



INTERNATIONAL COTTON ADVISORY COMMITTEE

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Memorandum 929

To: Delegates to the Standing Committee, Coordinating Agencies, members of the PSAP, SEEP and CSITC

From: Executive Director

Subject: Report from the Private Sector Advisory Panel (PSAP)

Date: April 2, 2014

Report of the 32nd Meeting of the Private Sector Advisory Panel (PSAP)

Nine members of the PSAP met in Bremen, Germany on March 19, 2014 on the margins of the 32nd International Cotton Conference in Bremen. Three private sector observers and the Executive Director joined the PSAP members. Mr. Jorge Vartparonián serves as Chair of the PSAP.

Members Present: Ahmed Elbosaty (Modern Nile Cotton Co., Egypt); Sebahattin Gazanfer (All Textiles and Raw Materials Exporters' Association, Turkey); Adam Kay, (Cotton Australia) by telephone; Suresh Kotak, (Kotak and Co., India); João Luiz Pessa, (Abrapa, Brazil); Manfred Schiefer (Schiefer Trading, USA) represented by Neal Gillen; Alois Schönberger (Cottonex Anstalt, Poland); Antonios Siarkos (Siarkos S.A. Cotton Ginning, Greece); and Jorge Vartparonián (Camara Algodonera Argentina, Argentina).

Members Absent: Romano Bonadei (Filartex, Italy); Shiou-Chung Chen (Tah Tong Textile Company, Taiwan); Mohammed Afif Dada (Karachi Cotton Association, Pakistan); Henning Hammer (Otto Stadtländer, Germany); Hamisi Kigwangalla (MSK Solutions Ltd, Tanzania); and David Machingaidze (Cotton Company of Zimbabwe, Zimbabwe).

Observers: Andrew Macdonald (Abrapa, Brazil); Jeff Silberman (International Forum for Cotton Promotion); and Peter Wakefield (Wakefield Inspection Services, China).

Secretariat: José Sette.

Report of the 32nd Meeting of the Private Sector Advisory Panel (PSAP)

Government Intervention in World Cotton Markets

The PSAP noted that government officials in at least one cotton importing country were unjustifiably rejecting shipments on phytosanitary grounds, under the allegation that proper fumigation had not been performed. Members wished to draw the attention of Standing Committee delegates to the need for uniform treatment of fumigation practices and respect for international protocols on phytosanitary certificates. Arbitrary rejection of legitimate certificates increased costs and uncertainties associated with trade, thereby reducing the competitiveness of cotton. PSAP members offered to brief the Standing Committee on appropriate procedures to be followed, in order to raise awareness on this issue.

With regard to subsidies and other forms of government intervention in the world cotton market, the PSAP noted the importance of the ICAC as an unbiased supplier of objective studies, statistics and other information on cotton. It resolved that this issue should remain on the agenda, to enable the PSAP to monitor new developments.

Contract Sanctity

PSAP members noted the continuing relevance of this topic, even though price volatility had declined in recent years. Repercussions of sharp movements of previous years, which had caused widespread defaults within the cotton sector, were still being felt despite a considerable improvement in compliance with contracts. The PSAP believed that governments should become more aware and involved in the creation of an environment where contracts were duly honored. An appropriate forum for a wider discussion of issues involving contract sanctity would be the upcoming ICAC plenary in Greece. The PSAP would draft a proposal (attached) to dedicate an open session to this topic, bringing together a range of stakeholders in the cotton value chain, for submission to the organizers of the meeting.

Efficiencies in Cotton Trading

(a) Phytosanitary certificates

Members observed that questions related to phytosanitary certificates had already been covered in discussions on the first item of the agenda.

(b) World bale numbering system

Members noted the desirability of a uniform numbering system that would make the origin of bales readily verifiable. Such a system would be particularly important in enhancing traceability, as was increasingly required by retailers and manufacturers who use various certification systems. They noted, however, that many cotton producing countries already have their own long-established bale numbering systems in place and that it would be difficult to convince them to agree to a standardized format. In conclusion, members supported a uniform approach but believed that practical difficulties prevented its application in the near future. Further study is justified and the item should be periodically reviewed.

(c) Classification of cotton samples as hazardous cargo by courier companies

Members noted that courier countries in some countries treated cotton samples as a hazardous cargo, creating delays and increasing costs. While noting that the importance of samples had diminished in many markets, as HVI results were increasingly used, members considered that the free movement of samples is desirable in the interests of market liquidity. WIS and SGS will together undertake an informal survey in order to ascertain which countries and/or firms were causing the most problems. The results of this survey would be analyzed at a future meeting of the PSAP, so as to decide on a course of action.

(d) Establishment of a standardized method of transmitting gin data to HVI laboratories

Members considered that the Task Force on Commercial Standardization of Instrument Testing of Cotton (CSITC) would be the appropriate venue for appreciation of this topic.

European Union Membership in the ICAC

The Executive Director reported on developments regarding negotiations for the membership of the EU in the ICAC. Conversations were still at an initial stage and the Standing Committee had established a Task Force

(TFEU) to deal specifically with this matter. At its first meeting, the TFEU had expressed concerns about the impact of the initial EU proposal on the assessments paid by other members and about the need to continue to enrich the work of the ICAC by maintaining a diversity of voices from the EU, which might be lost if the EU joined as single member. The possible impact of this question was particularly relevant to the PSAP, since the terms of reference of the Panel specifically state that each member of the ICAC shall have no more than one representative on the PSAP. PSAP members noted the importance of EU membership and the need for the PSAP to continue to be as broadly representative as possible of the entire cotton value chain.

ICAC Business Plan

PSAP members noted that the 2014/15 budget cycle was only now beginning and that they would prefer to provide input regarding priorities in the expenditure of funds raised under the business plan in a future meeting, when more concrete information about the resources available would be presented.

Administrative issues

(a) Date of next meeting

The next meeting will be held during the ICAC Plenary Meeting (2-7 November) in Thessaloniki, Greece. Members will be informed beforehand of the date.

(b) PSAP membership

The Executive Director informed that letters would be sent to the Coordinating Agencies in the near future requesting them to nominate members of the PSAP for the 2014/15 period.

(c) Working of the PSAP

The Executive Director noted the importance for the ICAC of receiving input from the private sector. He hoped that this fruitful exchange of ideas could continue under his mandate. He would circulate a brief questionnaire to he In order to assess the expectations of PSAP members with regard to that body,

Mr. Vartparonián concluded the meeting by thanking the Bremen Cotton Exchange for its hospitality in facilitating the meeting of the PSAP. He thanked members of the PSAP and the observers for taking part in the meeting, and he thanked the Secretariat for its support.

Attachment 1**Proposal for agenda of the 73rd Plenary Meeting of the ICAC**

In its meeting in Bremen on 19th March 2014, one of the topics discussed by the Private Sector Advisory Panel was the excellent agenda being prepared by the host country, Greece, for the 2014 ICAC Plenary Meeting.

In this context, the PSAP determined to recommend to the Standing Committee and the host country that, without detracting from the merits of the current proposal for the agenda, adequate time should be set aside for a discussion of the major problem faced by the world cotton sector today, namely the commercialization of cotton.

The contract defaults that have plagued the cotton business, especially in the last few years, result principally from price volatility, and open the door even wider for manmade fibers to increase their market share in the market, as cotton spinners look for raw materials that do not suffer from extreme volatility and risk. The international list of unfulfilled arbitration awards demonstrates that the number of contract defaults is growing and that enormous amounts of money are outstanding. The response from the cotton trade has been to tighten further the restrictions invoked against defaulters, which in turn will create even greater barriers to normal cotton trading, and thereby allows manmade fibers to slowly gain more ground.

The lack of contract sanctity extends further up the value chain, as weavers, garment manufacturers and retailers also freely renege on their commitments. In turn, this forces non-compliance down the chain until finally arriving at the spinners and the cotton traders, who are bound by international trading rules that do not allow defaults to be passed onwards.

In an attempt to tackle this dire threat to the very existence of cotton, the PSAP proposes that the question be addressed in a full plenary (open) session, to be included to be held at an early point in the agenda. The session would take the form of a panel discussion that would seek to understand the difficulties and threats faced by cotton trading today, and how these might be addressed with the support of member countries. The panel would put forward their points of views and suggestions for the appreciation and attention of all official delegations. Rather than presentations, the proposal would be for a moderator to ask leading questions to a panel, composed of experts from different segments of the cotton trade, (including producers, traders, representatives of international trade organizations, spinners and retailers). There would be no formal presentations or scripted responses, but each member of the panel would be free to express their concerns and suggest solutions.

The PSAP believes ICAC member governments will be very supportive and interested in these discussions, which may pave the way for a more secure environment for the trading of cotton.