



INTERNATIONAL COTTON ADVISORY COMMITTEE

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Report of the 31st Meeting of the Private Sector Advisory Panel (PSAP)

Nine current members of the PSAP, three former members and six private sector observers met in Cartagena, Colombia on September 29, 2013 at the start of the 72nd Plenary Meeting of the ICAC. The executive director, the incoming executive director and the executive director of the International Forum for Cotton Promotion (IFCP) also attended the meeting. Mr. Alois Schönberger serves as Chair of the PSAP, and Mr. Shiou-Chung Chen serves as Vice Chair.

Members Present: Shiou-Chung Chen, Tah Tong Textile Company, Taiwan; Atif Dada, Karachi Cotton Association, Pakistan; Ahmed Elbosaty, Modern Nile Cotton Co., Egypt; Sebahattin Gazanfer, All Textiles and Raw Materials Exporters' Association of Turkey; Adam Kay, Cotton Australia; João Luiz Pessa, GFN Agricola, Brazil; Alois Schönberger, Cottonex Anstalt, Poland, Antoinio Siarkos, Siarkos S.A. Cotton Ginning, Greece; Jorge Vartparonian, Camara Algodonera, Argentina.

Members Absent: Romano Bonadei, Filartex, Italy; Henning Hammer, Otto Stadlander, Germany; Hamisi Kigwangalla, MSK Solutions Limited, Tanzania; Suresh Kotak, Kotak and Co., India; Manfred Schiefer, Schiefer Trading, USA.

Observers: Neal Gillen, ICAC Representative to UNCITRAL; Jeff Silberman, IFCP; Kai Hughes, ICA; Andrew Macdonald, ABRAPA; Fatih Dogan, ITKIB-Turkey; Ken Yamaoka, JCTA, Japan; Michael Murray, Cotton Australia; Chun-Yuan Chen, Tah Yao Textile Co. Ltd., Taiwan; Fritz Grobien, Bremen Cotton Association, Germany; Melissa Wang, Taiwan Textile Federation.

Secretariat: Terry Townsend; José Sette

Report of the Meeting

1. Impact of the National Reserve in China on the Cotton Industry

As of the end of September 2013, stocks in the China National Reserve are between 7 and 8 million metric tons. The Reserve is expected to grow to around 12 million tons by the end of 2013/14. The Secretariat estimates that total world stocks at the end of this season will be 19 million tons, leaving just 7 million available to the world cotton market, unless policies change.

The Reserve policy of the Government of China has many impacts on the world cotton market: prices remain above average even though stocks are record high; prices of cotton are above those of competing fibers and cotton's share of world fiber use is being negatively affected; market participants are not sure how long the current reserve policy will continue, thus adding uncertainty to the world market.

As stated in reports to the 70th Plenary Meeting in Argentina and the 71st Plenary Meeting in Switzerland, the PSAP observers that disruptions to cotton marketing exacerbate problems of contract defaults and distort markets by causing imbalances between supply and demand. Such policies are rarely, if ever, imposed on chemical fiber trade. Governments are urged to ensure transparency in policies by informing all market participants of changes in policies and programs in a timely fashion. Governments are urged to avoid policies that disrupt markets as such policies often have unintended consequences which result in a weakening of the cotton value chain. Governments and the cotton industry are urged to strengthen efforts to enhance demand for natural fibers, including cotton.

2. Defaults on Contracts:

The PSAP wishes to inform governments that defaults on contracts remain a significant problem in the world cotton industry, with the list of firms who have failed to fulfill valid international arbitral awards

arising out of contracts for trade in cotton having grown to about 650 as of September 2013. Defaults on contracts result in higher costs for producers, merchants and spinners and disrupt marketing systems.

The PSAP urges countries to ensure that valid decisions of the ICA are automatically enforceable, as provided by the provisions of the New York Convention of 1958. Second, the PSAP urges governments to take heed of an annual report by The World Bank, "Doing Business," and in particular to improve the procedures for enforcement of contracts in countries where contract enforcement is difficult, time consuming and expensive. Third, the PSAP asks governments to be aware of the list of firms reported to have failed to fulfill awards resulting from arbitrations conducted by CICC Member Associations when determining eligibility for programs funded by governments. Fourth, the PSAP urges governments to avoid abrupt and retroactive application of trade distorting measures.

3. ICAC Business Plan: Priorities for Spending

The Secretariat developed a business plan in 2002 in response to a recommendation from the PSAP that was approved by the Standing Committee. Revenue from publication sales, registration fees at the plenary meeting, reimbursement for travel to national conferences and consultant fees earned by members of the Secretariat working with other international organizations are included in the business plan. The Secretariat receives about \$60,000 per year from these sources. Prior to 2012, much of the revenue from the business plan was used to reduce government assessments in support of the Secretariat. However, based on a recommendation from the Subcommittee on Budget and approved by the Standing Committee in 2012, business plan revenue is now used to augment Secretariat programs. Accordingly, the resources available for discretionary application are larger now than prior to 2013.

During the PSAP meeting in New Orleans in May 2013 the PSAP suggested several priorities for the use of business plan income, and the executive director subsequently developed specific budget proposals in support of those priorities. During the 31st meeting of the PSAP in Cartagena, the PSAP approved the following recommendations for submission to the Standing Committee:

- \$ 6,000 per year toward workshops and conferences, such as the role of public procurement in cotton textiles, and the impacts of private sector investment in cotton production.
- \$2,000 for additional technical articles in the ICAC Recorder
- \$20,500 for support of the IFCP and the Discover Natural Fiber Initiative – an outgrowth of the IYNF 2009
- \$15,000 per year toward a part time position with the Secretariat to drive PSAP priorities;
- 10,000 per year to hire a technical consultant; example: pesticide use in cotton, or
- \$ 5,000 to defray the participation expenses of developing countries in the CSITC.

The executive director was urged to communicate these recommendations to the Subcommittee on Budget in Washington for further consideration and potential implementation.

4. EU Membership in the ICAC:

Members of the PSAP note that there is a possibility that the European Union may ask to join the ICAC and that the EU intends to apply for accession to membership in the ICAC on the basis of one country, paying one assessment, and exercising one voice or one vote within the ICAC. The PSAP is concerned that membership of the EU in the ICAC on such a basis would restrict the participation of cotton industry bodies in the work of ICAC working groups. Without presuming to advise governments on membership matters, the PSAP urges that the ICAC should ensure that multiple voices from the private sector continue to be heard by members of the ICAC.

5. Administrative Issues:

The 32nd Meeting of the PSAP will be held in Bremen, Germany during March 20, 2014 during the International Cotton Conference Bremen, at the invitation of Mr. Henning Hammer.

The PSAP thanked Mr. Alois Schönberger and Shiou-Chung Chen for their service as Chair and Vice Chair of the PSAP for the past year. The PSAP elected Mr. Jorge Vartparonian, Tipoti, Argentina as the

Chair of the PSAP, and Mr. Shiou-Chung Chen of Tah Tong, Taiwan, to serve as Vice Chair of the PSAP during the year from the end of the 72nd Plenary Meeting until the end of the 73rd Plenary Meeting.