

REPORT  
OF THE  
EXECUTIVE DIRECTOR

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INTERNATIONAL COTTON  
ADVISORY COMMITTEE

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Mr. Chairman, distinguished delegates, observers and guests, thank you for the opportunity to address this 74<sup>th</sup> Plenary Meeting of the ICAC since 1939.

The world cotton sector has entered a time of transition, bringing with it many changes in the way we operate. After five years of supply exceeding demand, production has fallen and is approximately in line with consumption. However, cotton still faces many challenges, the most important of which will be discussed in this Plenary.

### **The World Cotton Market**

From 2010 to 2014, the most important development in the world cotton market was an enormous accumulation of stocks. During this time, production surpassed demand by more than 13 million tons, almost all of which is still stockpiled in warehouses around the world. At the end of the 2014/15 season, the world stock-to-use ratio stood at 0.89, i.e. available stocks were sufficient to cover almost eleven months of world mill use. This is the highest level since records began to be kept after the end of the Second World War and more than double the ratio that used to prevail only ten years ago.

The vast majority of this build-up in stocks occurred in China, where official stocks are in now excess of eleven million tons as a result of government support measures. In some senses, this policy can be said to have accomplished its objective: the price of cotton remained consistently high and above its long-run equilibrium level. So, growers in general and especially those in China benefited. A further benefit has been a dampening of the volatility of cotton prices, which caused turbulence in the world market in 2009-11.

In the longer term, however, the accumulation of stocks has proven unsustainable. Therefore, when China announced last year that cotton policies would be changed and no longer rely on purchases for official stocks, the market was understandably cautious. Some feared that the change in policy would be accompanied by a sharp drawdown of stocks, with inevitable pressure on prices due to increased supply. Although prices have fallen, this worst-case scenario has not come to pass. China has indeed shifted its support for the cotton sector to a system based on direct subsidies, which has a more limited impact on the world market than its previous policy of stock accumulation. The question remains as to how and when this stock will be reduced. The answer is still unclear. Regular auctions of cotton from official stocks were initiated in July of this year, but demand has not been active at the minimum sales prices set by government authorities. Consequently, less than 100,000 tons have been sold at the time of writing and the impact on overall supply has been negligible. These limited sales, coupled with a production deficit, are forecast to cause the stock-to-use ratio to decline to 0.86, a slight reduction in comparison with the previous year but still high in historical terms.

Chinese policy-makers must strike a delicate balance. If current high levels of stocks are maintained, then storage costs will continue to be incurred and the quality of inventories is likely to diminish over time. However, prices will be supported. If stocks are drawn down more rapidly, prices will fall and expenditures on direct subsidies will rise.

In the short term, participants in the cotton value chain must carry on as if we are in a “new normal”, while maintaining a watchful eye on developments in China.

Meanwhile, falling prices have led to increased support of cotton sectors by governments all over the world. ICAC’s annual report on “Production and Trade Policies Affecting the Cotton Industry” shows that government support for cotton has surpassed US\$10 billion, the highest level since our organization first started to collect data on this subject. This report provides

members with invaluable and objective information for evaluating the role of public assistance to the cotton sector and making informed policy decisions. As such, it is an important example of the benefits of the existence of a body such as the ICAC.

### **Promoting Demand for Cotton**

Prices have fallen considerably in the last two seasons, going from 91 cts/lb in 2013/14 to 71 cts/lb in 2014/15. At first glance, this is a negative development for the sector as a whole and especially for growers. However, one must bear in mind that the prices prevailing from 2010 to 2014 were above their long-term equilibrium level. As a result, cotton became less competitive in comparison with competing fibers and the decline in its share of the market accelerated.

Cotton has not been able to reap the full benefits of lower prices because the price of polyester, its most important competitor, has also dropped as a result of weak oil prices. Even so, at current price levels, cotton is much more competitive than in the recent past. The increased competitiveness is shown by the recovery in demand for cotton. After enduring five years of falling or stagnant consumption, demand in 2015/16 is now expected to grow by 2%.

This is welcome news for the entire cotton sector. We know that consumption of cotton is greatly bolstered by its sensory appeal to consumers. This positive attitude of consumers discourages retailers and the spinning industry from eroding cotton's market share even further, since polyester holds some technical advantages relative to cotton for the spinning industry. However, we cannot take for granted that the support from consumers will persist into the future without any action on our part.

One of our main concerns must be to continue and expand promotional efforts that build a positive image of cotton among consumers. The ICAC will carry on working closely with the International Forum for Cotton Promotion (IFCP) to raise awareness among member governments about existing promotion initiatives, to collaborate with national associations and to encourage increased consumer demand for cotton through domestically focused and domestically funded national cotton demand enhancement programs that can be implemented and replicated around the world. An encouraging example is the decision to introduce a generic promotion campaign for cotton in Brazil. Although this initiative is still in its infancy, we will continue to monitor developments closely.

In order to promote demand effectively, accurate knowledge of the market is important. For this reason, the program of the 74<sup>th</sup> Plenary includes a section dedicated to the views of retailers, during which leading retail chains from all over the world will present insights into the most important factors taken into consideration when buying cotton articles.

The IFCP plays a leading role in promoting a healthy cotton economy, and I enjoy collaborating with Jeff Silberman, its Executive Director, and Mark Messura of Cotton Incorporated, its Chair.

### **Modernizing Production**

Improving production practices is an imperative in modern agriculture, due to the competition among crops, limited amount of arable land and concerns about sustainability. Although cotton yields have increased substantially over the last sixty years, rising almost fourfold, much remains to be done.

A substantial part of this year's Plenary Meeting program will be devoted to a variety of factors that affect production. This year's Technical Seminar will focus on ways to reduce or even eliminate the use of insecticides in cotton production, thereby lowering costs and improving

sustainability. Sessions will also explore other important issues, such as the use of cotton by-products, mechanical picking, climate change and the international exchange of cotton germplasm.

The ICAC continues to play a strategic role in spreading information on research. The ICAC website is a rich source of facts on all aspects of cotton and is periodically revised to include even more data that is of interest to researchers. Other activities related to production research that are organized, sponsored or otherwise supported by the ICAC include the Research Associate Program, which presents an opportunity for persons in member countries to receive additional training in cotton research, marketing, statistics and economics, and the ICAC Researcher of the Year Award, which honors leading researchers in the field of cotton, thereby raising awareness of the importance of research to the improvement of the world cotton sector and providing international recognition of exceptional scientific achievements.

In addition to its regular publications on the latest scientific and technological developments, the ICAC supports initiatives such as the International Cotton Researchers Association (ICRA). ICRA has collaborated with the ICAC in our most recent contribution to the dissemination of information about cotton, namely the “Dictionary of Cotton”. This publication has just been released and includes more than 2,000 terms used in cotton production, processing and use. We hope that it will be a useful addition to cotton libraries all over the world. In 2015/16, the ICAC helped organize and sponsor the meeting of a regional research grouping, the Inter-Regional Cooperative Research Network on Cotton for the Mediterranean & Middle East Regions. In 2016, the ICAC will collaborate in the organization of the 6<sup>th</sup> World Cotton Research Conference, which attracts hundreds of leading researchers from all over the world and will be held in Goiânia, Brazil, from May 2 to 6, 2016.

### **Promoting Sustainability**

In recent years, awareness of the need for sustainable practices throughout agricultural value chains has been growing. In response, ICAC members established an Expert Panel on the Social Environmental and Economic Performance of Cotton Production (SEEP) in 2006. The primary goal of the Panel is to collect and objectively review independent, science-based information on social, environmental and economic aspects of global cotton production, as well as to make recommendations for further action as appropriate to improve the performance of the cotton sector.

Earlier this year, the SEEP released its report on “Measuring sustainability in cotton farming systems: Towards a guidance framework”, which provides an overview of sustainability issues in cotton and proposes a set of indicators for use in measuring sustainability. The next step is to test the indicator framework in selected countries in order to establish its practical viability and usefulness. The work of the SEEP has benefited from inputs received from participants in previous Plenary Meetings and will continue to do so in Mumbai. Challenges associated with the implementation of sustainability indicators in the field will be discussed in an interactive “World Café” session during the Plenary. In the future, one of the functions of SEEP will be to serve as a central coordinator and clearinghouse of information on tests of the indicators in different contexts.

The SEEP contributes valuable objective information to the ICAC and serves the world cotton community well by focusing on sustainability issues using an impartial, fact-based approach. I thank Allan Williams of Australia, Chair of SEEP, Francesca Mancini of the FAO, Vice Chair, and all members of SEEP who have contributed their time to this strenuous work. The work of

the SEEP is highly valued by the ICAC and efforts must now be made to broaden the dissemination of its findings in order to reach target audiences efficiently.

### **Involvement of the Private Sector**

Governments have a longstanding tradition of intervening heavily in agriculture. However, the importance of the private sector has increased over time as economies have become more liberalized. In recognition of the importance of integrating the private sector, the ICAC established the Private Sector Advisory Panel (PSAP) in 1999. This body, composed of representatives of exporter, importer, growers' and other private sector associations, advises the Committee on issues of practical relevance to cotton and suggests priorities for the work program of the ICAC.

Over the years, the PSAP has provided valuable advice to the ICAC, especially in issues linked to the reduction of "trade friction", i.e. improving the efficiency of the cotton trade. Here, the most important issue is the lack of standardization of phytosanitary requirements and certificates used in the international trade of cotton. The PSAP noted that documentation for cotton shipments tends to be highly complex in comparison with other commodity industries. All efforts to streamline procedures through standardization of requirements would help to improve the efficiency of cotton trading. The ICAC is renewing its efforts within the scope of the World Trade Organization and the Food and Agriculture Organization of the United Nations to simplify and standardize these important documents.

The PSAP has proved instrumental in serving as a channel for communication of the concerns of the private sector to ICAC members and maintaining the relevance of the ICAC to the cotton value chain. I thank all members of the PSAP for their contributions, especially Jorge Vartparonián of Argentina, Chair, and Antonios Siarkos of Greece, Vice Chair. I would also like to express my gratitude for the work of Neal Gillen of the United States, the ICAC representative to the United Nations Commission on International Trade Law (UNCITRAL).

Another way to improve the transparency of the world cotton trade is to reduce the subjective elements involved in the trading of cotton. Over time, much progress has been made in using standardized instrument testing in place of visual grades and types, and the objective measurement of quality helps to improve efficiency and drive down costs. The ICAC established a Task Force on Commercial Standardization of Instrument Testing of Cotton (CSITC) in 2003. This body is responsible for developing mechanisms to standardize High Volume Instrument (HVI) results on an international basis, so as to create a level playing field and increase the confidence of the cotton industry in the reliability of test results. Standard definitions and a common methodology to measure laboratory performance in testing cotton samples have been established. The CSITC seeks to improve cotton testing around the globe by conducting four Round Trials per year, with participating laboratories receiving detailed diagnostic reports. This program has been extremely successful, with more than one hundred laboratories now participating on a regular basis. The results of the Round Trials have shown great improvements in the harmonization of results among laboratories, which give users of HVI results even greater confidence in their consistency.

All members of the Task Force on CSITC are to be commended for their dedication. I would like to give special appreciation to Mr. Andrew Macdonald of Brazil, who has been the Chair of the group since its creation. The ICAC also wishes to thank the US Department of Agriculture and the Bremen Fiber Institute for their continuing support of this important initiative. On a sad note, I regret to inform the passing of Mr. Zbigniew Roskwitalski of Poland, who was rapporteur of the CSITC. Mr. Roskwitalski had a long and distinguished career in cotton and played an active role

in the CSITC Task Force and other ICAC bodies. His dedication to cotton was an inspiration to us all.

### **The Importance of the ICAC**

The ICAC performs a unique function by helping governments create an enabling environment for the world cotton sector. The ICAC accomplishes its mission through four core roles: serving as a forum for the development of policies and solutions to strengthen commodity value chains; enhancing the transparency of the market and enabling economic decisions to be taken on the basis of accurate and timely data; encouraging the development and dissemination of knowledge; and promoting sustainability.

During its first decades of existence, the ICAC emphasized its roles as a forum for exchange of ideas among members and as a clearinghouse for statistics. More recently, the Secretariat has diversified its output. Instead of just compiling statistics, more analytical and prospective studies began to be published. Knowledge dissemination has been accorded a higher priority, as demonstrated by the establishment of a Technical Information Section, which publishes technical studies and organizes the World Cotton Research Conference and regional meetings of cotton researchers. More recently, the ICAC continued its process of renovation by taking an active role in the discussion of issues related to the sustainability of cotton: by trying to reduce “trade friction” through support for standardized High Volume Instrument (HVI) testing and other measures; by compiling information on sustainability initiatives; and by evaluating practical and effective ways to measure sustainability through the SEEP.

These developments demonstrate the flexibility of the ICAC to adapt to the changing needs of its membership and of the world cotton sector and demonstrates the power of the ICAC as a tool not only for decision-makers in government, our primary stakeholders, but also for non-governmental organizations, trade associations, the private sector, and all those with an interest in cotton.

As we look to the future, the effectiveness of the ICAC as a space for the discussion and development of cotton policies is closely linked to the amplitude of its membership. Over the past two years, we have been considering the terms of accession of the European Union to the Committee. EU membership is welcomed by all ICAC members and will surely strengthen our organization even more by incorporating the world’s largest economic bloc in our work. However, the accession of an intergovernmental organization such as the EU poses numerous challenges in the short term. Concessions must be made by both sides in order to achieve an outcome that is mutually satisfactory. Although progress may not have been as swift as some might have wished, this is a reflection of the complexity of the issues at hand. In this regard, I would like to thank all the delegates involved for their dedication and hard work. I especially appreciated the contributions of Dr. Chris Parker of Australia who, in his capacity as Chair of the Task Force on European Membership, tirelessly worked to achieve consensus. More recently, Astrid Jakobs de Pádua of Germany and James Johnson of the USA, in their capacity as co-chairs of the newly formed Drafting Group established to finalize the proposals relating to EU accession, have shown great creativity in moving the discussions forward. At the time of writing, some issues still remained to be resolved. However, Standing Committee delegates look forward to presenting a concrete proposal for changes in our Rules and Regulations for consideration by the Steering Committee during the week of the Plenary. We are confident that this is the best solution available and look forward to welcoming the EU soon as a member of the Committee.

I would like to express my gratitude to all delegates serving on the Standing Committee, who have always given me their unstinting support and provided valuable inputs. Their commitment throughout the year often does not receive the recognition it deserves. I urge member governments to include them in their delegations to the Plenary, so that Standing Committee delegates can see with their own eyes the results of their hard work and also give us the benefit of their experience. I would like to extend a special thank you to James Johnson, who has been tremendously supportive in his position as Chair of the Subcommittee on Budget. Above all, I wish to express my deep gratitude to the Chair of the Standing Committee, Wei-jiun Liao of Taiwan. She has been a pillar of strength throughout the year, providing helpful suggestions, insightful criticisms and going out of her way to engage with all Standing Committee delegates in order to build consensus. All of us were saddened by the news that she will be leaving Washington soon and will no longer be able to take part in our meetings. I am sure that all delegates will join me in wishing her all the best in her new post and hoping that our paths may cross again.

I have the privilege to work with the highly qualified members of the ICAC Secretariat, who give me all the support I require. It is a pleasure to work with such dedicated and talented professionals who are committed to furthering the organization's objectives. I am confident that staff members will continue to provide the excellent services and innovative thinking that members have come to expect from the Secretariat.

### **Conclusion**

This 74<sup>th</sup> Plenary Meeting of the ICAC will examine many subjects of relevance to cotton, including: innovations in mechanical picking; ways to reduce the use of insecticides; the empowerment of women; exchanges of cotton germplasm; and the manners in which retailers view cotton. Participants will also have the opportunity to receive information from the Secretariat on the latest supply and demand trends and on government measures that affect the cotton sector.

The Secretariat hopes that the presentations and ensuing debates will give members the background information and tools to implement concrete measures for the benefit of the world cotton sector. We also hope that the numerous observers who honor us with their participation will absorb useful knowledge that will persuade authorities of the benefits of membership in the ICAC, thereby broadening even further the coverage of our organization. We are confident that ICAC membership is a worthwhile and effective way to integrate countries into the world cotton sector.

Finally, I thank member countries for giving me the opportunity and privilege of serving as Executive Director, and look forward to a successful 74<sup>th</sup> Plenary Meeting.