions dealing with the manufacturing sector tend to be biased against SME's. Use of investment, credit, location incentives; and infrastructure provision, etc., favor firms with better resources.
- The legal, regulatory and commercial judicial systems are in need of serious review and overhaul.
- Attractive guarantees and incentives for international and local investors.

Conclusion

It is clear that the government and industry have complementary roles in creating an enabling industrial environment for the industry to grow and develop through increased local and international investment. Actions required may include:

- Clear and transparent fiscal and monetary policies to support an export-led economy.
- Government vision concerning the future of the industry should be translated into strategic plans for development.

- Ensuring efficient legal framework which can deal smoothly and promptly with issues concerning investments.
- Speeding privatization process.
- Promoting joint ventures which can provide technical assistance and access to global markets.
- Greater attention to product development and differentiation, and establishment of niche markets, which can provide added value and make use of Egypt's superior grade cottons.
- Raising awareness of the wide range of guarantees and incentives available to international and local investors.
- Raising awareness of the technical assistance available under donor funded programs (e.g., IMP).

Private Sector Investment in Developing Countries

Ioannis Kaltsas European Investment Bank

I felt that I had to come to this meeting not only because encouraging growth through private investment in the cotton/textile value chain is among the top priorities in the agro-industrial portfolio of the European Investment Bank, but mostly to bring an important message to the representatives of cotton producing and consuming countries.

We feel that this decade will be crucial for determining the competitive advantage in the cotton/textile value chain and that missing investment opportunities in the years ahead will have long term consequences for the development of the sector.

Over the last fifteen years, the European Investment Bank has financed more than 150 cotton/textile projects, big or small, in a large geographical region, and we have the confidence that investment in the cotton sector can be financially sustainable, economically profitable and environmentally sound both in developed and developing countries. My speech today will focus on private sector investment in developing countries, as we believe that the role of governments in these countries is more important in addressing market failures and promoting investment opportunities.

For those of you that are not familiar with the EIB, I would like briefly to underline that the European Investment Bank is not a bank like the others. It is the bank that executes the policy objectives of the European Union, inside and outside Europe. Last year, our loan volumes

amounted to 37 billion euros and our mandate covers more or less 150 countries across the globe. The role of the EIB besides financing projects is also that of technical assistance: to advise governments, private and public investors and other stakeholders on how to make better investment decisions.

It is a common secret among the international financial institutions, like the EIB, that the cotton/textile sector is one of the most interesting and at the same time one of the most complex for investment valuation. The difficulty of the sector is partially linked to the perplexity of its policy environment, whose understanding is imperative for any sound investment decision.

For example, we see more and more projects in the cotton/textile sector to base their revenue projections in a more liberalized market, after the enactment of the Multi-fiber Agreement in 2004. Investors often perceive uncertainty related to the pace of liberalization of state industries in a number of developing countries. Risk coming from the possibility that preferential agreements with ACS, Mediterranean and Least Developed Countries will be phased out one day. Complexity is also derived from constant changes both in agricultural and industrial policies of developing and developed countries, and from the increased pressure of consumer groups for higher environmental standards in the sector. Finally, new trade blocks are created and customs unions impose new terms in the competition game.

In this dynamic environment, investors in developing countries usually consider as their primary challenge the achievement of a sound financial profitability model given the historically large price volatility of cotton and yarn prices. Our experience, however, indicates that what is more important for the countries or the long term investors is the economic profitability of a project, in other words, the profitability that is not based on price and other market distortions.

Governments should also give equal gravity to the social and environmental sustainability of an investment program. The reputation of the country regarding environmental and social standards and the ability of the government to cooperate with investors to resolve problems should be considered equally important assets as, for example, tangible infrastructural assets of the country.

So, what are the challenges for governments?

Usually and unfortunately this question translates only to which incentives should governments give to attract investors. We feel that it is really inappropriate for the whole strategy of a government to be consumed in a discussion on what kind of subsidies should one give to bring local and foreign capital in the cotton/textile chain.

I do not want to be misunderstood. Sometimes reasonable financial incentives, carefully designed not to be asset stripping mechanisms, even in the form of subsidies can be welcomed, for example, in the case of an infant industry. However, a national strategy ought to have broader scope and vision. It should address infrastructural priorities, the design of an appropriate legal framework combined with serious efforts for its enforcement and the restriction of corruption.

OECD study in Africa, legal enforcement of existing legislation on second-hand clothing imports, Africa's production in yarn and apparel could quadruple in five years.

Feasibility studies that we are getting, even for small textile mills, production targeted in Africa up to 20%.

Governments should take actively the role of assisting the different stakeholders to grasp opportunities and resolve communication problems. And of course, it is the government's responsibility to defend and supervise the social and environmental dimension of investment programs. This duty should not be left to NGO's, to international financial institutions or to the philanthropy of the private sector.

Some months ago, we were appraising an investment project in a Caribbean country and to our surprise government officials told us that they had no objection as a Dutch NGO found it environmentally friendly and an international development bank assured them that it is against poverty.

I would like to conclude my speech by underlying that the European Investment Bank believes that there is a great potential also in the developing countries to attract investment in the cotton/textile chain. We want to alert governments to act now to take advantage of existing opportunities because preferential agreements have an expiration date. We aim at encouraging investors to focus on long-term sustainable projects and maximize value added along the cotton/textile chain.

We live in a fast changing world with changing investment challenges. Each stakeholder in the cotton sector, including government, should assume its responsibilities, which are probably different of what there used to be twenty or even ten years ago. In this changing environment, the European Investment Bank will remain a supporter of sustainable projects in the cotton/textile chain. If there are sound investment proposals out there we will be glad to consider them for long-term financing. Lack of access to finance cannot constitute any more an excuse for developing countries to miss development opportunities.

Difficulties Affecting Machinery Imports Based on Experience as a Controller

Peter Wakefield
Wakefield Inspection Services
United Kingdom

We sit here in the shadow of the pyramids to discuss cotton and cotton issues and, as has been mentioned this morning, cotton has been grown and traded in Egypt for not hundreds, but thousands of years. This great history has been sustained because at appropriate times, change has evolved to allow the trade to adapt to the new situations.

Today the industry is more global than ever and the challenges that face us are far different from those of our ancestors, but it is through such meetings and discussions taking place this week that we can understand each other's problems and seek resolutions. I have been asked to speak on difficulties affecting machinery imports and will do so through the eyes of a controller.

What does a controller see? Our role is usually in the pre-shipment inspection of the machinery, ensuring that the functionality is correct and the packing is secure and adequate. However, as far as difficulties are concerned, I will highlight some problems that we have encountered.

Recently, we had the experience of dispatching cardboard HVI trays for use in rapid conditioning of cotton samples from one country to another. The cost of the trays was US\$1,000.00; however, on arrival we found that there were various additional import levies to be paid—import duty / excise tax / vat / warehousing / customs fee and others, which eventually totaled the grand sum of over US\$2,000.00!

Import duties and taxes are understood, but in this case it is the cumbersome bureaucracy that has allowed an additional business to develop only for the clearance of the goods.

When preparing new legislation, it may seem expedient to ensure that a safeguard on duties is implemented, however it would assist if consideration were to be given to details such as:

- A single document must be stamped by two different departments within the customs house.
- After the first stamp is placed by customs, the tax office must receive payment, confirm and stamp the document.
- The document is then stamped by the second department at the customs house.
- These two offices are several kilometers apart and, therefore, a time consuming round trip is involved.

The argument is not that import duties are hindering investments in the cotton industry—provided, of course, that they are maintained at reasonable and acceptable levels—but it is the unlegislated unforeseen obstacles and behind the scene structures that artificially push up the cost of imports. These must be eliminated.

It is not always the restriction of imports, or the imposition of local import taxation that creates problems when dispatching machinery for use in cotton servicing.

Once the equipment is in place—and if you are lucky enough that all the parts arrive together and on time—that is when the headaches invariably begin to turn into migraines!

Whenever arranging to install equipment in a new location, one will always seek to ascertain all possible difficulties and attempt to cater for them in advance. However, the best forward thinking and planning does not always eradicate problems and there is always something totally unexpected that can occur.

I could cite many instances that have bedeviled operations in various countries and which were not foreseen—however, you will be pleased to learn that I will only mention two.

At one purpose-built HVI facility it was decided to have the sample trolleys manufactured locally—this to avoid delay and avoid import charges. All measurements were given to the manufacturer. The first trolley was produced and checked to ensure that all measurements were correct. Upon completion, the trolleys were duly delivered on time for the beginning of testing at the new laboratory. In this facility, loaded trolleys had to pass through three doors from the receiving area to the HVI laboratory. The first trolley was loaded with samples to be taken for conditioning into the HVI laboratory. To the naked eye, all doors appeared to be same height. You've guessed it—they weren't.

The height of the final door was one inch lower than the other two. Consequently, the trolley could not pass through the door. The problem was resolved by arranging for smaller wheels to be fitted to the trolleys.

Another example was with the rapid conditioning unit, which requires water. Low and behold staff arrived at the facility one morning to discover that the local city council had decided to switch off the water supply to the whole surrounding area. There was no pre-warning and to our dismay it was found that the water would be off not for a few hours, or days, but for some weeks!

They alleviated this unforeseen problem by installing a 1000-liter water storage tank and arranging to purchase deliveries of water to fill the tank every few days.

The previous examples represent the types of

problems faced, both within and beyond our control.

One of our strengths is the ability to move quickly, for example, moving people and services from place to place. A cotton classer may be working in Brazil today, but next week he will be in Uzbekistan and soon after that in West Africa, or here in Egypt. This is not difficult; however, as the trade requires more technical classing using HVI, we find that once a unit is installed in a country—in particular one that may have a short ginning and classing season—it is virtually impossible to temporarily remove it from that country, or vice versa, to import. We seem to find that once a piece of equipment is imported, authorities are very reluctant to let it go even for a few months. It is logical in business that we attempt to maximize the usage of our investments, but to do this, in this type of situation, we are required to follow procedures and incur costs that often make the operation impractical and/or cost prohibitive.

Many people sitting here today will have tried to carry a “port-air,” a portable micronaire machine, on to a plane. Oh, what fun, and I sometimes think that the designers of this black box were all high on something when they constructed the outer box.

- It is just a little too big to fit into the overhead locker.
- It is certainly too big to go under the seat in front.
- And every crewmember wants you to check this delicate piece of equipment into the luggage hold where it can be thrown around with all the other bags.

Yes, the designers never had to carry the “port-air” from one country to another. Do not misunderstand me, the “port-air” is a great piece of equipment, but where am I going with this little story? Well, it is simple and falls in line with my previous comments.

Attention to detail.

As with ensuring that import duties are manageable, we must ensure that the procedures are well thought out, simplified and practical or, as in this example, the piece of equipment that is designed to be portable, truly is portable.

I am please to note that the latest design is much improved and is much easier to carry.

I have spoken today of the imports of relatively small scale machinery and equipment, but the principle is the same, be it a single laboratory for the determination of quality, or the movement of an entire spinning mill from one country to another.

We are, all of us here today, members of the cotton community. Our business faces many challenges. Since the days of the pharaohs we have

looked to overcome such challenges and strengthen our industry. We are willing to invest and take risk in order to remain competitive. So, our message is simple.

We now truly operate in a global village where speed of action and flexibility are paramount. It is therefore time that international borders reflect this.

The Unfinished Agenda of Cotton Sector Liberalization in Egypt: Simulating the Supply of Lint Cotton and Price Risks for the Domestic Spinning Industry

**Albert Gierend
Mohamed Abo El Wafa
Heinz Burgstaller
Egyptian-German Cotton
Sector Promotion Program
(CSPP)**

Executive Summary

Cotton is the largest and most important agricultural subsector in Egypt. The cotton subsector employs around two million people deriving all or a part of their income from cotton production and transformation. The value of exports of lint cotton and cotton yarn, fabrics and garments reached LE 4 billion, or roughly one-third of the LE 12 billion total value of exports from Egypt in 1999. In recent years, however, Egypt's cotton sector has become increasingly less competitive. The whole sector including production, ginning, and spinning is on a clear long-term decline showing signs of severe and increasing market instabilities after the start of the liberalization in 1994. A market simulation model for the 2000/01 season was developed to analyze the economic effects of cotton pricing on the domestic spinning industry in Egypt. A second analysis looks at the risk reducing aspects of the current price policies, namely the export price and floor price system. The main conclusion of the simulation model is that the current practice of setting export prices is counterproductive to satisfactory export performance, to domestic market equilibrium, and to low unsold stocks at the end of the cotton season. The existing price regime turns price risks into market risks of over- and under-supply. The high costs of reducing price and income risks for farmers and spinners are completely borne by the government of Egypt.

Introduction

The government of Egypt is committed to liberalizing and privatizing the agricultural sector. In the past few years, the government of Egypt has gradually decreased controls on agricultural production, marketing and processing, by turning over economic decision-making to farmers, traders, and managers of processing units. Policy reforms to liberalize and privatize the agricultural economy are designed to improve efficient use of resources within the sector, leading to increased incomes and more competitive standing in the global market.

Cotton is the largest and most important agricultural subsector in Egypt. The cotton subsector employs an enormous number of people in Egypt. The number of employees dependent upon or deriving a part of their income from cotton production and transformation is close to two million. Exports of lint cotton and cotton yarn, fabrics and garments have traditionally earned a large portion of the county's foreign exchange. The value of exports of cotton and textiles reached LE 4 billion, or roughly one-third of the LE 12 billion total value of exports from Egypt in 1999.

In recent years, however, Egypt's cotton sector has become increasingly less competitive in the international market. Figures 1 and 2 highlight many of the current problems facing the Egyptian cotton sector. Production, consumption and export trends of seed and lint cotton are showing downwards. Thus, the whole sector, including production, ginning, and spinning, is on a clear long-term decline. At the same time it seems that the cotton sector became more prone to instabilities and market turbulences when comparing market data before and after the start of liberalization in 1994/95. This is especially true for production and carryover, which have experienced tremendous annual fluctuations. It is unlikely that those turbulences were caused by external shocks rather than by incompatibility of the partial liberalization in cotton production (e.g., to free the crop rotation control) and the continuation of the old official pricing system.

Cotton pricing is one of the most important policy issues facing Egypt today. This paper presents a market simulation model, which uses data from the 2000/01 season to analyze cotton pricing in Egypt. This type of model is a standard instrument frequently used by economic analysts. Through a series of equations, which represent the market structure and relationships among market participants, this model captures decision-making behaviors of consumers, traders, and processors. It will enable policy makers to explore the likely consequences of alternative decisions before putting them into practice, thus avoiding costly mistakes.

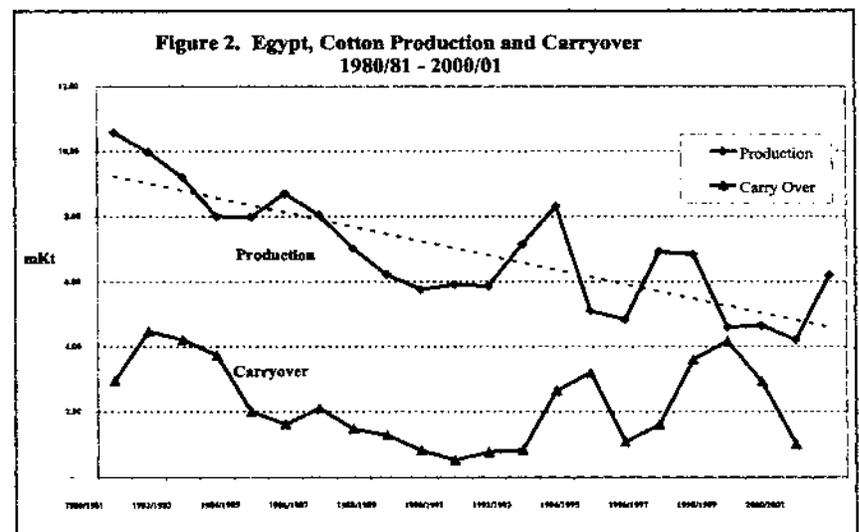
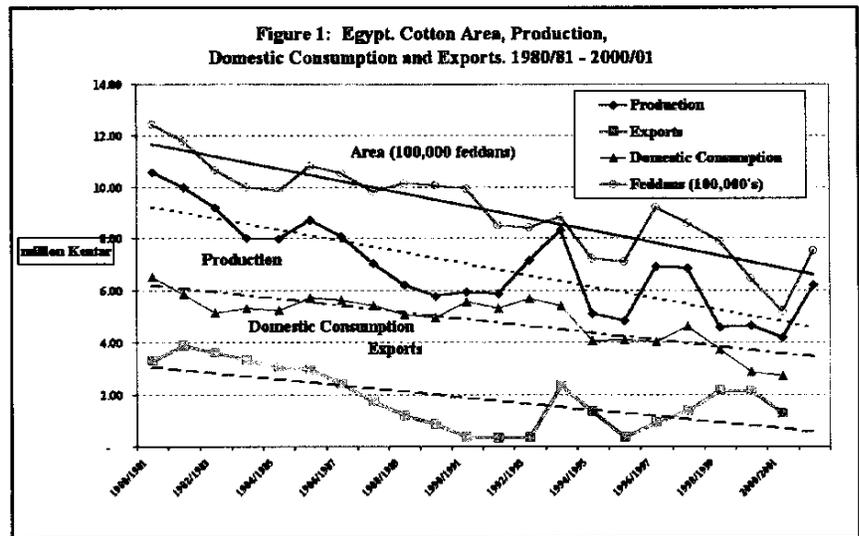
In this paper we illustrate how this model can

be used to assess and quantify the economic effects of different price policy regimes on the domestic spinning industry, namely those regarding (1) floor prices to producers, (2) minimum export prices for exporters, and (3) the price paid by spinners. A second analysis investigates how risks and uncertainty from fluctuating world market prices in the LS market spill over to the Egyptian market, and what are the economic implications for farmers, spinners, exporters, and the government of Egypt (GOE). The principal conclusion of the simulation model is that the current practice of setting minimum export prices is counterproductive to maintain a necessary state of market equilibrium with little budgetary outlays and government intervention activities, as well as a satisfactory export performance. The existing Egyptian price regime turns price risks into market risks of over- and under-supply. The high costs of reducing price and income risks for farmers and spinners are completely borne by the GOE.

A Two-market Cotton Simulation Model

Development of appropriate policy recommendations requires an understanding of how policy decisions affect prices, costs and other signals that determine the behavior of farmers, traders, exporters, buyers, textile industry managers and other government agencies. The simulation model described in this paper is designed to do just that. It incorporates numerical relationships among market participants in order to:

- Show the relationships and dynamics among factors affecting the cotton sector.
- Show the logical consequences of changes in policies and prices.
- Identify winners and losers from policy changes
- Explore policy alternatives and their likely economic impacts.



- Show the degree and propagation of external price uncertainty if the model can incorporate stochastic parameters.

The market model represents the 2000/01 season since it was the most recent year with a complete set of market information. The 2001 season as depicted in Table 1 did not show significant exceptions from the long-term trend in the Egyptian LS cotton market. Thus, model results are not biased and disturbed by effects that may be attributable to specific circumstances in the 2000/01 season. For the purpose of this analysis, the world market for LS cotton is divided into two separate markets, the Egyptian market and the rest-of-the-world (ROW) market. Figure 3 illustrates the basic structure of this model. Price elasticity of the ROW demand function is assumed to be minus 3. This value means that a 10 percent drop in the price will induce an increase of 30 percent in the quantity consumed. Elasticity of domestic demand is assumed to be minus 1.5. The price elasticity of world demand for LS is higher than that of domestic demand because LS cotton in the world market faces stronger competition from alternative substitutes such as ordinary short staple cotton as well as artificial fibers and blends. It should be stressed also that foreign demand elasticity refers only to the demand for Egyptian cotton in the ROW and not the overall demand of LS cotton. The disadvantage is that changes in the world market price caused by Egyptian exports and imports cannot be estimated by the model.

The economic assessment of agricultural policies is based on Applied Welfare Analysis using the principle of consumer, producer and government surplus as the monetary indicator for the economic consequences and redistributive effects resulting from alternative policy instruments (see Figure 1 in the Appendix). For the risk analysis part, a stochastic component is embedded in the market model using the RISK (Palisade Software TM) Program to define and reproduce market parameters (e.g., prices, quota) as stochastic variables.

The two major control instruments the GOE has in operation are the floor price and the minimum export price. Both prices send an allocative signal to producers and domestic and foreign consumers to adjust their behavior by increase or decrease production and consumption.

Background on Minimum Export Prices

Once a week, the Alexandria Cotton Exporters Association (ALCOTEXA) determines the set of minimum export prices for each variety and grade for the following week. Export contracts submitted to ALCOTEXA for approval must have prices equal to or higher than the minimum price. The government of Egypt advances several reasons why export prices should be set by a committee such as that of ALCOTEXA. First, it helps to ensure that Egyptian cotton receives its proper value, commensurate with its supe-

Table 1: Egyptian Cotton Statistics

Season	Area	Yield	Stock Sept. 1st	Production	Exports	Local Consumption
	<i>Feddan</i>	<i>Kentar/ feddan</i>	<i>1000 Kentar</i>			
1997/1998	859,255	7.96	3,604	6,841	1,390	4,622
1998/1999	788,812	5.74	4,167	4,594	2,170	3,734
1999/2000	645,417	7.12	2,919	4,654	2,143	2,882
2000/2001	518,319	8.11	994	4,201	1,273	2,708
2001/2002	750,788	7.42	1,073	6,195		

Source: The Egyptian Cotton Gazette, No. 117, October 2001

rior characteristics; and second, minimum export prices restrain competition by preventing Egyptian exporters from undercutting each other in bidding for deals with potential buyers. The

GOE fears that if exporters were allowed to compete freely for export sales, the outcome would be low prices and many traders would make losses and go out of business.

Table 2: Supply Mix and Costs of Lint Cotton for the Egyptian Spinning Industry (Part 1)

	Policy Scenarios				
	(1)	(2)	(3)	(4)	(5)
Producer Surplus (mLE)	193.15	195.16	195.16	195.16	232.26
Consumer Surplus (total mLE)	120.63	93.09	98.57	115.36	120.79
Total Surplus (mLE)	313.78	285.63	291.19	305.01	302.32
CS (1) (mLE)	120.63	91.78	91.78	91.78	56.53
CS (2) (mLE)	0.00	0.00	-0.27	0.00	-1.94
CS (3) (mLE)	0.00	0.00	5.79	20.82	40.84
CS (4) (mLE)	0.00	1.31	1.27	2.76	25.36
Deficiency Payment	0.00	0.00	0.00	0.00	0.00
Disposal Costs (mLE)	0.00	-2.62	-2.54	-5.51	-50.72
Price Discount (LE/Kt)	0.00	5.42	7.12	11.42	44.00

- (1) No price intervention, no imports allowed
 - (2) Current situation of year 2000/01, export minimum price at 421 LE/Kt, floor price (410 LE/Kt), no imports allowed
 - (3) Same as (2), but imports allowed up to 50 thousand Kt at 300 LE/Kt, basic requirement 2.5 mKt from all sources except carryover
 - (4) Same as (3), but imports up to 180 thousand Kt
 - (5) Increase export price (442 LE/Kt) and floor price (430LE/Kt) by 5%, imports up to 400 thousand Kt
- Consumer Surplus (CS)
 CS (1) Demand at official price
 CS (2) Involuntary demand
 CS (3) Imported short staple cotton
 CS (4) Carryover

Table 2: Supply Mix and Costs of Lint Cotton for the Egyptian Spinning Industry (Part 2)

	Policy Scenarios				
	(1)	(2)	(3)	(4)	(5)
Expenses for Lint Cotton (million Kt)					
At market price	1,090.60	978.21	978.21	978.21	798.71
Involuntary	0.00	0.00	53.24	0.00	148.15
Imports	0.00	0.00	15.00	52.94	101.47
Carryover	0.00	195.38	143.61	192.48	432.31
Sub Total	1090.6	1173.6	1190.1	1223.6	1480.6
Average price (LE/Kt)	409.43	418.17	416.62	410.21	405.64
Volume of Domestic demand of the Spinning Industry (million Kt)					
At market price (1)	2.66	2.32	2.32	2.32	1.82
Involuntary	0.00	0.00	0.13	0.00	0.34
Imports	0.00	0.00	0.05	0.18	0.34
Carryover	0.00	0.48	0.36	0.48	1.15
Sub Total	2.66	2.81	2.86	2.98	3.65

Background on Floor Prices

The Egyptian floor price policy was initiated in 1994 and guarantees a minimum domestic price of seedcotton each year. The floor prices are usually announced each year at the beginning of the planting season by the Cotton Marketing Supervisory Committee and are differentiated with respect to varieties and grades. The policy is intended to be financed by the government since it is designed as a deficiency payment system. To arrive at the seedcotton price, the export price of lint is converted to Egyptian pounds at the official exchange rate and then appropriate adjustments are made for ginning outturn ratio, marketing costs and the value of by-products. This is the equivalent export price at the farm gate. If the floor price is set higher than the equivalent price, then the government pays the difference as deficiency payment to the ginning industry. The deficiency payment tends to be very expensive since every kantar of seedcotton that is produced becomes subject to the payment. Therefore the GOE is acting very carefully in announcing a deficiency payment program when the circumstances of low market prices and over-supply emerge.

Policy Scenario 1: Costs of Lint Cotton Supply for the Domestic Spinning Industry

The entry point for assessing the impact of different policy scenarios on the Egyptian spinning sector are the costs at which spinning mills need to buy their lint cotton requirement to produce yarn of different counts for export and domestic use. Those input costs are affected by the domestic price level for different varieties and grades, by the possibility of imports of cheaper short staple lint cotton, and by the current carryover stock in the domestic market, which eventually creates opportunity to purchase lint at an attractive discounted price. Because this is a market model, other costs in the spinning industry such as overhead costs, labor costs, spinning technology and capital investments could not be factored in. However, since lint cotton constitutes between 60 and 70% of the total production costs, changes in the costs of this input item do have a significant impact on the overall costs in the spinning sector.

Sources of Lint Cotton Supply

For a detailed analysis of the effects of different policies on the Egyptian spinning sector, it is useful to decompose the supply of lint cotton to the spinners into four major categories as it is depicted in Figure 4:

1. The first category encompasses lint cotton that is purchased at the relevant market price derived from the opening price minus fobbing costs. This part of the demand is used by spinners to produce higher count yarn at a profitable margin. The economic surplus accrued to spinning mills

(indicated by the first gray triangle) is positive because the willingness to pay represented as the area under the demand curve is higher than the costs at which this cotton was bought.

2. The second category includes the purchase of additional LS lint cotton at the domestic price, which can be attributed to missing alternatives for imports of cheaper staple cotton. The reason for this “involuntary” demand fraction could be explained by the financial crisis and shortage of foreign currencies, low creditworthiness and reluctance of local banks to provide credit for lint cotton purchases other than from the domestic stock. The economic surplus is negative because the costs exceed the willingness to pay. Since the willingness to pay is a monetary indicator for the value added from processing cotton to spinning yarn, we can carefully argue that the involuntary demand represents the part of production generating losses, which is commonly known as “underspinning.”

3. The third category represents imports of short staple cotton to produce low count yarn. The consumer surplus accrued to spinners from imports is positive and increases with lower prices.

4. The fourth category represents the amount of cotton that the GOE is disposing from the carryover stock (if not sold for export) by paying a discount to potential buyers from the local spinning industry. The price incentive is variable and depends on the quantity the GOE wants to sell and the price expectation of the spinning industry to take up this additional amount. The economic surplus is positive and increases with the price discount.

Demand at market price, involuntary demand, and imports add up to constitute the basic requirement of lint cotton supply that is necessary

to maintain an economically sufficient capacity utilization in the spinning industry.

Simulation Results on the Costs of Lint Cotton

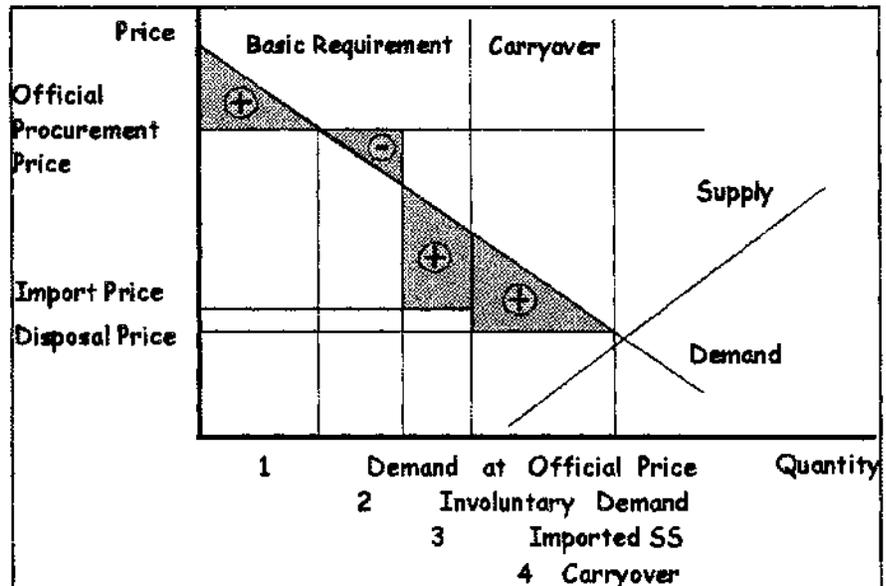
The first scenario in Tables 2 and 3 represents the baseline scenario where prices are determined by the market forces alone. Further, all domestic demand comes from local LS and no imports are allowed. Compared to the other scenarios, the absence of any kind of price controls is the most efficient policy option with respect to overall economic surplus amounting around 314 million LE, from which 193 million LE go to the cotton growers and the remaining to the local spinning industry. Market-determined prices balance local demand with production and export and prevent the accumulation of unsold stock. The only supply source for the local spinning industry is then what is bought according to the relevant domestic prices (2.66 million kentars at 409 LE/Kt).

The second scenario shows the actual situation in the year 2000/01 with an export-opening price of 421 LE/Kt and a floor price of 410 LE/Kt. The difference to the baseline scenario is (as expected) a drop in total surplus with slight gains to producers and losses to the local spinning industry buying local cotton.

Because prices deviate from the equilibrium price, a small carry over (480 thousand kentars) builds up that must be sold at a small price discount of 5.5 LE/Kt to the spinners. The price discount is calculated as the difference between the floor price at 410 LE/Kt and the disposal price (404.5 LE/Kt) at which all carryover is bought up by the local spinning industry.

The next two scenarios allow for imports of short

Figure 4: Possible Sources of Lint Cotton for the Domestic Spinning Industry



staple cotton. According to the type of yarn that is spun in Egypt (50 % of yarn produced is less than NE 20), significant quantities of short staple cotton from Greece, Syria and Sudan are suitable substitutes for LS Giza 80 and 83. Another modification is that a minimum demand for lint cotton is imposed at around 2.5 million Kt in order to maintain a certain capacity utilization of around 60%.

Scenarios 3 and 4 differ with respect to the amount of imports taking into account that due to financial problems (esp. the public sector) some spinners may lack foreign currency and/or are not eligible to import credits. Instead, those spinners (mostly public) must resort to more expensive local LS provided by public traders or the Holding Company. The last scenario assumes a 5% price increase on the minimum export price (442 LE/Kt) and on the floor price (430 LE/Kt) to investigate how a greater mismatch between the high official price and the lower world market price translates into changes in costs and the mix of lint cotton sources.

Tables 2 and 3 show clearly that starting from scenario 2 imports reduce significantly the overall costs per kantar lint cotton (from 418 LE/Kt in scenario 2 to 410 LE/Kt in scenario 4), but on the other hand imports put further pressure on the size of the carryover and the price discounts to be paid by the GOE to the spinning mills. Government costs to sell the carryover increase from 2.5 million LE to 5.5 million LE. Under a 5% price increase, the disposal costs tend to escalate and shoot up reaching 50 million LE. Imports, carryover and disposal costs are positively correlated. This implies that the higher the imports the greater pressure on the domestic supply and build up of carryover as long as exports do not catch up.

Netting out the benefits and costs, the local spinning industry can take advantage from both cheap imports and carryover bought at a price discount at the expense of the government budget. Most likely, the benefits from cheap imports are mainly captured by private spinners (better financial status), while cotton sold at a reduced price may primarily go to the public sector. This depends on the specific conditions made upon the payment of price discounts, such as mode of payment (whether paid in cash or refunded), and the willingness of the private sector to take risks in buying the cotton at full price and being reimbursed later.

Key Findings

- (1) Imports, carryover stock and disposal costs are positively correlated
- (2) Imports and carryover provide on an occasional basis considerable benefits and windfall gains to the domestic spinning industry.
- (3) High official prices depress local demand, inhibit exports, create large carryover, and urge spinning mills to search for alternative sources

by increasing their imports. The combined effects materialize in escalating costs for the GOE.

- (4) Besides the other reasons, public spinning mills are put in disadvantage as long as involuntary demand remains high and import of cheap cotton is limited.

Policy Scenario 2: Price Fluctuations in the World Market and the Effects on the Egyptian LS Cotton Market

Protection against market instability in international commodity markets and trade is a commonly found practice in agriculture. The main reason behind it is to stabilize farmers' income, export revenues or costs of imports. In Egypt, the GOE tries to protect cotton growers from price risks from the international market by providing a floor price as a minimum market price to help keep the profit for cotton growers stable over a season and over the years. In a similar fashion, the export opening price set as the compulsory selling price for all traders alike is aimed at preventing exporters to compete on price discounts for customers while keeping the export price and revenues at a high level.

The following modeling simulations analyze how price risks from the international cotton markets enter and propagate within the Egyptian cotton sector and who (farmers, spinners, traders and the GOE) are affected most in terms of exposure to fluctuating prices, costs and income. We compare a situation first with a free price formation (without floor and export opening prices); second, with floor and export prices in place at a constant price level, and third, a floor price and export price system in which prices are adjusted in line with the movements

of the world market price. For the latter policy simulation, a positive rank correlation of 4.9 was imposed between the two official prices (floor and export price) and the world market price. Policy scenarios 1 and 3 have in common that the domestic prices and world market prices move in a synchronic fashion (in scenario 1 the domestic and world market prices are identical. The difference is that in scenario 3, the domestic price level can be higher or lower than the world market price through the existence of a tax or price subsidy element.

Simulation Results on Price Fluctuations in the World Market

Simulation results in Table 4 show that world market prices in all three policy scenarios differ slightly as a result of three separate simulation runs (sampling size is 500) with each run per scenario creating a different set of random numbers. Each item in Table 4 is described by its mean and the standard deviation (SD) as a measure of variation. Producer surplus in the "free price" scenario is exposed to price risks in the same manner as the world market price fluctuates since, by assumption, the local market price equals the world market price. Thus, producers are fully exposed to the price risks that come from the world market. How strong these price fluctuations are depends on the demand and supply elasticity in the world market (influencing factors are the size of the market, e.g. how much is traded in relation to production, fluctuations in annual production, price sensibility of demand, substitution effect with man-made fibers, etc). Under a fixed price regime, producer surplus stays constant and is higher than the producer surplus in the "free price" situation. Cot-

Table 4: Simulation of World Market Price Fluctuations and the Effects on the Egyptian LS Cotton Market

		Price Policies		
		Prices are free	Prices fixed	Prices vary with the WMP (Corr. 0.9)
World Market Price	Mean	414.45	414.77	414.98
(LE/Kt)	SD	8.96	10.96	10.07
Producer Surplus	Mean	193.77	201.63	201.63
(mLE)	SD	21.10	0.00	27.08
Consumer Surplus	Mean	121.11	109.50	109.10
(mLE)	SD	15.85	4.71	6.48
Total Surplus	Mean	314.88	304.63	294.38
(mLE)	SD	5.48	4.71	16.73
Exports	Mean	868.00	811.40	806.73
(000' Kt)	SD	365.38	418.20	320.62
Carryover	Mean	0.00	296.27	209.32
(000' Kt)	SD	0.00	135.84	58.20
Disposal Costs	Mean	0.00	6,528.11	389.55
(000' LE)	SD	0.00	2,395.60	463.15
Price Discount Paid	Mean	0.00	6.41	1.47
(LE/Kt)	SD	0.00	4.90	1.50
Costs of Lint Cotton	Mean	1,089.45	1,116.75	1,120.07
(mLE)	SD	55.99	172.23	29.17
Average Lint Cotton Price	Mean	409.45	412.31	413.38
(LE/Kt)	SD	5.96	3.53	2.33

sis, price reforms towards liberalization will help in (1) stabilizing the domestic market of seed and lint cotton; (2) bringing back continuity in the volume of exports; (3) avoiding unnecessary huge carryover above a strategic stock; and (4) avoiding huge government outlays.

The stabilization of the year-to-year exports is— together with the contamination issue—the most important non-price factor for customers of Egyptian cotton who require a steady delivery of certain Giza varieties at certain grades. The importance of avoiding unnecessary large unsold stocks and carryover became clear in the analysis due to the inbuilt cost-escalating mechanism. For another reason, the GOE should not be too negligible on the carryover problem by perceiving the carryover as a temporary relief of the financial problems of the spinning industry and as an occasional source of low cost subsidized cotton. Although at first glance spinning mills can reap significant benefits, it puts managers of spinning mills into an incredible decision problem to properly manage their cotton supply due to uncertainties in the whole disposal transaction.

Second Open Session

Statement of the Chair of the Second Open Session

**Galal El Rifai
Egypt**

It gives me great pleasure to chair the Second Open Session which is about Providing Incentives for Improved Cotton Quality Through Measurement of Intrinsic Values.

During the past fifty years, the ways of measuring the intrinsic values of cotton have greatly developed. Previously, measuring the quality of cotton was mainly based on visual assessment through grades, hence the strong relationship between grades and fiber properties.

Over the years, instruments for measuring the quality and parameters of cotton fibers were introduced and developed until they reached great accuracy and are now standardized. This method makes it much easier for spinners to make their choice.

Personally, I think that the visual factor still adds a finer touch and should not be completely disregarded.

Today, we are going to listen to four experts from four continents who are going to enlighten us on this important subject. I introduce to you Mr. Charles Wilson, Cotton Australia's immediate past chairman and a cotton grower; Mr. Andrew Macdonald, director of Santista Textil in Bra-

zil; Mr. Bill Dunavant III, from Dunavant Enterprises in the United States; and Mr. Ibrahim Malloum, Paris-based commercial director of Société Cotonnière du Tchad in Chad.

A Consumer Dominated Economy and the Need for Quality Improvement

**Charles Wilson
Cotton Grower
Australia**

I have been asked to make the case that the cotton industry needs to meet consumer needs in order to grow as an industry.

As we are all aware, the cotton industry has faced a massive decline in market share over the past thirty years. In fact during the years from 1990 to 2000 man-made fiber consumption increased at a rate of 160% while cotton market demand increased by only 8.4% (ICAC 2002). The industry needs to ask itself a very big, Why?

Is it because we have not marketed ourselves as well as we should? Or are there some more fundamental issues that need addressing within the industry. Whatever the reason, as sure as we are all here today if the industry does not address this issue then in twenty years time there will be a lot less of us in this room.

Today I would like to touch on the need for the industry to meet consumer needs in order to grow and at the same time reverse this market trend. We must recognize that growers produce the same cotton but for two very different consumers: the mills to which his merchant is supplying, and also the end consumer in the marketplace.

Using the Australian cotton industry as an example, the major issues can be summarized below:

- To remain competitive, mills are increasing their processing capacity, and in doing so are demanding a better product from producers.
- Spinners are demanding a better description of cotton delivered.
- The Australian grower farm economics are now solidly based on customer wants and values.
- End consumer wants and demands are changing. Are we producing for consumers what they want/expect from natural fibers?
- A possible way forward from here.

At the recent Cotton Conference in Australia in August 2002, one of Australia's spinning customers, Hendra O. Husodo, gave an assessment of Australia's ability to continue to supply a product that spinners require.

Hendra gave an assessment of estimated "real" production speeds of spinning machines in 2010, placing an emphasis on quality. The chart below shows that over the last thirty years and estimated for the next eight to ten years ring spinning spindle speeds will continue to increase.

During the last International Textile Manufacturers Assn. (ITMA) show in Singapore, ring spinning speed of 25,000 rpm was not uncommon, though a production speed of 20,000 rpm (for combed yarn) and 19,000 (for carded yarn) would be better employed for yarn quality.

My point is that in a decade from now, spinners will undoubtedly continue to utilize higher spindle speeds in their production, and accordingly demand better quality raw cotton from growers, i.e. higher strength, uniformity and length.

Let me now talk about cotton specifications.

Firstly, spinning customers are not always clear on the specifications of the raw cotton they require. They need to become more specific in their needs.

In the mainstream "vanilla" standards of cotton, the need for further analysis is not as great yet. However the pressure of economics will eventually lead to a greater need for more descriptions—length, strength, micronaire and color are generally adequate for, say, denim production, however, as synthetic quality improves and spinners competition increases, then the need for better descriptions will occur.

Premium cottons however need better descriptions now.

Premium cottons need all of the above, i.e. length, strength, micronaire and color, plus measurements of neps, short fiber and stickiness.

I also believe that mills in the future will need to pay a greater premium for better quality cottons, which will encourage farmers and researchers to produce better quality lines. This may be at the expense of the vanilla lines.

Having accurate and agreed measuring instruments is a challenge the industry needs to grasp. Development of these instruments needs to be "fast tracked" to enable us to better describe and better compete.

Stocks of undesired cotton have always been the "bugbear" of our global market. Mills have the capacity to respond quickly to market signals from the retail end. Unfortunately, the response time at grower level is much slower and hampered in some cases by protection, subsidies from governments and slow information transfer. If you add in the sluggish turnaround time from the plant breeder end of the industry, then changes to fiber quality must accordingly be gradual.

In 1970, Australian cotton production was only about 100,000 bales a year with inferior cotton

characteristics; i.e. low strength of 24 GPT and staple length of 1-1/16 to 1-13/32. A decade later there was a considerable production increase to 500,000 bales a year with improved quality, notably in staple length and strength.

Australia now produces on average in a good season over 3,000,000 bales, and has earned a favorable reputation from spinners as a favorite, well-described product for the high quality yarn manufacturer. This has been achieved via a concerted effort by researchers and plant breeders, shippers and classers to "meet the market requirements" over the last two decades.

In Australia we have a quick response time from mill to grower through the use of basis, premium and discount sheets, good information flow, and pricing. Furthermore, we are not a protected industry. In addition, we respond quickly because we have innovative farmers, conduct very successful research and most importantly, because we export 98% of our product we therefore receive direct market signals from our customers.

The point is that the Australian grower's farm economics are now based on the spinning customer wants and values.

The other consumer (i.e. the end customer) has a different set of "wants." One of the key outcomes desired by today's end consumer is environmental stewardship.

For many years the global cotton industry has been criticized for its environmental management, or perhaps its lack thereof.

As we all recognize, issues such as:

- Water over extraction
- Pesticide contamination of landscapes and rivers
- Poor aerial spraying practices
- Vegetation clearing
- Decreasing water quality
- And so on (the list is ever growing in natural resource management circles)

have appeared high on the radar screens of consumers and governments in recent years.

Consumers and governments are now demanding of us all better environment stewardship. Recently it was reported in Australia that Australian business would miss out on new lucrative contracts because of our government's failure to sign the Kyoto Agreement. This is a message to the cotton industry that if they do not change these bad practices now, we may see our industry penalized.

There is no doubt in my mind that countries producing cotton that do not display good environmental practices will in the future find it harder to do business, and in some cases there will be penalties for bad environmental practice.

As a means of improving our environmental credentials, the Australian cotton growing industry

embarked on its "Best Management Practice" (BMP) program over six years ago. It is a voluntary, audited, uncomplicated process that splits the farming practices into modules of operation, e.g. pesticide application. It is an ongoing continual improvement process. To date approximately 50% of growers are progressing through the BMP process, giving the industry increased credibility in the eyes of the Australian public and government.

Other sectors of the industry are now keen to complete their own BMP. To date, the Australian Cotton Shippers Association (ACSA), the Cotton Classers Association of Australia (CCA) and the Australian Cotton Consultants Association (ACCA) have started their own BMP process. The industry is now investigating if there is an opportunity to market environmentally friendly cotton under the BMP label. Merchants and mills in general have not expressed great interest, so the industry is visiting end users; clothing manufacturers, retail outlets, etc. to gauge their enthusiasm.

We feel that this further emphasizes how close the direct relationship between growers and end users has become.

Finally, how can we enhance our production systems and integrate as an industry to succeed in the future?

As we know, the environment around us is changing. The global industry needs to seek and establish a management philosophy that takes into account changes in consumer needs as well as globalization, environmental responsibilities, and social responsibilities. The ICAC has a role to play for our industry.

Issues such as

Trust: This is the prime element in every business foundation. To trade and have trust that your contract will be honored is a basic need of any industry.

Global networks: The industry is old and the networks are in place. We should use these to our advantage more for promotion and industry restructure. We need to modernize, revolutionize, and get smart like our competitors.

Globally funded research: There is a desperate need to establish a mechanism to fund research into cotton textiles. Our competitors can do this easily through their companies and are reaping the rewards. If the cotton industry doesn't start researching better textiles then we will relegate ourselves to being a 20th century product.

Improving quality by better descriptions: To compete with synthetics we must better describe our fiber. Work needs to be done on getting instrument testing to a standard which is reliable and acceptable to all sectors of the industry.

Intellectual capital: Being generous with our

ideas. Using valuable industry knowledge to the benefit of the whole industry.

Environmental stewardship: Growing, processing and shipping our cotton in a way that the consumer is demanding—in harmony with nature.

And finally being creative: Our friends the wool industry have recently re-engineered their product because it didn't fit with the modern consumer. Cotton has the same challenge.

With the research and development sector providing new market specific varieties, the industry developing an industry-wide approach to marketing "Best Practice" cotton, and with ongoing and greater communication between spinners, customers and the industry, we feel there is hope for the survival of the Australian cotton industry.

We sit here today at the dawn of a new millennium in a country that is as old as the fabric itself. We have the opportunity to rise to the exciting challenges I have outlined. If we do, then I am sure that in twenty years time this room will be filled to overflowing.

Market-based Incentives for Improving Cotton Quality

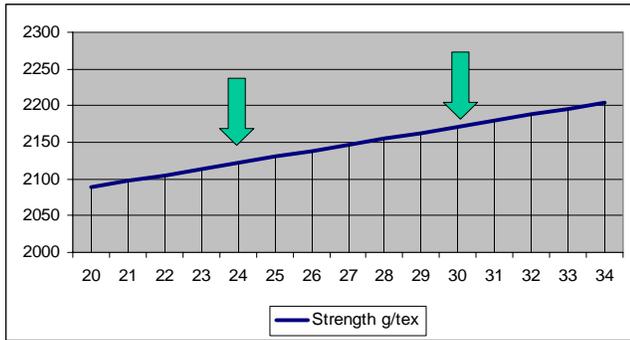
Andrew Macdonald
Santista Textil SA
Brazil

Nobody would question that HVI classing, or "computer classing of cotton" for those unaware of this term, is today, a reality, an indispensable tool for the textile industry, to maintain and improve quality and to control the application cost of cotton. No cotton textile industry can function today without the data that these instruments provide, and I believe the cotton trade understands that eventually the information will also have to be used as a pricing mechanism. The question remains how.

Today much of the world's cotton is still classed by hand and marketed accordingly, which glosses over the true value of cotton, and perhaps worse, fails to guide growers all over the world to seek the quality premiums this data should, and I repeat, should command. Why do I say should? Because even in those countries that class with HVI, in many cases they still use the old manual concepts for valuing the cotton. The principal excuse for this situation is that machines all over the world are not totally compatible for all the fiber characteristics. Which is true. Variations of calibration and air-conditioning greatly affect the results.

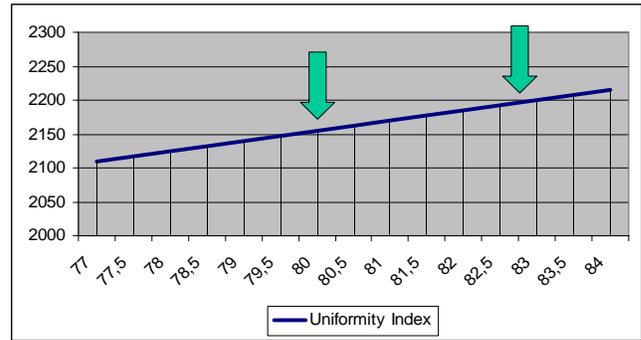
To overcome this difficulty, I am suggesting that the principle characteristics are commercially

Count Strength Product CSP
Fig. 1 STRENGTH



Length 1,10 - Mic 3,8 - Uniformity 80
 RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 2 UNIFORMITY



Length 1,10 - Strength 28 g/tex - Mic 3,8
 RD 76.00 - Plus b 8.00 Leaf 4

acceptable and therefore negotiable, whilst the other less consistent data could be provided with cotton shipments, as information only. That way as the information becomes more reliable, buyers will be better able to judge the intrinsic values of the cotton, thereby calculating and offering premiums accordingly.

In order to better understand the impact of this information and the real value of the cotton I would like to present a few charts showing the "spinning value" of cotton as expressed in CSP (Count Strength Product), an index available on HVI machines. The formula used in CSP is based on the theoretical spinning value of any cotton, which allows some characteristics to improve the value, or perhaps compensate for other defects.

I must stress the idea is theoretical, since at the end of the day, price formation must be by supply and demand, but I am suggesting that CSP, or any other similar calculation, allows the grower, trade and textile industry to better judge the performance of the cotton prior to spinning, and so, the value of one piece of cotton from another.

Count Strength Product is a mathematical formula calculated on spinning results achieved in yarn formation. The main components, which are measured on the HVI and included in the calculation, are:

- Strength
- Uniformity
- Length
- Micronaire
- Rd
- +b
- Leaf

For the examples to follow, I have taken a standard upland cotton, with the following characteristics:

- Strength 28 g/tex
- Uniformity 80 index
- Length 1.10 or about 1-3/32" staple length
- Micronaire 3.8
- Rd 76
- +b 8.00
- Leaf 4

In figure 1 **Strength**, we can see the increase in spinning value, CSP, on the axis, which is a pure

index, and for today's discussion will range between 1800 to 2500. On the horizontal we show the strength in grams per tex. As you see, as the strength increases so does the spinning value.

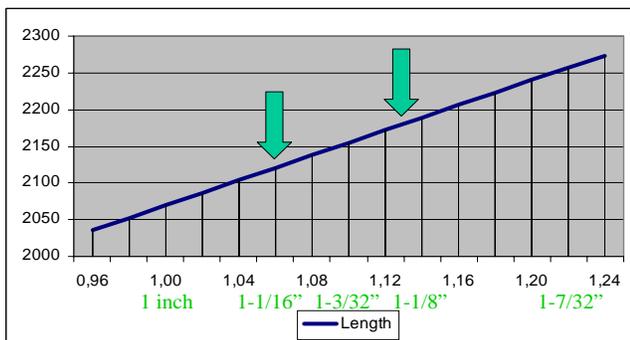
The normal upland cotton might range between the arrows; i.e. 24 to 30 g/tex, showing 50 CSP value increase. Mathematically this would mean about 2%, but, the increase in commercial value is not a straight line, but a curve that increases in value the higher the CSP factor. However, for this short presentation I will just show the CSP value and not discuss the commercial curve.

In figure 2 **Uniformity**, we can see the same pattern, with the arrows indicating a spread between 80 and 83 uniformity index, which shows a further 50 CSP increase.

Figure 3 **Length**, a steeper curve which shows the importance of this characteristic, though between 1-1/16 and 1-1/8 (1.06 UHM and 1.13 UHM) we again trace a 50 CSP increase in value.

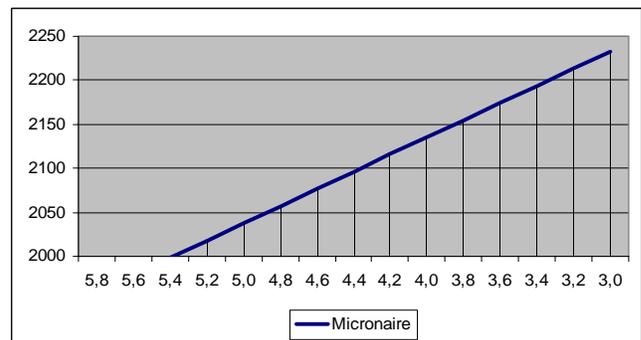
Figure 4 **Micronaire** is unfortunately much more complicated. A theoretical calculation would look like this, a very steep line, but in fact the question of maturity of the cotton takes its toll

Count Strength Product CSP
Fig. 3 LENGTH



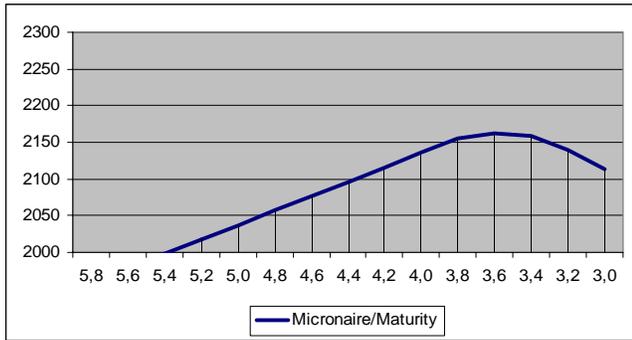
Strength 28,00 g/tex - Mic 3.8 - Uniformity 80
 RD 76.00 - Plus b - 8.00 Leaf 4

Count Strength Product CSP
Fig. 4 MICRONAIRE



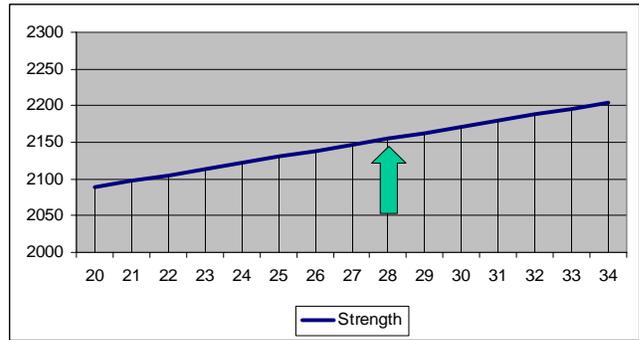
Length 1,10 - Strength 28,00 g/tex - Uniformity 80
 RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 5 MICRONAIRE



Length 1,10 - Strength 28,00 g/tex - Uniformity 80
 RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 6 STRENGTH



Length 1,10 **Strength xxxx** g/tex Mic 3,8 Uniformity 80
 RD 76.00 Plus b 8.00 Leaf 4

when the micronaire becomes finer, and the curve really looks more like in Figure 5.

Micronaire values are also complicated by the effect variations can make in the dyeing process which can alter the value depending on the end use, but that's another story. The CSP effects of

micronaire I will explain a little later.

Figure 6: We return to **Strength** and let us study the effects of the other characteristics to improve the CSP value of the cotton.

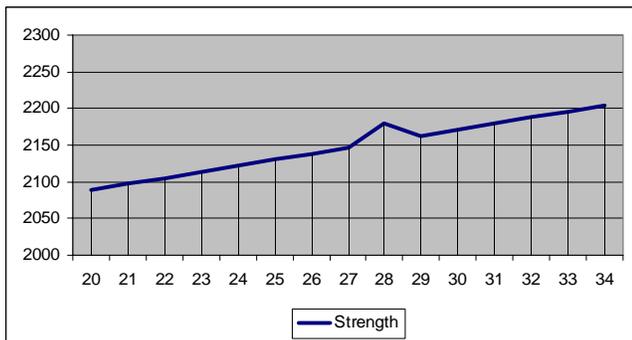
Figure 7: We increase the length to UHM to 1.13

(1 1/8"), the value improves considerably.

Figure 8: By increasing the uniformity index to 83 the cotton has now increased more than 75 CSP.

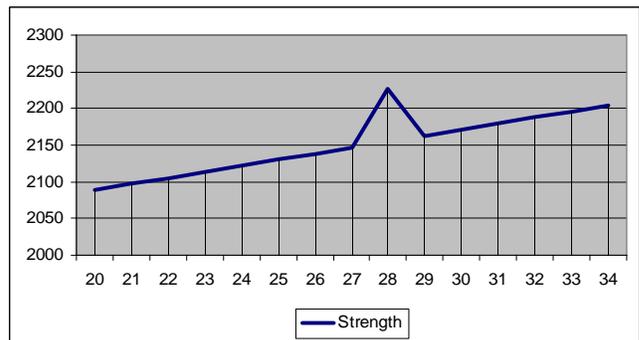
Figure 9: We can study the **Uniformity Index**.

Count Strength Product CSP
Fig. 7 STRENGTH



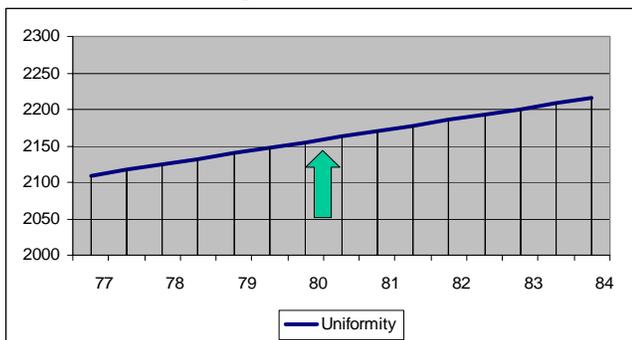
Length 1,13 - Strength 28,0 g/tex - Mic 3,8 - Uniformity 80
 RD 76.00 - Plus b - 8.00 Leaf 4

Count Strength Product CSP
Fig. 8 STRENGTH



Length 1,13 - Strength 28,0 g/tex - Mic 3,8 - **Uniformity 83**
 RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 9 UNIFORMITY



Length 1,10 - Strength 28 g/tex - Mic 3,8 - **Uniformity xx**
 RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 10 UNIFORMITY



Length 1,10 - **Strength 31** g/tex - Mic 3,8 - **Uniformity 80**
 RD 76.00 - Plus b 8.00 - Leaf 4

Figure 10: Strength increased to 31 g/tex.

Figure 11: Length increased to 1.13 and the value has increase by 50 CPS.

Figure 12: We can study the **Length** of the cotton in terms of UHM.

Figure 13: Strength increased to 31 g/tex.

Figure 14: Uniformity increased to 83 g/tex and cotton has increased by nearly 100 CSP.

Figure 15: We can study **Micronaire**, which is the fineness of the fiber.

Figure 16: We increase the strength to 31 g/tex.

Figure 17: Increase the length to 1.13 UHM.

Figure 18: Uniformity index to 83 gives the cotton an increased CSP value of over 100.

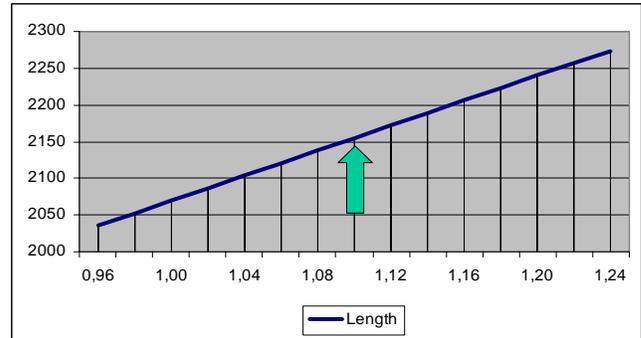
Figure 19: However, micronaire is a difficult animal since the relation to cotton values is not strictly direct. If we lower the strength to 24 g/tex, the curve becomes much more pronounced, and the lower micronaire loses value much faster.

Count Strength Product CSP
Fig. 11 UNIFORMITY



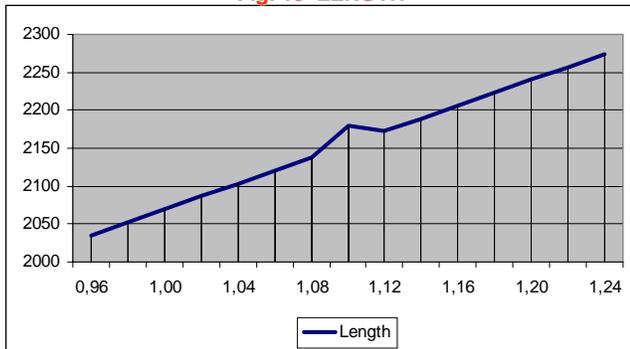
Length 1,13 - Strength 31 g/tex - Mic 3,8 - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 12 LENGTH



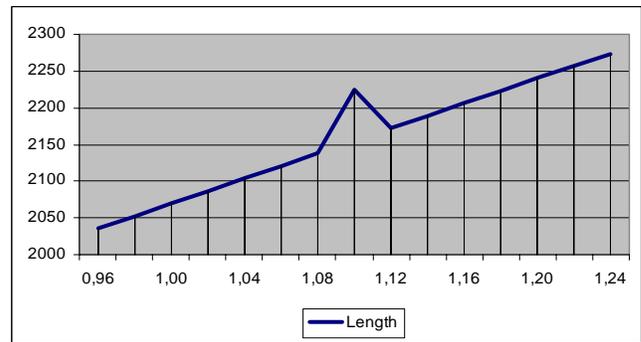
Length xxx - Strength 28,00 g/tex - Mic 3,8 - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 13 LENGTH



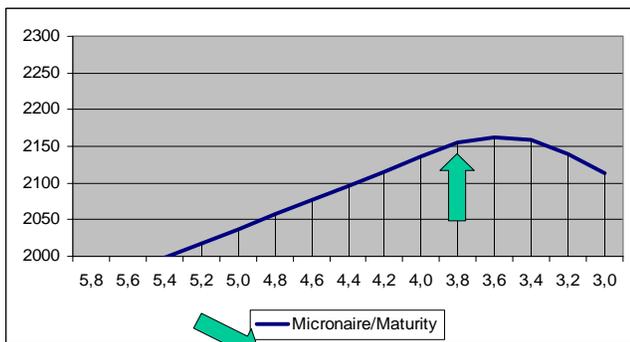
Length 1,10 - Strength 31,00 g/tex - Mic 3,8 - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 14 LENGTH



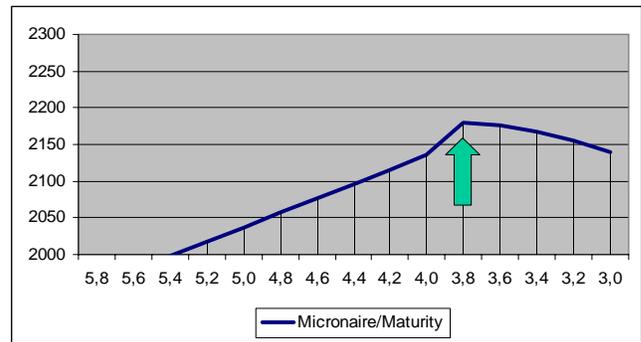
Length 1,10 Strength 31,00 g/tex Mic 3,8 Uniformity 83
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 15 MICRONAIRE



Length 1,10 - Strength 28,00 g/tex - Mic xxx - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 16 MICRONAIRE



Length 1,10 - Strength 31,00 g/tex - Mic 3,8 - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Figure 20: As we increase the strength back to 28 g/tex, notice how the 3.0 micronaire increases in value in relation to the higher micronaire.

Figure 21: In this chart we have increased the strength to 33 g/tex, (as well as the other characteristics length 1.13 and uniformity 83).

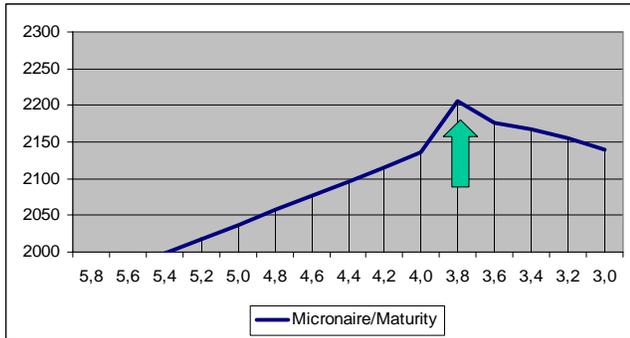
Figure 22: Increasing the strength to 35 g/tex we see a sharp impact on the low micronaire cotton.

Figure 23: Whilst here with 38 g/tex the values seem to go through the roof.

Figure 24: We have reduced the scale to show

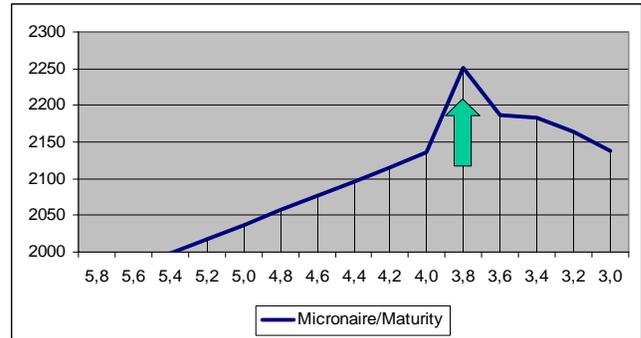
that the upward trend is limited. However if we increased the strength and length further the values would again move off the chart, which goes a long way to explain the premiums for long staple, low micronaire, high strength cottons, like we find here in Egypt.

Count Strength Product CSP
Fig. 17 MICRONAIRE



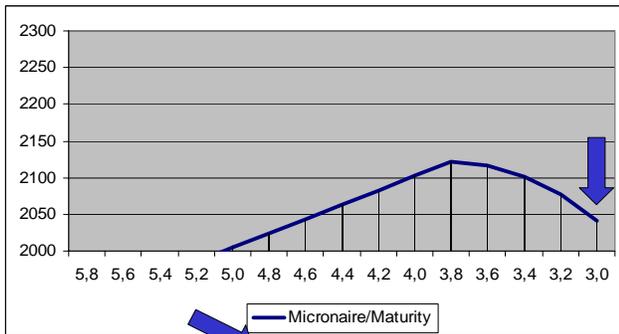
Length 1,13 - Strength 31,00 g/tex - **Mic 3,8** - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 18 MICRONAIRE



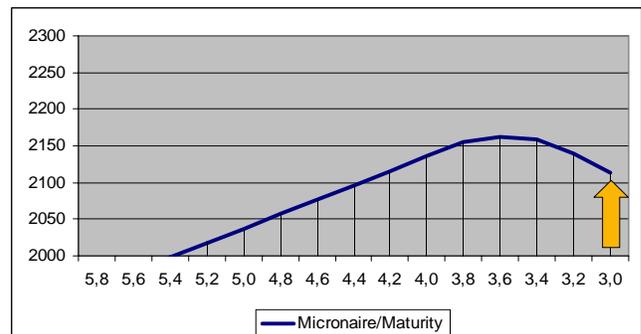
Length 1,13 - Strength 31,00 g/tex - **Mic 3,8** - Uniformity 83
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 19 MICRONAIRE



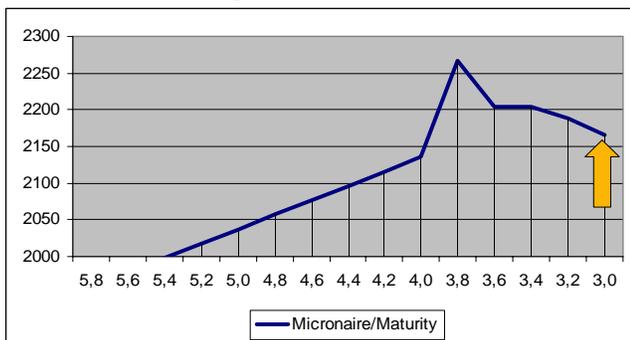
Length 1,10 - Strength 24,00 g/tex - **Mic xxx** - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 20 MICRONAIRE



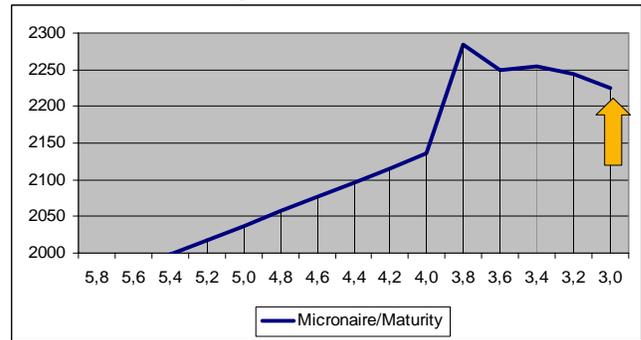
Length 1,10 - Strength 28,00 g/tex - **Mic xxx** - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 21 MICRONAIRE



Length 1,13 - Strength 33,00 g/tex - **Mic 3,8** - Uniformity 83
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 22 MICRONAIRE



Length 1,13 - Strength 35,00 g/tex - **Mic 3,8** - Uniformity 83
RD 76.00 - Plus b 8.00 - Leaf 4

Figure 25: Here we see the reverse effect. I have plotted the value for the standard cotton with a high micronaire of 5.0. We can easily see the enormous loss of spinning value.

Figure 26: However if we increase the strength to 32 g/tex,

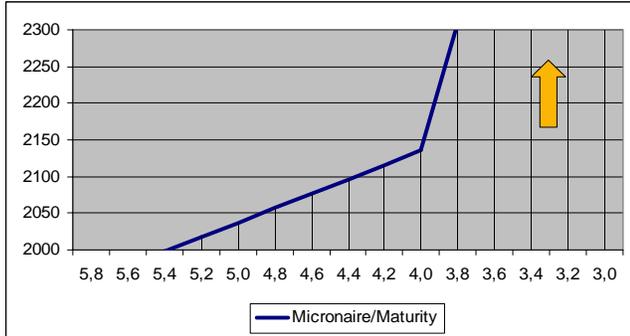
Figure 27: and increase the length to 1.13 UHM,

Figure 28: and increase the uniformity to 83,

Figure 29: and adjust the RD factor, the reflectance, we have brought the cotton value back into line with the standard.

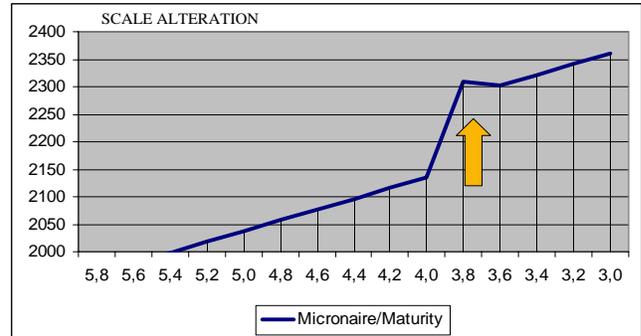
Figure 30: Mentioning the RD factor, this chart shows that the reflectance from which we determine the color of the cotton has a mild effect on the CSP. Taking a normal color range between 77 and 75, the variation is small, but I have not included these values in the comparisons, since color is considered in the grade value, which is another aspect of cotton classing which I have

Count Strength Product CSP
Fig. 23 MICRONAIRE



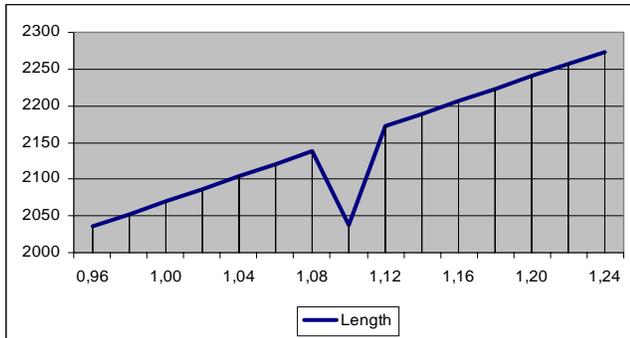
Length 1,13 - Strength 38,00 g/tex - Mic 3,8 - Uniformity 83
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 24 MICRONAIRE



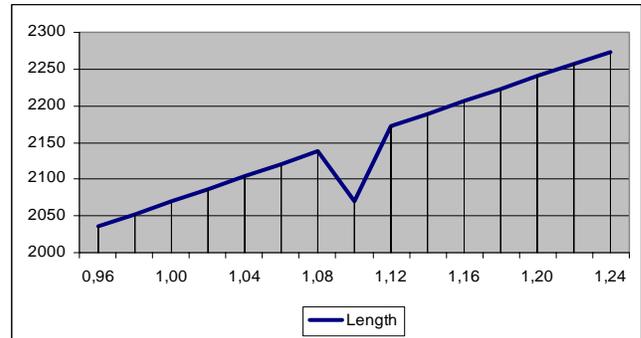
Length 1,13 - Strength 38,00 g/tex - Mic 3,8 - Uniformity 83
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 25 MICRONAIRE



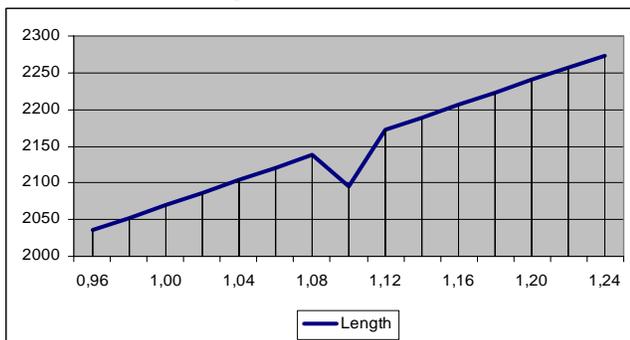
Length 1,10 - Strength 28,00 g/tex - Mic 5.0 - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 26 MICRONAIRE



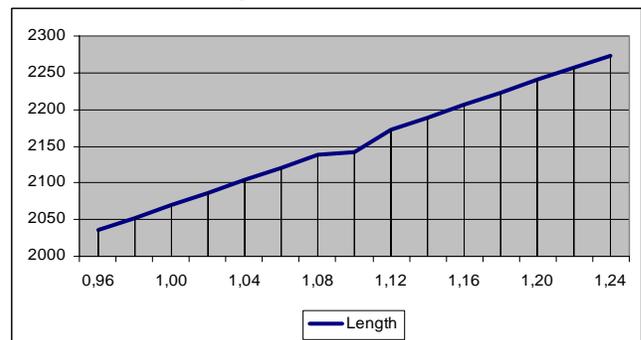
Length 1,10 - Strength 32,00 g/tex - Mic 5.0 - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 27 MICRONAIRE



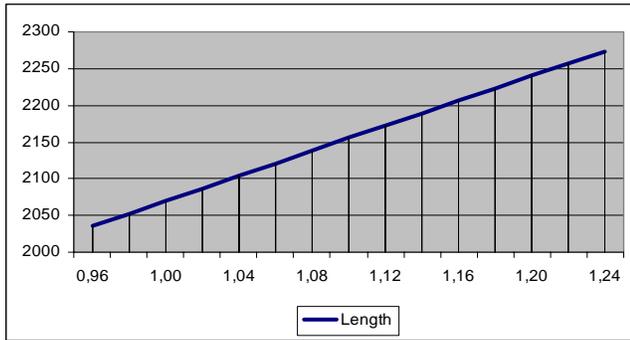
Length 1,13 - Strength 32,00 g/tex - Mic 5.0 - Uniformity 80
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 28 MICRONAIRE



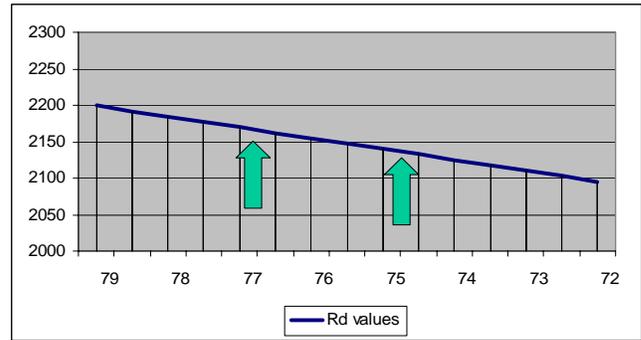
Length 1,13 - Strength 32,00 g/tex - Mic 5.0 - Uniformity 83
RD 76.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 29 MICRONAIRE



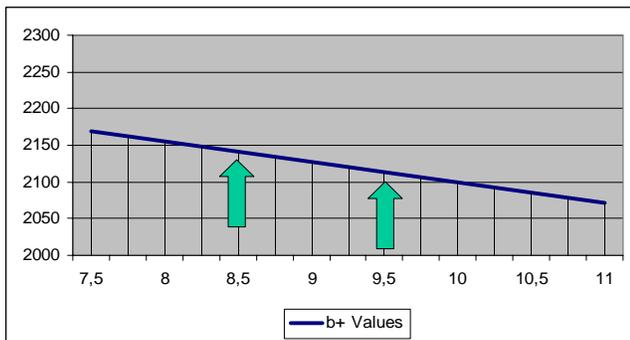
Length 1,13 - Strength 32,00 g/tex - Mic 5.0 - Uniformity 83
RD 77.00 - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 30 Rd Values



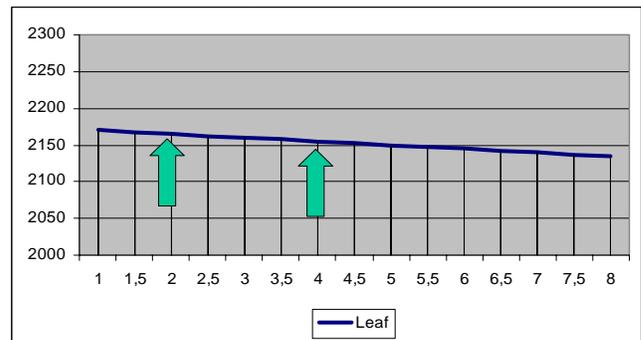
Length 1,10 - Strength 28 g/tex - Mic 3,8 - Uniformity 80
Rd XXX - Plus b 8.00 - Leaf 4

Count Strength Product CSP
Fig. 31 +b Values



Length 1,10 - Strength 28 g/tex - Mic 3,8 - Uniformity 80
RD 76 - Plus b XXX - Leaf 4

Count Strength Product CSP
Fig. 32 Leaf Values



Length 1,10 - Strength 28 g/tex - Mic 3,8 - Uniformity 80
RD 76 - Plus b 8 - Leaf 4

not covered in this presentation. We do not consider classing grades as intrinsic values, since they are visible to the human eye and can be valued accordingly. Even so the HVI is a tool which can assist or even determine the classing grade.

Figure 31: Show the +b values, or yellowness of the cotton. The range is between 8.5 and 9.5, and the same comments apply to this measurement.

Figure 32: The final slide shows us the CSP spinning values as they refer to leaf. You see the line is very flat, therefore the spinning value is little altered by the leaf content. However, the commercial reduction for leaf grade is accordingly based on the trash content, which represents a weight loss during spinning.

The idea of this short presentation was to explain how the spinner might value the cotton purchased, and I believe this has an application for growers and researchers to create the incentives for improving cotton quality.

Advantages of the High Volume Instrument System USDA, AMS, Cotton Program

Bill Dunavant III
Dunavant Enterprises
USA

Abstract

The United States Department of Agriculture (USDA) has provided the United States cotton industry with cotton grade standards and cotton classification services since the 1920s. The Cotton Program of the USDA's Agricultural Marketing Service was created for carrying out these missions through the legal authority of the U.S. Cotton Standards Act, the U.S. Cotton Statistics and Estimates Act and the U.S. Cotton Futures Act. Over the years, the Cotton Program has led the way for bringing technical developments to cotton classification. As a result, the U.S. possesses the most sophisticated and efficient class-

ing system in the world. The success of the U.S. cotton classification system is largely due to turning the early vision of instrument based classification into today's High Volume Instrument (HVI) testing system.

HVI classification has made possible many advances that would have been impossible through manual classification. For instance, where cotton classers are limited to estimating the staple length of a cotton to the nearest 32nd of an inch, the HVI is capable of providing accurate length measurements to the nearest 100th of an inch. In 2000, the manual classing of color was replaced by the HVI color grade, which is based on measured reflectance (Rd) and yellowness (+b). In addition, every bale classed by the USDA is tested for micronaire, strength, and uniformity index, all of which are impossible to call without instrumentation.

Besides the increase in the number and quality of measurements provided, the HVI has brought a number of collateral benefits. Increased automation has drastically cut the required training

time for cotton classers (from six months to six weeks) and reduced the number of classers required, which resulted in lowered labor costs. The HVI has also been extremely conducive to the implementation of automated data management, which makes accurate data available to farmers and merchants quickly.

Perhaps the most potentially important benefit of the HVI classing system is its flexibility. Improvements in manual classing are restricted by the limits of human visual acuity, and are also highly dependent on years of training and practice. The HVI system, however, is not hampered by human limits. As industry needs change, the HVI can grow to fit the new needs. Studies are currently underway, for instance, to measure and utilize moisture measurements at the HVI. New measurements, such as short fiber content and fiber maturity, are being investigated. As the cotton textile industry demands more cotton quality information, the HVI system provides the platform for developing new quality information.

Introduction

Prior to 1980, all cotton classing in the United States was performed manually by human classers. In that year, the first HVI lines were placed in practical use in a Cotton Program classing office, marking perhaps the largest change in the classification of cotton to date. At the time, the HVI was the culmination of years of research and hard work in the automation of cotton classing dating back to the 1960s.

In the 1960s, cotton seemed to be in decline, as manmade fibers advanced. Textile manufacturers were using more petroleum-based fibers and less cotton, and cotton's market share was steadily being eroded. In the face of this dire situation, the cotton industry began pushing for development of new technology to allow objective measurement of cotton fiber properties, which would help cotton compete with manmade fibers. The USDA funded research into the application of technology to cotton classing, and as a result the first instruments were demonstrated in 1968. While most of these instruments measure a single fiber property, there was a need for an instrument that could quickly and easily measure multiple fiber properties, and this need was filled by the HVI.

After the first HVI systems began service in 1980, they quickly proliferated as new models became faster and more accurate and efficient. By 1991, the entire U.S. crop was classed with HVI systems. Today, there are approximately 250 HVI lines in use within the USDA Cotton Program.

Weaknesses of Manual Classing

Before the advent of automation, all cotton class-

ing in the U.S. was performed manually by specially trained cotton classers. Classers went through a six-month school to learn cotton based on recognition of color, leaf, extraneous matter and staple length. When samples arrived for classing, a classer would determine the grade and staple for each sample. These values were tabulated manually and sent out to the customers by various media (printouts, punch cards, diskettes, etc.). Although this model was sufficient in the early years of cotton classification, it suffered from numerous weaknesses.

The first and foremost weakness of manual classing was its subjective nature. Humans, unlike instruments, cannot be calibrated, and keeping hundreds of classers all on the same level is difficult. This is particularly true given that an individual's performance will often drift during the workday due to such things as fatigue and state of mind. Classing performance is also affected by individual differences in visual acuity and the quality of lighting in different labs. Another weakness of manual classing is that it depends on a large base of skilled, highly specialized seasonal classers, which is neither cheap nor easy to ensure. Given that classers required a six-month training course to learn the manual classing skill, new classers could not be trained in the middle of classing season if replacement classers were required. Manual classing is also very inflexible. There are limits on the number of quality factors that can be measured by human sight and feel. While a machine-based classing system can evolve to provide new measurements as they are needed, a manual-based classing system is forever limited.

Automation and Labor-saving Ability

In virtually all industries, automation has been embraced largely because of its ability to reduce the amount of skilled human labor required. Cotton classification is no different. The HVI line is a fairly simple instrument to use, and it requires far less training to operate one than to learn to manually class cotton. The transition to HVI classification has enabled the Cotton Program to reduce the number of classers it requires, replacing much of the previous workforce with HVI operators. Because operators require so much less training time than classers, the use of HVI classification has greatly increased the flexibility of the Cotton Program in workforce planning. It is far easier to acquire new instrument operators as needed than new classers.

As a result of technological improvements, the Cotton Program has required fewer and fewer operators for a given volume of samples. Early HVI lines required three operators per instrument. In the span of approximately twelve years, instrumentation has advanced to the point that all USDA classing is performed on single operator HVI systems. For 2002, the first fully

automated zero-operator HVI system, known as the Automated Classing System (ACS), will be put into production.

As the number of quality factors measured manually has declined, the training time for classers has steadily declined as well. When classers called staple length, color, leaf, and extraneous matter, the classing school lasted six months. When staple was eliminated, the school was shortened to three months. Now, with color no longer taught to seasonal classers, classing school only requires six weeks. This reduction of training time saves the Cotton Program time and money and makes training new classers far easier.

Improvement of Measurements

Under the old manual classing system, quality measurements were limited to those factors that could be measured by the human classer and classing reproducibility was limited by the skill and training of individual classers. HVI classification drastically increased the number of quality factors that can be measured and has also improved the measurements that were previously performed manually. The HVI system has also allowed for improvement in establishing absolute reference standards. Prior to instrument testing, all reference standards for classification were established by human classers. Today instrument based reference standards are used for all classification measurements and provide the means for precise and accurate measurement calibrations.

Today, the HVI yields seven major measurements—length, strength, uniformity index, micronaire, reflectance (Rd), yellowness (+b), and trash. The HVI reports length to the 100th of an inch, which is a far greater level of precision than the human classer's staple length of 32nds of an inch. Strength, uniformity index and micronaire are all valuable measurements for the textile industry and none of the three can be measured manually. Rd and +b are combined to obtain an HVI color grade that replaced the human classer color grade in 2000. The only measurements still performed manually are leaf grade and extraneous matter.

The expanded list of measurements provided by the HVI has had several definite benefits for the cotton industry. With more data available to them, textile manufacturers are better able to select cotton with particular characteristics that suit their needs. Gin machinery manufacturers have modified the designs of their equipment to optimize measured properties. Without the additional measurements obtained from the HVI, none of these benefits would have been possible.

Advanced Data Management

Under the manual classing system, all quality

measurements were recorded on paper. Generally, a recorder stood between each pair of classers to write down their calls; sometimes there was one recorder per classer. Clearly, this was tremendously inefficient, and also likely to produce transcription errors. The advent of the HVI classification system served as a catalyst for the implementation of advanced data management techniques. All information from the HVI is automatically sent to the computer system, and later combined with the two grades from the classer to complete the record for each sample. This eliminates the need for recorders and greatly speeds data transmission and availability, as well as eliminating transcription errors. While computerized data management would be compatible with a manual classification system, it is a necessary prerequisite for HVI classification.

Flexibility and Improvement

Although the points already mentioned make a powerful case for HVI classification, there is a much more important point yet. That is the flexibility of the HVI system and its capacity to change and improve. The capacity for the HVI to include new measurements is only limited by technological advance and ingenuity, rather than by the limits of human vision and training. The HVI already offers several measurements that are impossible to duplicate manually, and no doubt several new measurements—such as short fiber index and fiber maturity—will be added in the future as industry demands them. Existing measurements will also improve as technology advances. Moisture measurement at the HVI may one day eliminate the need for tight lab conditioning requirements and provide for a more robust test.

The advent of the HVI system has also provided the opportunity for the possible expansion of instrument-based classification. The concept of gin-based classing is currently being debated. Although gin classing has not been developed nor proven, the opportunity for such a system is potentially possible due to the flexibility developed into the current HVI system. It is this capability to change to meet the needs of the cotton industry that makes HVI classification superior to manual methods.

Conclusion

HVI classification is here to stay. The HVI system has been proven reliable, effective, and efficient over more than twenty years of use. By improving and expanding the quality measurements available, the HVI has been of enormous importance in marketing U.S. cotton and keeping it competitive in the world market. Continual, ongoing research is devoted to expanding the number of measurements available on the HVI as well as refining the existing measurements.

As technology improves, the role of manual classing will only decline further, and as synthetic fibers improve and profit margins decline, instrumentation will play a larger and larger role in keeping cotton competitive. Adoption of the HVI classification system worldwide will play a major role in the continued success of the world cotton industry.

Utilization and Constraints of the High Volume Instrument (HVI) Classification System in Chad

Ibrahim Malloum
Cotontchad

Traditional Classification

Classifying cotton is an art. It is done by a classer and consists of assessing the quality of the fiber based on the following criteria: grade, color, impurity content, preparation and yarn length.

Grade

Grade includes leaf content, color and preparation. It is determined on the basis of the quality standards used as benchmarks by classers. These standards may be the universal standards of the United States, or African standards for African cotton, or even private standards used as benchmarks.

The classer visually estimates the leaf content. This basically means the leaf, bract and husk debris contained in the fiber. Leaf content depends on the cotton variety, the harvest procedure (manual or mechanical), harvest conditions and the quality of the ginning operation.

Preparation

Preparation may be defined as the degree of smoothness or roughness of the fiber. For African cotton—generally picked by hand—preparation essentially depends on the speed and quality of ginning.

Color

The color may be white, cream, colorless or colored. A number of factors may influence the color of the fiber: rainfall, insects, fungi, excessive humidity or heat during storage of the seedcotton or the lint.

The classification is performed in the classification room, equipped with a special light called "day light." Before classification, the cotton is first conditioned in a room with a temperature of 20°C and 65% relative humidity.

To generate technological data, the classifica-

tion room must be equipped with a real laboratory containing the following equipment:

- Fibronaire to determine the micronaire
- Fibrograph to measure length
- Stelometer to measure strength or pressley
- Shirley analyzer to determine impurities, etc.

HVI Classification System

The HVI classification system became increasingly common in the 1980s and truly widespread in the 1990s, when all American cotton production switched to HVI classification. HVI classification has resulted in profound changes in cotton production and marketing, as well as in the use of cotton in spinning operations.

With respect to cotton production, HVI results are used for research and varietal improvement. For researchers involved in varietal selection, it is particularly important to understand and explain the variability of the fiber's technological characteristics within a specific geographic area. For the purposes of varietal improvement, it is necessary to obtain rapidly, and in sufficient number, the results from technological analyses of the fiber of selected varieties. The results must in any event be available before the time of sowing the new crop for the selection process to be fully effective.

With respect to cotton marketing, until recently cotton was sold on the basis of length (pulling) and grade, as determined by a classer with all the subjectiveness that such a system may entail. Today, under the HVI classification system, classers feel supported in their work. In addition, armed with complete information on technological characteristics, sellers are better able to position their products in the marketplace.

Indeed, when a seller can provide a client with reliable technological results, it is altogether logical that cotton with guaranteed technological characteristics should command a higher price than cotton with no such guarantee.

The HVI analysis provides information on the basic characteristics of a cotton sample:

- Length
- Uniformity (%)
- Strength (g/tex)
- Micronaire (maturity-fineness complex)
- Elongation
- Percentage of short fiber
- Colorimetry, etc.

I will not attempt to analyze and define these different parameters, which are not my field of

expertise. Instead, I will leave it to more highly qualified individuals in this room to discuss these matters in detail. However, we can briefly state the key elements influencing some of these parameters.

Length

Fiber length is primarily a varietal feature. However, length may be affected by a number of factors:

- Lengthy exposure of cotton in the field to extreme temperatures.
- Nutritional deficit of the plant.
- Excessive use of cleaners during the ginning process.

Strength (g/tex)

As with length, strength depends on the variety and may be affected by a nutritional deficit of the cotton plant. There is a strong correlation between fiber strength and thread strength.

Degree of strength	HVI strength (g/tex)
Very strong	31 or more
Strong	29-30
Medium	26-28
Weak	24-25
Very weak	23 or less

Micronaire

The micronaire is a measurement of the fiber's fineness-maturity complex. It may be influenced by the following factors:

- Late sowing.

- Weather conditions during the plant's growth cycle such as temperature, amount of sunshine, and volume and distribution of rainfall.

A micronaire between 3.5 and 4.9 is generally considered the basis of commercial contracts. Any cotton outside this range will be discounted.

Conditions for Proper Operation of an HVI System

For the analyses to be reliable, the HVI system must meet a number of conditions:

- The system must be in perfect operating condition and properly calibrated.
- The room where the system is located must meet hygrometric and temperature standards: the temperature must be maintained at 20°C within a range of plus or minus 1°, and the relative humidity at 65% within a range of plus or minus 2%.
- The samples to be analyzed must be conditioned to reach a humidity level between 6.75% and 8.25%. It is generally agreed that cotton fiber reaches hygroscopic equilibrium in four hours, which means that a sample may be analyzed if it has been subjected to standard conditions (65% relative humidity and a temperature of 20°C) for at least four hours.

The quality of the measurements obtained by using an HVI system largely depends on the quality of the air conditioning in the room where the analyses are performed. Hygrometric variations have a strong impact on measurements of

the fiber's technological characteristics, particularly strength and elongation. Proper air conditioning is thus indispensable.

Constraints Limiting Efficient Use of HVI in Chad

In some African countries and specifically in Chad, classification under the HVI system is constrained by the difficulty in maintaining a guaranteed temperature and relative humidity in the room where the analyses are performed, as required by HVI standards. The air conditioning and electric supply are very often inadequate.

Maintaining the HVI system is a real problem. There is no technician in charge of routine maintenance; the smallest problem puts the machine out of operation and then the services of a repairman from Switzerland are required. Spare parts are not available locally and need to be ordered from the manufacturer, with delivery often coming after very lengthy delays.

There are other constraints of a logistic nature: marking the cotton bales, inventory control in mills and ports, etc.

All these constraints notwithstanding, African producers have no other choice than to provide their clients (merchants and/or spinners) with reliable information on the technological characteristics of their product. We need to remove the constraints quickly because generalized use of the HVI system is irreversible, and any country unable to provide reliable HVI data will suffer the consequences.

Statements to the Steering Committee

Second Meeting

Statement of the Private Sector Advisory Panel (PSAP)

**Felix Stiegwardt
Chairman PSAP**

The members of the Private Sector Advisory Panel wish to convey their thanks to the ICAC for the opportunity to exchange views on matters of importance to the world cotton industry. Members of the private sector recognize the importance of the support of governments for a healthy cotton sector.

Eleven members of the PSAP met with the Secretariat on 20 October 2002 and agreed on the following report to the 61st Plenary Meeting of the ICAC.

Business Plan and Plenary Meeting Venues

The PSAP continues to support both the Secretariat business plan and the principle of a rotation of plenary meeting venues among importer and exporter markets and between regions.

Good Trading Practices

The issue of supporting good trading practices, or contract sanctity, remains high on the agenda of the PSAP. The PSAP notes that a basic function of government is to ensure the rule of law, and that government support for the enforcement of contracts provides a crucial incentive to all parties active in cotton trade to fulfill contractual obligations. The PSAP is anxious that the ICAC Standing Committee continue to address this issue, and the PSAP supports fully the work of the Secretariat in identifying member countries whose laws recognize and allow enforcement of international arbitration agreements, with the aim of encouraging others to do likewise.

It was reported that private organizations are actively engaged in efforts to encourage contract fulfillment, and they are striving to find more effective ways of discouraging defaults on contracts. It was reported that the Liverpool Cotton Association (LCA) late last year changed its by laws in order to prohibit access to its arbitration procedures in disputes in which either party to a transaction has failed to abide by an arbitration award and whose name has been circulated accordingly, and has urged other arbitral bodies that are members of the Committee for International Cooperation between Cotton Associations

(CICCA) to do likewise. Furthermore, the LCA now prohibits members from knowingly trading with defaulters, on pain of potential expulsion.

The PSAP supports the discussion of "Sanctity of Contracts" at future Plenary Meetings and suggests it is appropriate for the ICAC to support the activities of the United Nations Commission on International Trade Law (UNCITRAL). In addition, the PSAP encourages freedom of contracting in the private sector.

The PSAP requests that governments urge their textile industries not to enter into transactions with parties in default.

Increasing Use of Electronic Trading

The PSAP recommends that the Secretariat continue to monitor developments in the field of increasing use of electronic trading.

Enhance World Cotton Demand

The PSAP notes that the International Forum for Cotton Promotion is progressing with its work and that major cotton producing countries are being encouraged to develop national organizations to promote cotton in domestic markets. The PSAP notes that members of the Forum have prepared an excellent synopsis of ongoing cotton market development in member countries, which will be presented during a workshop on Thursday 24 October 2002.

The PSAP believes that the work of the International Forum for Cotton Promotion deserves the full support of the ICAC. The PSAP supports the recommendation of the Chair of the Standing Committee that the ICAC expand the Secretariat to provide professional support for the work of the IFCP.

Government Measures

The PSAP remains highly concerned about government measures that distort cotton production and trade. The Conference on Cotton and Global Trade Negotiations co-sponsored by the ICAC in July in Washington was constructive, and the PSAP issued a statement at the Conference in support of the objective of encouraging a successful outcome to the talks on agriculture in the WTO.

The PSAP is concerned about the increased imposition of non-tariff trade barriers in cotton such as phytosanitary quality restrictions. The PSAP suggests that the Secretariat add the subject of non-tariff trade barriers to its annual report on government measures and recommends that governments not resort to indirect restrictions on trade in cotton.

Improved Productivity and Pest Control

The PSAP discussed the success experienced in different countries. Some countries where cotton is grown on small farms experience difficulties as a result of poor, ill-educated farmers receiving no government assistance. Pest control and fertilizer use are often limited and ineffective.

In other countries, subsistence farmers are contracted by private enterprises and provided with seed, bags, pesticides and education. As a result of this low cost approach (US\$40-45/ha), trust was developed between farmers and enterprises. The relatively low cost of the exercise is noted as a strong reason for the success of the partnership.

It was agreed that a successful experience in one region did not necessarily translate to the same success being experienced elsewhere. However, the PSAP agreed that education in the use of appropriate seed selection and pesticide use was a key factor in improving productivity and successfully managing pests. Governments were seen as important partners in offering this training to farmers.

Quality

The PSAP recognized that the development of a standardized, universally accepted, consumer-oriented quality classification system is an important goal. The PSAP notes that tests that work consistently with cotton from some regions do not necessarily take into account qualities of cotton produced in other regions.

The demands of specialized textile mills must also be considered where cotton of a consistently high quality is important to the efficient running of the operation.

The PSAP believes that measurement standards from competing companies are suitable in different situations.

Governments are encouraged to recognize their role in facilitating the development of appropriate quality standards. The PSAP concludes that the ICAC should encourage the development of consumer-oriented quality standards by promoting the subject with governments.

Genetically Engineered Cotton

The regulation of GE cotton on the basis of sound science has already been supported by the ICAC in the 60th Plenary Meeting. However, the PSAP notes that customer acceptance has met significant emotional resistance in some markets.

The PSAP concluded that more effort is needed in GE education by the Secretariat through distribution of reports and other means as appropriate.

Price Risk Management

The PSAP believes that access to price risk management instruments is important to small cotton farmers to assist them in protecting their investments. The PSAP also notes that government regulations such as financial laws that prohibit insurance coverage from foreign companies can be an obstacle.

The PSAP suggests that a simplified description of price risk management tools emphasizing insurance rather than hedging, which is often confused with speculation, be developed in

order to encourage a more informed debate on the matter. The PSAP notes that market conditions differ in each country, and price risk management instruments need to be tailored to domestic conditions.

Membership

The PSAP encourages the Secretariat to seek the membership of leading participants in the cotton industry. The PSAP will assist in these efforts where possible.

Election of a Chairman

Mr. Andrew Macdonald was elected Chairman of the PSAP for 2002/03. Members of the PSAP thanked Mr. Felix Stiegwardt for his work as Chairman during 2001/02.

Next Meeting of the PSAP

The next meeting of the PSAP is tentatively scheduled for Wednesday 21 May 2003 in Washington DC. The PSAP hopes that it will be possible to arrange a discussion with the Standing Committee at that time.
